

LOURDES S. ARROFO, PETITIONER, VS. PEDRO QUIÑO, RESPONDENT.

G.R. No. 145794. January 26, 2005

Ponente: CARPIO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-145794/>

CARPIO, J.:

The Case

Before this Court is a petition for review^[1] assailing the Decision^[2] of the Court of Appeals promulgated on 16 October 2000 in CA-G.R. CV No. 53733.

The Antecedents

Pedro Quiño (“Quiño”) was the owner of a parcel of land denominated as Lot 1916-D-3 under Transfer Certificate of Title (“TCT”) No. 28905, containing an area of 166 square meters (“Property”), situated in Basak, Mandaue City, Cebu. On 11 April 1990, Quiño executed a Deed of Absolute Sale^[3] of the Property in favor of Renato Mencias (“Renato”). The Deed of Absolute Sale explicitly excluded from the sale the house standing on the Property.^[4] On 11 March 1991, Quiño executed another Deed of Absolute Sale^[5] covering the Property in favor of Renato. There is no provision excluding the house from the sale in the second Deed of Absolute Sale. On 9 May 1991, TCT No. 28905 was cancelled and TCT No. 30248 was issued in the name of Renato.^[6]

On 30 March 1993, Renato executed a Deed of Absolute Sale^[7] of the Property in favor of Lourdes S. Arrofo (“Arrofo”). On 3 August 1993, TCT No. 30248 was cancelled and TCT No. 33304 was issued in the name of Arrofo.^[8]

On 6 July 1994, Quiño filed before the Regional Trial Court (“trial court”) of Mandaue City, Branch 28, an action for Reconveyance of Property with Annulment of Deeds of Sale and Damages against Renato, his wife Myrna Mencias (“Myrna”) and Arrofo. Quiño claimed that his transaction with Renato was a mortgage and not an absolute sale. Quiño alleged that he borrowed P15,000 from Renato and the Property served as security for the loan. He further alleged that the agreement was that the Deed of Absolute Sale he signed would only be registered with the Register of Deeds should he fail to pay his P15,000 loan, plus interest at 7% per month, within five years from 11 April 1990.

The trial court declared Renato and Myrna in default for failure to attend the pre-trial conference despite

notice.[9] Still, Myrna was able to testify because Arrofo presented her as a witness. On 29 January 1996, the trial court rendered its Decision,[10] the dispositive portion of which reads:

WHEREFORE, foregoing premises considered, Decision is hereby rendered:

- declaring the Deed of Absolute Sale dated April 11, 1990 executed and signed by plaintiff Pedro Quiño in favor of the defendants spouses Mencias as valid;
- declaring the Deed of Absolute Sale dated March 30, 1993 executed by defendants spouses Renato and Myrna Mencias in favor of their co-defendant Lourdes Arrofo as valid;
- dismissing the claim for damages, attorney's fees and litigation expenses by the parties for lack of basis; and
- ordering the plaintiff to pay the cost.

SO ORDERED.[11]

Quiño appealed to the Court of Appeals seeking reversal of the trial court's Decision.

The Ruling of the Court of Appeals

In a Decision promulgated on 16 October 2000, the Court of Appeals reversed the trial court's Decision, as follows:

WHEREFORE, premises considered, the present appeal is hereby GRANTED. The Decision dated January 29, 1996 of the Regional Trial Court of Mandaue City, Cebu, Branch 28 is hereby REVERSED and SET ASIDE and a new one entered:

- Annuling the Deed of Absolute Sale dated April 11, 1990 and Deed of Absolute Sale dated March 11, 1991;
- Reinstating TCT No. 28905 covering Lot 1916-D-3 registered in the name of plaintiff-appellant, and cancelling the two (2) TCTs (30248 and 33304) issued in derivation thereof; and
- Ordering plaintiff-appellant, to pay defendant-appellee Myrna Mencias the amount of P15,000.00 within thirty (30) days from the date of finality of this decision, with 7% interest per month computed from April 11, 1990 until full payment thereof.

