FRANCISCO MUÑOZ, JR., PETITIONER, VS. ERLINDA RAMIREZ AND ELISEO CARLOS, RESPONDENTS.

G.R. No. 156125. August 25, 2010

Ponente: BRION, J.

Read online (full-text search, related cases, audio case brief): https://batas.org/library/g-r-no-156125/

BRION, J.:

We resolve the present petition for review on certiorari [1] filed by petitioner Francisco Muñoz, Jr. (petitioner) to challenge the decision [2] and the resolution [3] of the Court of Appeals (CA) in CA-G.R. CV No. 57126. [4] The CA decision set aside the decision [5] of the Regional Trial Court (RTC), Branch 166, Pasig City, in Civil Case No. 63665. The CA resolution denied the petitioner's subsequent motion for reconsideration.

FACTUAL BACKGROUND

The facts of the case, gathered from the records, are briefly summarized below.

Subject of the present case is a seventy-seven (77)-square meter residential house and lot located at 170 A. Bonifacio Street, Mandaluyong City (subject property), covered by Transfer Certificate of Title (TCT) No. 7650 of the Registry of Deeds of Mandaluyong City in the name of the petitioner. [6]

The residential lot in the subject property was previously covered by TCT No. 1427, in the name of Erlinda Ramirez, married to Eliseo Carlos (respondents). [7]

On April 6, 1989, Eliseo, a Bureau of Internal Revenue employee, mortgaged TCT No. 1427, with Erlinda's consent, to the Government Service Insurance System (GSIS) to secure a P136,500.00 housing loan, payable within twenty (20) years, through monthly salary deductions of P1,687.66. [8] The respondents then constructed a thirty-six (36)-square meter, two-story residential house on the lot.

On July 14, 1993, the title to the subject property was transferred to the petitioner by virtue of a Deed of Absolute Sale, dated April 30, 1992, executed by Erlinda, for herself and as attorney-in-fact of Eliseo, for a stated consideration of P602,000.00. [9]

On September 24, 1993, the respondents filed a complaint with the RTC for the nullification of the deed of absolute sale, claiming that there was no sale but only a mortgage transaction, and the documents transferring the title to the petitioner's name were falsified.

The respondents alleged that in April 1992, the petitioner granted them a P600,000.00 loan, to be secured by a first mortgage on TCT No. 1427; the petitioner gave Erlinda a P200,000.00 [10] advance to cancel the GSIS mortgage, and made her sign a document purporting to be the mortgage contract; the petitioner promised to give the P402,000.00 balance when Erlinda surrenders TCT No. 1427 with the GSIS mortgage cancelled, and submits an affidavit signed by Eliseo stating that he waives all his rights to the subject property; with the P200,000.00 advance, Erlinda paid GSIS P176,445.27 [11] to cancel the GSIS mortgage on TCT No. 1427; [12] in May 1992, Erlinda surrendered to the petitioner the clean TCT No. 1427, but returned Eliseo's affidavit, unsigned; since

Eliseo's affidavit was unsigned, the petitioner refused to give the P402,000.00 balance and to cancel the mortgage, and demanded that Erlinda return the P200,000.00 advance; since Erlinda could not return the P200,000.00 advance because it had been used to pay the GSIS loan, the petitioner kept the title; and in 1993, they discovered that TCT No. 7650 had been issued in the petitioner's name, cancelling TCT No.1427 in their name.

The petitioner countered that there was a valid contract of sale. He alleged that the respondents sold the subject property to him after he refused their offer to mortgage the subject property because they lacked paying capacity and were unwilling to pay the incidental charges; the sale was with the implied promise to repurchase within one year, [13] during which period (from May 1, 1992 to April 30, 1993), the respondents would lease the subject property for a monthly rental of P500.00; [14] when the respondents failed to repurchase the subject property within the one-year period despite notice, he caused the transfer of title in his name on July 14, 1993; [15] when the respondents failed to pay the monthly rentals despite demand, he filed an ejectment case [16] against them with the Metropolitan Trial Court (MeTC), Branch 60, Mandaluyong City, on September 8, 1993, or sixteen days before the filing of the RTC case for annulment of the deed of absolute sale.

During the pendency of the RTC case, or on March 29, 1995, the MeTC decided the ejectment case. It ordered Erlinda and her family to vacate the subject property, to surrender its possession to the petitioner, and to pay the overdue rentals. [17]

In the RTC, the respondents presented the results of the scientific examination [18] conducted by the National Bureau of Investigation of Eliseo's purported signatures in the Special Power of Attorney [19] dated April 29, 1992 and the Affidavit of waiver of rights dated April 29, 1992, [20] showing that they were forgeries.

