

**SPOUSES CESAR R. ROMULO AND NENITA S. ROMULO, PETITIONERS,
VS. SPOUSES MOISES P. LAYUG, JR., AND FELISARIN LAYUG,
RESPONDENTS.**

G.R. NO. 151217. September 08, 2006

Ponente: TINGA, J.

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TINGA, J.:

This is an appeal by certiorari under Rule 45 of the 1997 Rules of Civil Procedure, assailing the Court of Appeals' Decision[1] and Resolution[2] in CA-G.R. CV No. 63965. Said Decision reversed and set aside the Decision[3] of the Regional Trial Court (RTC), Branch 258, Parañaque City, which nullified the Deed of Absolute Sale and Contract of Lease executed between herein petitioners and respondents.

The following factual antecedents are matters of record.

On April 11, 1996, petitioners Spouses Cesar and Nenita Romulo filed a verified Complaint for Cancellation of Title, Annulment of Deed of Absolute Sale and Contract of Lease with Damages against respondents Spouses Moises and Felisarin Layug. The complaint was docketed as Civil Case No. 96-0172 and raffled to Branch 258 of the RTC of Parañaque.[4]

Petitioners averred in their complaint that sometime in 1986, they obtained from respondents a loan in the amount of P50,000.00 with a monthly interest of 10%, which subsequently ballooned to P580,292.00. To secure the payment of the loan, respondents allegedly duped petitioners into signing a Contract of Lease and a Deed of Absolute Sale covering petitioners' house and lot located at Phase II, BF Homes, Sucat, Parañaque and covered by Transfer Certificate of Title (TCT) No. S-71528. The Deed of Absolute Sale purportedly facilitated the cancellation of petitioners' title on the house and lot and the issuance of TCT No. 20489 in the name of respondents. Thus, petitioners prayed for the nullification of the Deed of Absolute Sale, the contract of lease and TCT No. 20489, and the award of moral and exemplary damages.[5]

Respondents denied petitioners' allegations. In their Answer,[6] they vouched for the validity of the Deed of Absolute Sale, particularly as having been voluntarily executed by the parties for the purpose of extinguishing petitioners' indebtedness to respondents. As consideration of the sale, respondents allegedly paid the amount of P200,000.00 in addition to the writing off of petitioners' obligation to them. That they allowed petitioners to occupy the house and lot as lessees thereof was founded on the trust they reposed on petitioners, claimed respondents.[7]

Prior to the filing of Civil Case No. 96-0172, respondent Moises Layug, Jr. ("Moises") filed Civil Case No. 9422, an action for ejectment, against petitioners to compel the latter to vacate the house and lot allegedly sold by petitioners to Moises and subsequently rented out by him to petitioners. Moises alleged that petitioners violated the terms of the Contract of Lease when the latter failed to pay any rental or exercise their option to repurchase the house and lot and refused to vacate the property despite demand. The Metropolitan Trial Court (MeTC), Branch 77, Parañaque dismissed the complaint for lack of cause of action.[8] The RTC, Branch 257, Parañaque,

likewise dismissed Moises' appeal based on its finding that the parties did not intend to enter into a lease agreement.[9] The Court of Appeals denied Moises' petition for review on the ground of late filing.[10] Upon elevation to this Court, Moises' petition for review on certiorari was denied with finality by this Court.[11]

On June 21, 1999, the trial court rendered judgment in favor of petitioners in Civil Case No. 96-0172. The dispositive portion of the decision reads:

WHEREFORE, the plaintiffs having been able to prove their claim by preponderance of evidence, judgment is hereby rendered in their favor and against spouses Moises P. Layug and Felisarin Layug whereby the Contract of Lease as well as the Deed of Sale allegedly executed by the herein parties are hereby declared NULL and VOID and of no force and effect and the Register of Deeds of the City of Parañaque is hereby ordered to cancel Transfer Certificate of Title No. 20489 registered in the names of MOISES P. LAYUG married to FELISARIN LAYUG and to issue a new one in the name of Spouses Cesar R. Romulo and Nenita S. Romulo, upon the payment of the required fees by the plaintiffs.

Likewise, defendants Spouses Moises P. Layug and Felisarin Layug are hereby ordered to pay jointly and severally Spouses Cesar R. Romulo and Nenita S. Romulo the following, to wit:

- The amount of P100,000.00 as and by way of moral damages;
- The amount of P80,000.00 as exemplary damages;
- The amount of P50,000.00 as and by way of attorney's fees; and
- The costs of suit.