Costs against the defendants-appellees.

SO ORDERED.[12]

The appellate court ruled that the trial court erred in finding that the transaction between Quiño and Renato is one of sale. The appellate court also found that Arrofo is not a buyer in good faith.

Hence, this petition by Arrofo.

The Issues

The petition raises the following issues:

- Whether the Court of Appeals correctly ruled that the Deed of Sale dated April 11, 1990 executed by Quiño in favor of Renato is void as the true agreement of the parties is one of equitable mortgage.
- Whether the Court of Appeals correctly ruled that Arrofo is not a buyer in good faith, and thus the Deed of Sale executed by Renato in her favor is void.[13]

The Ruling of the Court

The petition must fail. The contract between Quiño and Renato is an equitable mortgage.

Presumptions of an Equitable Mortgage

This Court has ruled that there is no conclusive test to determine whether a deed purporting to be an absolute sale on its face is in reality a loan secured by a mortgage.[14] Thus:

The decisive factor in evaluating such agreement is the intention of the parties, as shown not necessarily by the terminology used in the contract but by all the surrounding circumstances, such as the relative situation of the parties at that time, the attitude, acts, conduct, declarations of the parties, the negotiations between them leading to the deed, and generally, all pertinent facts having a tendency to fix and determine the real nature of their design and understanding. xxx[15]

Under Article 1602, in relation to Article 1604[16] of the Civil Code, a contract purporting to be an absolute sale is deemed an equitable mortgage in any of the following cases:

- When the price of a sale with right to repurchase is unusually inadequate;
- When the vendor remains in possession as lessee or otherwise;
- When upon or after the expiration of the right to repurchase another instrument extending the period of redemption or granting a new period is executed;
- When the purchaser retains for himself a part of the purchase price;
- When the vendor binds himself to pay the taxes on the thing sold;
- In any other case where it may be fairly inferred that the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation.[17]

The presence of any of these circumstances is sufficient for a contract to be deemed an equitable mortgage.[18]

The following circumstances lead us to conclude that the real intention of the parties is to treat the transaction as an equitable mortgage rather than an absolute sale.

First, Renato and Myrna did not take possession of the Property after the execution of the first Deed of Absolute Sale. Flaviano Moralde, Jr. ("Moralde"), a lessee of Quiño since 1989, confirmed this. Moralde testified that he has been paying the rentals to Quiño. He learned about the sale of the Property to Renato only on 19 April 1993 when he received a letter dated 12 April 1993 from Myrna's lawyer instructing him to pay his rentals to Myrna. The letter at the same time demanded that he vacate the Property. Moralde testified that Myrna subsequently filed an ejectment case against him but the case was dismissed.[19] Moralde presented receipts,[20] dated 30 January 1995, 28 February 1995, 30 March 1995 and 30 April 1995, evidencing his payments to Quiño.

Myrna's lawyer sent the demand letter dated 12 April 1993 after the Property was sold to Arrofo. Renato sold the Property to Arrofo on 30 March 1993. Hence, when Myrna demanded payment of rentals from Moralde, Renato was no longer the owner of the Property.

There is no evidence that Renato and Myrna attempted to take possession of the property from the time of the execution of the first Deed of Absolute sale in 1990 or even after the execution of the second Deed of Absolute Sale in 1991. Moralde was never informed that there was already a new owner. He was never asked to remit his payments to the new owner. Since Moralde continued making his payments to Quiño, Quiño must have retained his possession of the Property.

Second, neither the first nor the second Deed of Absolute Sale reflects the real intention of the parties.

Fiscal Bienvenido Mabanto, Jr. (“Mabanto”) is a signatory to the first Deed of Absolute Sale as one of the witnesses to the transaction. He prepared the original draft of the document but being a government employee, he did not make the final draft. He testified:

Q - With respect to this document marked as Exh. “B” when you affixed your signature and you were asked to be a witness in this particular document did you not tell Pedro Quiño what this document was all about at the time this was signed by you considering that Pedro Quiño is your neighbor?