The petitioner, on the other hand, introduced evidence on the paraphernal nature of the subject property since it was registered in Erlinda's name; the residential lot was part of a large parcel of land owned by Pedro Ramirez and Fructuosa Urcla, Erlinda's parents; it was the subject of Civil Case No. 50141, a complaint for annulment of sale, before the RTC, Branch 158, Pasig City, filed by the surviving heirs of Pedro against another heir, Amado Ramirez, Erlinda's brother; and, as a result of a compromise agreement, Amado agreed to transfer to the other compulsory heirs of Pedro, including Erlinda, their rightful shares of the land. [21]

THE RTC RULING

In a Decision dated January 23, 1997, the RTC dismissed the complaint. It found that the subject property was Erlinda's exclusive paraphernal property that was inherited from her father. It also upheld the sale to the petitioner, even without Eliseo's consent as the deed of absolute sale bore the genuine signatures of Erlinda and the petitioner as vendor and vendee, respectively. It concluded that the NBI finding that Eliseo's signatures in the special power of attorney and in the affidavit were forgeries was immaterial because Eliseo's consent to the sale was not necessary. [22]

The respondents elevated the case to the CA via an ordinary appeal under Rule 41 of the Revised Rules of Court.

THE CA RULING

The CA decided the appeal on June 25, 2002. Applying the second paragraph of Article 158 [23] of the Civil Code and Calimlim-Canullas v. Hon. Fortun, [24] the CA held that the subject property, originally Erlinda's exclusive paraphernal property, became conjugal property when it was used as collateral for a housing loan that was paid through conjugal funds - Eliseo's monthly salary deductions; the subject property, therefore, cannot be validly sold or mortgaged without Eliseo's consent, pursuant to Article 124 [25] of the Family Code. Thus, the CA declared void the deed of absolute sale, and set aside the RTC decision.

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

When the CA denied [26] the subsequent motion for reconsideration, [27] the petitioner filed the present petition for review on certiorari under Rule 45 of the Revised Rules of Court.

THE PETITION

The petitioner argues that the CA misapplied the second paragraph of Article 158 of the Civil Code and Calimlim-Canullas [28] because the respondents admitted in the complaint that it was the petitioner who gave the money used to cancel the GSIS mortgage on TCT No. 1427; Article 120 [29] of the Family Code is the applicable rule, and since the value of the house is less than the value of the lot, then Erlinda retained ownership of the subject property. He also argues that the contract between the parties was a sale, not a mortgage, because (a) Erlinda did not deny her signature in the document; [30] (b) Erlinda agreed to sign a contract of lease over the subject property; [31] and, (c) Erlinda executed a letter, dated April 30, 1992, confirming the conversion of the loan application to a deed of sale. [32]

THE CASE FOR THE RESPONDENTS

The respondents submit that it is unnecessary to compare the respective values of the house and of the lot to determine ownership of the subject property; it was acquired during their marriage and, therefore, considered conjugal property. They also submit that the transaction between the parties was not a sale, but an equitable mortgage because (a) they remained in possession of the subject property even after the execution of the deed of absolute sale, (b) they paid the 1993 real property taxes due on the subject property, and (c) they received P200,000.00 only of the total stated price of P602,000.00.

THE ISSUE

The issues in the present case boil down to (1) whether the subject property is paraphernal or conjugal; and, (2) whether the contract between the parties was a sale or an equitable mortgage.

OUR RULING

We deny the present Petition but for reasons other than those advanced by the CA.

This Court is not a trier of facts. However, if the inference, drawn by the CA, from the facts is manifestly mistaken, as in the present case, we can review the evidence to allow us to arrive at the correct factual conclusions based on the record. [33]

First Issue:

Paraphernal or Conjugal?

As a general rule, all property acquired during the marriage, whether the acquisition appears to have been made, contracted or registered in the name of one or both spouses, is presumed to be conjugal unless the contrary is proved. [34]

In the present case, clear evidence that Erlinda inherited the residential lot from her father has sufficiently rebutted this presumption of conjugal ownership. [35]Pursuant to Articles 92 [36] and 109 [37] of the Family Code, properties acquired by gratuitous title by either spouse, during the marriage, shall be excluded from the community property and be the exclusive property of each spouse.[38] The residential lot, therefore, is Erlinda's exclusive paraphernal property.