SO ORDERED.[12]

Respondents elevated the matter to the Court of Appeals, questioning, among others, the trial court's finding that the contract between petitioners and respondents was an equitable mortgage.[13] The Court of Appeals reversed and set aside the RTC Decision, mainly on the ground that petitioners failed to present sufficient evidence to prove their allegation that their signatures to the Deed of Absolute Sale were obtained fraudulently. Their motion for reconsideration rebuffed,[14] petitioners filed the instant petition raising the lone issue of whether or not the transaction between the parties constitutes an equitable mortgage.

On this issue, the RTC and the Court of Appeals differ in opinion. The trial court based its declaration that an equitable mortgage was intended by the parties on the finding that petitioners remained in possession of the house and lot even after the property was supposedly sold to respondents. The trial court also gave evidentiary weight to the decisions of the MeTC and RTC dismissing the action for ejectment in Civil Case No. 9422, where both courts found that petitioners neither vacated the property nor paid any rental even after the execution of the Deed of Absolute Sale. The Court of Appeals disagreed and declared that an absolute sale was contemplated by the parties based on the express stipulations in the Deed of Absolute Sale and on the acts of ownership by respondents subsequent to its execution.

Whether or not the parties intended an equitable mortgage is a factual issue. As a general rule, factual review is beyond the province of this Court. One of the exceptions to the rule is exemplified by the instant case where the factual findings of the RTC and Court of Appeals are contradictory.

That petitioners obtained loans from respondents between 1985 and 1987, which remained unpaid up to the time of the execution of the assailed Deed of Absolute Sale, is established.[15] That petitioners signed the assailed instrument is also not disputed. Indeed, they admitted having signed said document qualifying, however, that they were forced by respondents to execute the same for the purpose of securing their indebtedness to respondents.[16]

Respondents, on the other hand, insisted that the parties executed the Deed of Absolute Sale as an honest-to-goodness sales transaction.

Respondents, however, admitted further that in addition to the amount of P200,000.00 stipulated in the Deed of Absolute Sale, the parties agreed to write off petitioners' loan as consideration of the sale, although this clause was not expressed in the instrument.[17] From respondents' admission, it can be gathered that the assailed Deed of Absolute Sale does not reflect the true arrangement of the parties. Now, is petitioners' submission that the parties actually agreed to subject the house and lot as security for their unpaid obligation supported by the evidence? Did the parties execute the assailed Deed of Absolute Sale with the intention of subjecting petitioners' house and lot covered by the deed as a mere security for the payment of their debt?

The form of the instrument cannot prevail over the true intent of the parties as established by the evidence. We have also decreed that in determining the nature of a contract, courts are not bound by the title or name given by the parties. 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 their conduct, words, actions and deeds prior to, during and immediately after execution of the agreement.[18] In order to ascertain the intention of the parties, their contemporaneous and subsequent acts should be considered. Once the intention of the parties has been ascertained, that element is deemed as an integral part of the contract as though it has been originally expressed in unequivocal terms.[19] As such, documentary and parol evidence may be submitted and admitted to prove such intention. And, in case of doubt, a contract purporting to be a sale with right to repurchase shall be construed as an equitable mortgage.[20]

Between 1985 and 1987, petitioner Nenita Romulo ("Nenita") obtained from respondent Felisarin Layug ("Felisarin") loans in various amounts totaling around P500,000.00. Being close friends at that time, Felisarin did not require any written instrument to secure payment, other than the title to the house and lot, which Nenita handed to Felisarin sometime in 1988.[21] When respondents demanded payment of the loan, petitioners defaulted. Nevertheless, as admitted by Layug, despite her repeated demands, she allowed petitioners some more time within which to pay their debts.[22] Felisarin claimed that eventually petitioners offered their house and lot as payment for their debt because petitioners no longer had any money.[23] However, even after the execution of the assailed Deed of Absolute Sale, respondents continued to grant petitioners loan accommodations as evidenced by the three promissory notes executed by petitioner Cesar Romulo.[24]

Respondents' continuing to lend money to petitioners does not make sense if the intention of the parties was really to extinguish petitioners' outstanding obligation. The logical and inevitable conclusion is that respondents deemed it wise to formalize a security instrument on petitioners' house and lot by executing the Deed of Absolute Sale after realizing that petitioners could no longer fully satisfy their obligation to respondents. At that time, as petitioners were hard-pressed to come up with funds to pay their loan, they were hardly in a position to bargain. The preponderance of evidence shows that they signed knowing that said documents 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." [25] The circumstances surrounding the execution of the Deed of Absolute Sale, particularly the fact that respondents continued to extend some loans to petitioners after its execution, precludes the Court from declaring that the parties intended the transfer of the property from one to the other by way of sale.