A - When that document was prepared all of the parties were aware and that was their agreement that while this document speaks of a deed of absolute sale, did you not explain to Mr. Quiño the consequences of signing a deed of absolute sale in favor of the Mencias couple? (sic)

A - All of the parties were aware that this deed of absolute sale was not supposed to be notarized until Pedro Quiño will lose his right to redeem the property within the stipulated period because spouses Mencias have agreed not to have this document notarized until the expiration of the stipulated period within which Pedro Quiño can redeem the property from Mencias.[21]

x x x

Q - Did you not insist that the document that should be prepared is a real estate mortgage and not a deed of sale because that is not to the advantage of Pedro Quiño?

A - All these things were considered but the spouses Mencias were not willing to provide Pedro Quiño with the necessary sum without the execution of that deed of sale because the spouses Mencias were apprehensive that if another document will be executed, it will take unnecessary expenses.[22]

Where the parties have no alternative but to sign a contract which does not reflect their real intention, the Court has declared:

x x x [W]hile it was true that plaintiffs were aware of the contents of the contracts, the preponderance of the evidence showed however that they signed knowing that said contracts did not express their real intention, and if they did so notwithstanding this, it was due to the urgent necessity of obtaining funds. “Necessitous men are not, truly speaking, free men; but to answer a present emergency, will submit to any terms that the crafty may impose upon them.”[23]

Quiño is an illiterate. He cannot read and write and can only write his signature.[24] In its Decision, the Court of Appeals noted that Quiño could not easily grasp the questions asked of him when he testified before the trial court, thus highlighting his lack of education.[25]

Third, the consideration paid to Quiño is unusually inadequate.

Arrofo argues that the Court of Appeals may not be familiar with the value of the land in Mandaue City. She further argues that the Tax Declaration sets the market value of the land at only P8,300 while its assessed value is only P2,400.

In her testimony before the trial court, Myrna declared that she paid Quiño P160,000. The deed reflected a lower amount so that Quiño would pay a lower capital gains tax.[26]

The positions taken by Arrofo and Myrna are poles apart. Arrofo maintains that the amount paid to Quiño is adequate considering the market and assessed values of the land in the Tax Declaration. Myrna claims that the amount reflected in the second Deed of Absolute Sale is not the amount she paid for the Property.

The first and second Deeds of Absolute Sale executed by Renato in favor of Arrofo state that the consideration for the sale is P50,000.[27] If Quiño sold the Property for P160,000, it is unbelievable that Renato would resell the same Property for less than half the amount he paid for it. The only logical explanation is that Renato paid P15,000 for the Property. Considering that Renato sold the Property to Arrofo for P50,000 after only three years, the amount paid to Quiño is inadequate.

Fourth, Myrna's claim that the first Deed of Absolute Sale is fabricated is clearly false.

Quiño executed two deeds of sale, dated almost a year apart, over the same Property. The only difference between the two deeds of sale is that the first Deed of Absolute Sale excludes from the sale the house standing on the Property.

Quiño signed the first Deed of Absolute Sale on 11 April 1990 and the second Deed of Absolute on 11 March 1991. Renato, who was working abroad at the time of the purported sale, is not a signatory to the two deeds. Quiño transacted with Myrna who is his niece.

Myrna asserted that the real Deed of Absolute Sale is the one notarized by Atty. Prisciliano Lumapas. This deed, which Myrna claimed was the only deed in her possession, is the second Deed of Absolute Sale. Myrna impugned the authenticity of the first Deed of Absolute Sale. She testified:

Q - You said that Pedro Quiño sold to you the subject land, do you have any document to show that the said parcel of land he sold to you by Pedro Quiño? (sic)

A - Yes, it is complete.

Q - Showing to you this deed of absolute sale, is this the one you are referring to?

A - Yes, this is the one.

Atty. Monteclar: May I request, Your Honor, that this be marked as Exh. "1" for defendant Arrofo.