The CA, however, held that the residential lot became conjugal when the house was built thereon through conjugal funds, applying the second paragraph of Article 158 of the Civil Code and Calimlim-Canullas. [39] Under the second paragraph of Article 158 of the Civil Code, a land that originally belonged to one spouse becomes conjugal upon the construction of improvements thereon at the expense of the partnership. We applied this provision in Calimlim-Canullas, [40] where we held that when the conjugal house is constructed on land belonging exclusively to the husband, the land ipso facto becomes conjugal, but the husband is entitled to reimbursement of the value of the land at the liquidation of the conjugal partnership.

The CA misapplied Article 158 of the
Civil Code and Calimlim-Canullas

We cannot subscribe to the CA's misplaced reliance on Article 158 of the Civil Code and Calimlim-Canullas.

As the respondents were married during the effectivity of the Civil Code, its provisions on conjugal partnership of gains (Articles 142 to 189) should have governed their property relations. However, with the enactment of the Family Code on August 3, 1989, the Civil Code provisions on conjugal partnership of gains, including Article 158, have been superseded by those found in the Family Code (Articles 105 to 133). Article 105 of the Family Code states:

> x x x x
>
> The provisions of this Chapter [on the Conjugal Partnership of Gains] shall also apply to conjugal partnerships of gains already established between spouses before the effectivity of this Code, without prejudice to vested rights already acquired in accordance with the Civil Code or other laws, as provided in Article 256.

Thus, in determining the nature of the subject property, we refer to the provisions of the Family Code, and not the Civil Code, except with respect to rights then already vested.

Article 120 of the Family Code, which supersedes Article 158 of the Civil Code, provides the solution in determining the ownership of the improvements that are made on the separate property of the spouses, at the expense of the partnership or through the acts or efforts of either or both spouses. Under this provision, when the cost of the improvement and any resulting increase in value are more than the value of the property at the time of the improvement, the entire property of one of the spouses shall belong to the conjugal partnership, subject to reimbursement of the value of the property of the owner-spouse at the time of the improvement; otherwise, said property shall be retained in ownership by the owner-spouse, likewise subject to reimbursement of the cost of the improvement. [41]

In the present case, we find that Eliseo paid a portion only of the GSIS loan through monthly salary deductions. From April 6, 1989 [42] to April 30, 1992, [43] Eliseo paid about P60,755.76, [44] not the entire amount of the GSIS housing loan plus interest, since the petitioner advanced the P176,445.27 [45] paid by Erlinda to cancel the mortgage in 1992. Considering the P136,500.00 amount of the GSIS housing loan, it is fairly reasonable to assume that the value of the residential lot is considerably more than the P60,755.76 amount paid by Eliseo through monthly salary deductions.

Thus, the subject property remained the exclusive paraphernal property of Erlinda at the time she contracted with the petitioner; the written consent of Eliseo to the transaction was not necessary. The NBI finding that Eliseo's signatures in the special power of attorney and affidavit were forgeries was immaterial.

Nonetheless, the RTC and the CA apparently failed to consider the real nature of the contract between the parties.

Second Issue:

Sale or Equitable Mortgage?

Jurisprudence has defined an equitable mortgage "as one which although lacking in some formality, or form or words, or other requisites demanded by a statute, nevertheless reveals the intention of the parties to charge real property as security for a debt, there being no impossibility nor anything contrary to law in this intent." [46]

Article 1602 of the Civil Code enumerates the instances when a contract, regardless of its nomenclature, may be presumed to be an equitable mortgage: (a) when the price of a sale with right to repurchase is unusually inadequate; (b) when the vendor remains in possession as lessee or otherwise; (c) 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; (d) when the purchaser retains for himself a part of the purchase price; (e) when the vendor binds himself to pay the taxes on the thing sold; and, (f) 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. These instances apply to a contract purporting to be an absolute sale. [47]

For the presumption of an equitable mortgage to arise under Article 1602 of the Civil Code, two (2) requisites must concur: (a) that the parties entered into a contract denominated as a contract of sale; and, (b) that their intention was to secure an existing debt by way of a mortgage. Any of the circumstances laid out in Article 1602 of the Civil Code, not the concurrence nor an overwhelming number of the enumerated circumstances, is sufficient to support the conclusion that a contract of sale is in fact an equitable mortgage. [48]

Contract is an equitable mortgage

In the present case, there are four (4) telling circumstances pointing to the existence of an equitable mortgage.