Consistent with the foregoing state of the evidence, Articles 1604 and 1602 of the Civil Code come into play. The articles provide that when the parties to a contract of sale actually intended such contract to secure the payment of an obligation, it shall be presumed to be an equitable mortgage:

Art. 1602. The contract shall be presumed to be an equitable mortgage in any of the following cases: edwin

- 1) When the price of a sale with right to repurchase is unusually inadequate;
- 2) When the vendor remains in possession as lessee or otherwise;
- 3) 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;
- 4) When the vendor binds himself to pay the taxes on the thing sold;
- 5) When the purchaser retains for himself a part of the purchase price;
- 6) 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. (Emphasis supplied.)

Art. 1604. The provisions of Article 1602 shall also apply to a contract purporting to be an absolute sale.

For the presumption of equitable mortgage to arise, two requisites must be satisfied, namely: that the parties entered into a contract denominated as a contract of sale and that their intention was to secure an existing debt by way of mortgage. Under Article 1604 of the Civil Code, a contract purporting to be an absolute sale shall be presumed to be an equitable mortgage should any of the conditions in Article 1602 be present.[26] To stress, the existence of any one of the conditions under Article 1602, not a concurrence, or an overwhelming number of such circumstances, suffices to give rise to the presumption that the contract is an equitable mortgage.[27] It must be emphasized too, however, that there is no conclusive test to determine whether a deed absolute on its face is really a simple loan accommodation secured by a mortgage. In fact, it is often a question difficult to resolve and is frequently made to depend on the surrounding circumstances of each case. When in doubt, courts are generally inclined to construe a transaction purporting to be a sale as an equitable mortgage, which involves a lesser transmission of rights and interests over the property in controversy.[28]

The Court has not hesitated to declare a purported contract of sale as an equitable mortgage even when only one of the enumerated circumstances under Article 1602 is proved.[29] In the case at bar, petitioners remained in possession of the house and lot even after the execution of the Deed of Absolute Sale. Moreover, they remained in possession of the property for more than the reasonable time that would suggest that petitioners were mere lessees thereof. For one, it took respondents more than five years from the time of the execution of the Deed of Absolute Sale and the Contract of Lease to file the action for ejectment. Within this period, petitioners neither paid any rental nor exercised the option to buy purportedly the leased property from respondents. Incidentally, in the decisions of the MeTC and the RTC in the separate action for ejectment, both lower courts observed that when petitioners were made to sign a blank document, which turned out to be a Contract of Lease of their house and lot, they were of the belief that the blank document would serve only as guaranty for the payment of their obligation to respondents.

The claim that petitioners' possession of the house and lot was by sheer tolerance of respondents is specious. Respondents could not explain why they allowed petitioners more than five years to look for another place to transfer. These circumstances only support the conclusion that the parties never really intended to transfer title to the property. Under paragraph 2 of Article 1602, where the purported vendor remains in possession of the property subject of the sale and it can be inferred that the true intention of the parties was to secure an existing debt, the transaction shall be deemed an equitable mortgage.

Under paragraph 1 of Article 1602, where the purchase price is inadequate, a contract of sale is also presumed to be an equitable mortgage. Based on respondents' evidence, petitioners' property was valued at P700,000.00 but the

assailed Deed of Absolute Sale stated a consideration of only P200,000.00. Contrary to the appellate court's declaration that the inadequacy of the purchase price is not sufficient to set aside the sale, the Court finds the same as clearly indicative of the parties' intention to make the property only a collateral security of petitioners' debt. The Court is not convinced that petitioners would allow the sale of their residential property for even less than half of its market value.

The appellate court ruled that petitioners failed to rebut the presumption of the genuineness and due execution of the questioned Deed of Absolute Sale. Based on the examination of the assailed instrument and the Contract of Lease and the testimonies of the parties, the Court cannot sustain respondents' claim that petitioners offered to sell their house and lot in satisfaction of their indebtedness. As observed by the trial court, the Contract of Lease appears to have been signed sometime in November 1988 or before the execution of the Deed of Sale. Respondents were unable to explain why they had leased the property to petitioners before its supposed purchase by respondents. Furthermore, the records disclose that it was only after the institution of the ejectment case did petitioners learn about the cancellation of their title to the property although under the assailed Deed of Absolute Sale, petitioners were obliged to bear the expenses of its execution and registration. These circumstances lend credence to petitioners' claim of the surreptitious manner by which respondents made them sign certain documents without completely disclosing the real import thereof.