Q - At the middle portion of this Exh. "1", there appears a signature above the typewritten name Pedro Quiño, do you know whose signature is this?

A - Pedro Quiño's signature.

Q - Why do you know that [this] is his signature?

A - Because after the preparation of the document, he signed this.

Q - Before whom did Pedro Quiño sign his name?

A - Before Atty. Lumapas.

Q - Were you present when he signed this document?

A - Yes, because we were together.

Atty. Monteclar: May we request, Your Honor, that the signature of Pedro Quiño be encircled and marked as Exh. "1-A".

Q - The deed of sale attached to the complaint was dated April 11, 1990 and notarized by a certain Manuel Inso while the deed of sale you now identified is dated March 11, 1991 and notarized by another lawyer

Priscilliano[28] Lumapas. Can you explain?

A - Because the real deed of sale is the deed of sale that is in our possession and it was ahead and was signed before Atty. Lumapas and that deed of sale they have presented here is a different one and I do not even know the person who notarized it.

Q - So are you trying to say that the deed of sale attached to their complaint is a fabricated deed of sale?

A - Yes, because this one has a xerox copy with Atty. Lumapas.[29]

However, TCT No. 28905 has the following annotation:

Entry NO. 5228-V.7-D.B. – DEED OF ABSOLUTE SALE – Executed by Pedro Quiño, single, in favor of Renato Mencias, Filipino, of legal age, married to Myrna F. Mencias, resident of Basak, Mandaue City, of the parcel of land described herein, for the sum of P15,000.00, according to the document on file, acknowledged before Notary Public, Mr. Manuelito S. Inso, Doc. No. 326; Page No. 67; Book No. XVIII; Series of 1990.

Date of Instrument – April 11, 1990.

Date of Inscription – May 9, 1991 at 10:00 a.m.

(Sgd.) PATERNO G. ACABODILLO
Register of Deeds[30]

This belies Myrna's declaration that the first Deed of Absolute Sale is fabricated and that she did not know the person who notarized it. What must have transpired was that she realized that the first Deed of Absolute Sale inadvertently excluded the house from the sale and so she made Quiño sign the second Deed of Absolute Sale. However, she presented by mistake the first Deed of Absolute Sale to the Register of Deeds when she caused the cancellation of TCT No. 28905. Hence, the basis for the cancellation of TCT No. 28905, and for the issuance of TCT No. 30248, is the first Deed of Absolute Sale. Myrna now claims that the first Deed of Absolute sale is fabricated and the second Deed of Absolute Sale is the authentic deed of sale. Myrna's testimony is full of contradiction but what is clear is that the first Deed of Absolute Sale is not fabricated.

In sum, these circumstances, which fall under paragraphs one, two and six of Article 1602 of the Civil Code, show that the transaction between Quiño and Renato is a loan with mortgage.

Buyer in Good Faith for Value

The law does not require a person dealing with registered land to inquire further than what the Torrens Title on its face indicates.[31] This rule, however, is not absolute but admits of exceptions.

Thus, while it is true, as asserted by petitioners, that a person dealing with registered lands need not go beyond the certificate of title, it is likewise a well-settled rule that a purchaser or mortgagee cannot close his eyes to facts which should put a reasonable man on his guard, and then claim that he acted in good faith under the belief that there was no defect in the title of the vendor or mortgagor. His mere refusal to face up to the fact that such defect exists, or his willful closing of his eyes to the possibility of the existence of a defect in the vendor's or mortgagor's title, will not make him an innocent purchaser for value, if it afterwards develops that the title was in fact defective, and it appears that he had such notice of the defect as would have led to its discovery had he acted with the measure of precaution which may be required of a prudent man in a like situation.[32]

In the present case, the records show that Arrofo failed to act as a prudent buyer. True, she asked her daughter to verify from the Register of Deeds if the title to the Property is free from encumbrances.[33] However, Arrofo admitted that the Property is within the neighborhood and that she conducted an ocular inspection of the Property. She saw the house constructed on the Property.[34] Yet, Arrofo did not even bother to inquire about the occupants of the house. Arrofo also admitted that at the time of the sale, Myrna was occupying a room in her house as her lessee.[35] The fact that Myrna was renting a room from Arrofo yet selling a land with a house should have put Arrofo on her guard. She knew that Myrna was not occupying the house. Hence, someone else must have been occupying the house.