First, the respondents remained in possession as lessees of the subject property; the parties, in fact, executed a one-year contract of lease, effective May 1, 1992 to April 30, 1993. [49]

Second, the petitioner retained part of the "purchase price," the petitioner gave a P200,000.00 advance to settle the GSIS housing loan, but refused to give the P402,000.00 balance when Erlinda failed to submit Eliseo's signed affidavit of waiver of rights.

Third, respondents paid the real property taxes on July 8, 1993, despite the alleged sale on April 30, 1992; [50] payment of real property taxes is a usual burden attaching to ownership and when, as here, such payment is coupled with continuous possession of the property, it constitutes evidence of great weight that the person under whose name the realty taxes were declared has a valid and rightful claim over the land. [51]

Fourth, Erlinda secured the payment of the principal debt owed to the petitioner with the subject property. The records show that the petitioner, in fact, sent Erlinda a Statement of Account showing that as of February 20, 1993, she owed P384,660.00, and the daily interest, starting February 21, 1993, was P641.10. [52] Thus, the parties clearly intended an equitable mortgage and not a contract of sale.

That the petitioner advanced the sum of P200,000.00 to Erlinda is undisputed. This advance, in fact, prompted the latter to transfer the subject property to the petitioner. Thus, before the respondents can recover the subject property, they must first return the amount of P200,000.00 to the petitioner, plus legal interest of 12% per annum, computed from April 30, 1992.

We cannot sustain the ballooned obligation of P384,660.00, claimed in the Statement of Account sent by the petitioner, [53] sans any evidence of how this amount was arrived at. Additionally, a daily interest of P641.10 or P19,233.00 per month for a P200,000.00 loan is patently unconscionable. While parties are free to stipulate on the interest to be imposed on monetary obligations, we can step in to temper the interest rates if they are

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

unconscionable. [54]

In Lustan v. CA, [55] where we established the reciprocal obligations of the parties under an equitable mortgage, we ordered the reconveyance of the property to the rightful owner therein upon the payment of the loan within ninety (90) days from the finality of the decision. [56]

WHEREFORE, in light of all the foregoing, we hereby DENY the present petition. The assailed decision and resolution of the Court of Appeals in CA-G.R. CV No. 57126 are AFFIRMED with the following MODIFICATIONS:

1. The Deed of Absolute Sale dated April 30, 1992 is hereby declared an equitable mortgage; and

2. The petitioner is obligated to RECONVEY to the respondents the property covered by Transfer Certificate of Title No. 7650 of the Register of Deeds of Mandaluyong City, UPON THE PAYMENT OF P200,000.00, with 12% legal interest from April 30, 1992, by respondents within NINETY DAYS FROM THE FINALITY OF THIS DECISION.

Costs against the petitioner.

SO ORDERED.

Carpio Morales, (Chairperson), Bersamin, Villarama, Jr., and Sereno, JJ., concur.

---

[1] Filed under Rule 45 of the Revised Rules of Court; rollo, pp. 11-16.

[2] Dated June 25, 2002, penned by Associate Justice Juan Q. Enriquez, Jr., with the concurrence of Associate Justices Eugenio S. Labitoria and Mariano C. del Castillo (now a member of this Court); id. at 21-28.

[3] Dated November 13, 2002; id. at 31.

[4] Entitled "Erlinda Ramirez and Eliseo Carlos v. Francisco E. Muñoz, Jr."

[5] Dated January 23, 1997; Original Records, pp. 296-299.

[6] Id. at 71-72.

[7] Id. at 68-69.

[8] Folder of Plaintiffs' Formal Offer of Additional Evidence, pp. 6-8.

[9] Original Records, pp. 76-77.

[10] TSN dated September 19, 1994, Testimony of Erlinda Ramirez, p. 4.

[11] Id. at 80-81.

[12] Memorandum of Encumbrances of TCT No. 1427; id. at 69.

[13] TSN dated July 14, 1995, Testimony of Francisco Muñoz, Sr., pp. 7-8.

[14] Original Records, p. 152.

[15] Id. at 71-72.

[16] Civil Case No. 14271, entitled Francisco Muñoz, Jr., rep. by his attorney-in-fact, Francisco Muñoz, v. Sps. Eliseo & Erlinda Ramirez; id. at 153-155.

Study hands-free: podcast-style lessons with read-along highlighting - batas.org

[17] Id. at 156-162.

[18] Folder of Plaintiffs' Formal Offer of Additional Evidence.

[19] Original Records, p. 70.

[20] Id. at 74.

[21] Id. at 163-169 and 170-172.