The Supreme Court is clothed with ample authority to review matters, even if they are not assigned as errors on appeal, if it finds that their consideration is necessary in arriving at a just decision of the case.[30] Though petitioners did not raise in issue the appellate court's reversal of the award of damages in their favor, the Court has the discretion to pass upon this matter and determine whether or not there is sufficient justification for the award of damages.

The trial court described respondents' acts as "malevolent," necessitating the award for moral and exemplary damages. An award of moral damages would require certain conditions to be met, to wit: (1) first, there must be an injury, whether physical, mental or psychological, clearly sustained by the claimant; (2) second, there must be a culpable act or omission factually established; (3) third, the wrongful act or omission of the defendant is the proximate cause of the injury sustained by the claimant; and (4) fourth, the award of damages is predicated on any of the cases stated in Article 2219.[31]

However, petitioners are not completely without fault. Had they exercised ordinary diligence in their affairs, petitioners could have avoided executing documents in blank. Respondents' wrongful act, although the proximate cause of the injury suffered by petitioners, was mitigated by petitioners' own contributory negligence. Hence, the award of moral and exemplary damages must be reduced to one-half of the amounts awarded by the trial court.[32]

WHEREFORE, the petition is GRANTED. The Decision and Resolution of the Court of Appeals in CA-G.R. CV 63965 are REVERSED and SET ASIDE and the Decision of the Regional Trial Court, Branch 258, Parañaque City in Civil Case No. 96-0172 is REINSTATED with a MODIFICATION that the award of moral and exemplary damages is REDUCED to P50,000.00 and P40,000.00, respectively. Costs against respondents.

SO ORDERED.

Quisumbing, (Chairperson), Carpio, Carpio-Morales and Velasco, Jr., JJ., concur

[1]Promulgated on 31 July 2001 and penned by J. Teodoro P. Regino and concurred in by JJ. Delilah Vidallon-Magtolis and Josefina Guevara-Salanga of the Court of Appeals Ninth Division. Rollo, pp. 43-68.

- [2]Dated 21 December 2001. Rollo, p. 71.
- [3]Dated 21 June 1999 and penned by Judge Raul E. de Leon. Rollo, pp. 93-108.
- [4]Records, pp. 1-3.
- [5]Id.
- [6]Id. at 27-28.
- [7]Id. at 27.
- [8]Rollo, pp. 76-80.
- [9]Id. at 81-83.
- [10]Id. at 84-85.
- [11]Id. at 87-88.
- [12]Rollo, pp. 107-108.
- [13]CA rollo, p. 43.
- [14]Id. at 192.
- [15]Records, pp. 238-241.
- [16]Id. at 2.
- [17]Id. at 27.
- [18]Lapat v. Rosario, 371 Phil. 456, 465-466 (1999).
- [19]Lorenzo Shipping Corp. v. BJ Marthel International, Inc., G.R. No. 145483, November 19, 2004, 443 SCRA 163, 175.
- [20]Lapat v. Rosario, supra note 18 at 466.
- [21]Supra note 15.
- [22]TSN, March 16, 1998, pp. 874-876.
- [23]Id.
- [24]Records, pp. 314-3166.
- [25]Spouses Reyes v. Spouses Victa, 393 Phil. 479, 493 (2000).
- [26]Lustan v. Court of Appeals, 334 Phil. 609, 615-616 (1997).
- [27]Aguirre v. Court of Appeals, 380 Phil. 736, 742 (2000).
- [28]Legaspi v. Ong, G.R. No. 141311, May 26, 2005, 359 SCRA 122, 139.
- [29]See Lustan v. Court of Appeals, 334 Phil. 609 (1997); Ramirez v. Court of Appeals, 356 Phil. 1 (1998); Martinez v. Court of Appeals, G.R. No. 123547, May 21, 2001.
- [30]Aurora Land Projects Corp. v. NLRC, 334 Phil. 44, 59 (1997).

[31]Expertravel & Tours, Inc. v. Court of Appeals, 368 Phil. 444, 448 (1999).

[32]Civil Code, Art. 2179, states: "When the plaintiff's own negligence was the immediate and proximate cause of his injury, he cannot recover damages. But if his negligence was only contributory, the immediate and proximate cause of the injury being the defendant's lack of due care, the plaintiff ,may recover damages, but the courts shall mitigate the damages to be awarded."

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