Thus, Arrofo should have inquired who occupied the house, and if a lessee, who received the rentals from such lessee. Such inquiry would have led Arrofo to discover that the lessee was paying rentals to Quiño, not to Renato and Myrna, who claimed to own the Property.

One final point. The Court of Appeals ordered Quiño to pay 7% interest per month on the P15,000 loan from Renato, computed from 11 April 1990. This amounts to 84% interest per annum, which is unconscionable. This Court deems it equitable to reduce this interest rate to 18% per annum.[36]

WHEREFORE, we DENY the petition. We AFFIRM with modification the Decision of the Court of Appeals

promulgated on 16 October 2000 in CA-G.R. CV No. 53733. Respondent Pedro Quiño shall pay 18% interest per annum on his P15,000 loan from Renato Mencias. The assailed Decision is affirmed in all other aspects.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Quisumbing, Ynares-Santiago, and Azcuna, JJ., concur.

[1] Under Rule 45 of the 1997 Rules of Civil Procedure.

[2] Penned by Associate Justice Martin S. Villarama, Jr., with Associate Justices Romeo J. Callejo, Sr. (now Associate Justice of this Court) and Juan Q. Enriquez, Jr., concurring.

[3] Rollo, p. 37.

[4] Ibid.

[5] Ibid., p. 38.

[6] Ibid., p. 39.

[7] Ibid., p. 40.

[8] Ibid., p. 41.

[9] Under Section 2 of the former Rule 20 of the Revised Rules of Court, “(a) party who fails to appear at a pre-trial conference may be non-suited or considered as in default.”

[10] Penned by then Judge, now Associate Justice of the Court of Appeals Mercedes Gozo-Dadole.

[11] Rollo, pp. 59-60.

[12] Ibid., pp. 35-36.

[13] Ibid., p. 99.

[14] Lorbes v. Court of Appeals, G.R. No. 139884, 15 February 2001, 351 SCRA 716 citing Sps. Reyes v. Court of Appeals, 393 Phil. 479 (2000).

[15] Ibid.

[16] Article 1604 provides: ART. 1604. The provisions of [A]rticle 1602 shall also apply to a contract purporting to be an absolute sale.

[17] Article 1602 of the Civil Code.

[18] Hilado v. Heirs of Medalla, 427 Phil. 503 (2002).

[19] TSN, 7 June 1995, pp. 3-6.

[20] Records, p. 76.

[21] TSN, 13 June 1995, pp. 4-5.

[22] Ibid., p. 7.

[23] Lorbes v. Court of Appeals, supra, see note 14.

[24] TSN, 7 June 1995, p. 9 (Flaviano Moralde, Jr.).

[25] Rollo, p. 33.

[26] TSN, 21 August 1995, p. 5.

[27] Supra, see note 7.

[28] It should be Prisciliano.

[29] TSN, 21 August 1995, pp. 3-5.

[30] Annotation at the back of TCT No. 28905. Rollo, p. 48.

[31] Col. dela Merced v. Government Service Insurance System, 417 Phil. 324 (2001).

[32] Sps. Uy v. Court of Appeals, 411 Phil. 788 (2001).

[33] TSN, 31 August 1995, p. 6.

[34] Ibid., pp. 9-10.

[35] Ibid., pp. 4, 11.

[36] Imperial v. Jaucian, G.R. No. 149004, 14 April 2004; Cuaton v. Salud, G.R. No. 158382, 27 January 2004, 421 SCRA 278; Ruiz v. Court of Appeals, G.R. No. 146942, 22 April 2003, 401 SCRA 410.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.