[22]Supra note 5.

[23] Art. 158. x x x

Buildings constructed, at the expense of the partnership, during the marriage on land belonging to one of the spouses, also pertain to the partnership, but the value of the land shall be reimbursed to the spouse who owns the same.

[24] 214 Phil. 593 (1984).

[25] Art. 124. The administration and enjoyment of the conjugal partnership shall belong to both spouses jointly. In case of disagreement, the husband's decision shall prevail, subject to recourse to the court by the wife for proper remedy, which must be availed of within five years from the date of the contract implementing such decision.

In the event that one spouse is incapacitated or otherwise unable to participate in the administration of the conjugal properties, the other spouse may assume sole powers of administration. These powers do not include disposition or encumbrance without authority of the court or the written consent of the other spouse. In the absence of such authority or consent, the disposition or encumbrance shall be void. However, the transaction shall be construed as a continuing offer on the part of the consenting spouse and the third person, and may be perfected as a binding contract upon the acceptance by the other spouse or authorization by the court before the offer is withdrawn by either or both offerors.

[26] Resolution of November 13, 2002; supra note 3.

[27] Rollo, pp. 131-136.

[28] Supra note 24.

[29] Art. 120. The ownership of improvements, whether for utility or adornment, made on the separate property of the spouses at the expense of the partnership or through the acts or efforts of either or both spouses shall pertain to the conjugal partnership, or to the original owner-spouse, subject to the following rules:

When the cost of the improvement made by the conjugal partnership and any resulting increase in value are more than the value of the property at the time of the improvement, the entire property of one of the spouses shall belong to the conjugal partnership, subject to reimbursement of the value of the property of the owner-spouse at the time of the improvement; otherwise, said property shall be retained in ownership by the owner-spouse, likewise subject to reimbursement of the cost of the improvement.

In either case, the ownership of the entire property shall be vested upon the reimbursement, which shall be made at the time of the liquidation of the conjugal partnership.

[30] TSN dated September 19, 1994, Testimony of Erlinda Ramirez, p. 14.

[31] Original Records, p. 152.

[32] Id. at 151.

[33] Hi-Cement Corporation v. Insular Bank of Asia and America, G.R. Nos. 132403 & 132419, September 28, 2007, 534 SCRA 269; Heirs of Flores Restar v. Heirs of Dolores R. Cichon, G.R. No. 161720, November 22, 2005, 475 SCRA 731, 739; Casol v. Purefoods Corporation, G.R. No. 166550, September 22, 2005, 470 SCRA 585, 589.

[34]FAMILY CODE, Art. 116.

[35] Supra note 21.

[36] Art. 92. The following shall be excluded from the community property:

(1) Property acquired during the marriage by gratuitous title by either spouse[.]

[37] Art. 109. The following shall be the exclusive property of each spouse:

x x x x

(2) That which each acquires during the marriage by gratuitous title[.]

[38] Previously Articles 148 and 201 of the Civil Code.

[39] Supra note 24.

[40] Ibid.

[41] Ferrer v. Ferrer, G.R. No. 166496, November 29, 2006, 508 SCRA 570, 581.

[42] Date GSIS granted the loan; supra note 8.

[43]Date Erlinda settled the loan; supra note 11.

[44] P1,687.66 x 36 months' salary deductions (May 1989 to April 1992) = P60,755.76.

[45] Supra note 11.

[46] Rockville Excel International Exim Corporation v. Culla, G.R. No. 155716, October 2, 2009, 602 SCRA 128, 136.

[47] CIVIL CODE, Article 1604.

[48] Bacungan v. Court of Appeals, G.R. No. 170282, December 18, 2008, 574 SCRA 642, 648-649; Sps. Salonga v. Sps. Concepcion, 507 Phil. 287, 303 (2005); Sps. Reyes v. Court of Appeals, 393 Phil. 479, 490 (2000).

[49] Supra note 14.

[50] Original Records, p. 174.

[51] Lumayag v. Heirs of Jacinto Nemeño, G.R. No. 162112, July 3, 2007, 526 SCRA 315, 327-328; Go v. Bacaron, G.R. No. 159048, October 11, 2005, 472 SCRA 339, 352.

[52] Original Records, p. 82.

[53] Ibid.

[54] Toring v. Ganzon-Olan, G.R. No. 168782, October 10, 2008, 568 SCRA 376, 383.

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

[55] 334 Phil. 609 (1997).

[56] Id. at 620. See also Bacungan v. Court of Appeals, supra note 47, at 650.

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.