MULTI-VENTURES CAPITAL AND MANAGEMENT CORPORATION, PETITIONER. VS. STALWART MANAGEMENT SERVICES CORPORATION, MARIAN G. TAJO, CESAR TAJO AND ARIANA GALANG, RESPONDENTS.

G.R. No. 157439. July 04, 2007

Ponente: AUSTRIA-MARTINEZ, J.

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AUSTRIA-MARTINEZ, J.:

The sole issue in this case is whether the contract entered into by Multi-Ventures Capital and Management Corporation (petitioner) and Stalwart Management Services Corporation (respondent) is one of loan or sale.

The facts are as follows:

On July 10, 1991, Multi-Ventures Capital and Management Corporation filed with the Regional Trial Court (RTC) of Makati, Branch 134, a Complaint for Reformation of Instrument with application for attachment against Stalwart Management Services Corporation and its officers. Petitioner alleged that on January 11, 1991, respondent obtained from the former a loan in the amount of P9,000,000.00, with interest, but for purposes of expediency, said transaction was denominated as a sale whereby petitioner bought from respondent various Land Bank bonds originally valued at P11,557,972.60 at discounted price, as shown in a Confirmation of Agreement; that the bonds serve as a partial collateral for the payment of the loan; that respondent and some of its officers, however, have plans of defrauding their creditors by absconding and disposing of its properties, thus constraining petitioner to file the complaint for reformation in order to express the true intent of the parties, i.e., that the ostensible sale of the bonds is actually a loan agreement.[1]

Respondent, together with its co-defendants, filed an Answer denying petitioner's allegations and claiming, among others, that both petitioner and respondent are companies engaged in dealing and trading government securities. According to respondent, the transaction entered into on January 11, 1991 is really a purchase of Land Bank bonds, and there is no mistake, fraud, inequitable conduct or accident in the preparation of the true agreement of the parties such that reformation is called for.[2]

After trial on the merits, the RTC rendered a Decision dated May 11, 1995, in favor of petitioner. The dispositive portion of the RTC Decision reads:

> WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendant:
>
> - These instruments subject matter of this case are hereby ordered REFORMED as Contract of Loan and not a Contract of Sale.
>
> - To order the defendants, jointly and severally, to pay the plaintiff the sum of P11,557,972.60 PESOS from June 11, 1992 as the date of maturity plus legal interest until fully paid;
>
> - To order defendants, jointly and severally, to pay the plaintiff the sum of P100,000.00 PESOS by way of

attorney's fees;

- Ordering the dismissal of defendants' counter-claim for being devoid of legal merit; and

- To order defendants' jointly and severally, to pay the costs of suit.

SO ORDERED.[3]

Dissatisfied, respondent and its officers appealed to the Court of Appeals (CA). In a Decision dated February 24, 2003,[4] the CA sustained respondent's position that the transaction was, in fact, a sale; reversed the RTC Decision; and dismissed petitioner's complaint and respondent's counterclaim.

Hence, the present Petition for Review on Certiorari predicated on the following grounds:

- THAT DUE TO MISAPPRECIATION OF FACTS AND EVIDENCE, THE COURT OF APPEALS ERRED IN REVERSING THE COURT A QUO'S DECISION AND IN NOT DECLARING THAT THE INTENDED AND TRUE TRANSACTION AGREED UPON AND ENTERED INTO BETWEEN MULTI-VENTURES AND STALWART WAS THAT OF LOAN, NOT SALE OF LAND BANK BONDS.

- THAT THE COURT OF APPEALS ERRED IN NOT ORDERING THE REFORMATION OF THE INSTRUMENT OSTENSIBLY APPEARING AS A PURCHASE AND SALE WITH THE RIGHT TO REPURCHASE LAND BANK BONDS SO AS TO REFLECT THE TRUE INTENTION AND AGREEMENT OF PARTIES THAT THE TRANSACTION WAS THAT OF LOAN OF P9 MILLION PAYABLE FOR A PERIOD OF ONE (1) YEAR, JANUARY 11, 1992 IN THE AMOUNT OF P11,537,972.60 INCLUSIVE OF INTEREST.[5]

Ordinarily, the Court will not dwell on the issues raised in this petition as it pertains to questions of fact, and under Rule 45 of the Rules of Court, only questions of law may be raised, the reason being that this Court is not a trier of facts, and it is not for this Court to re-examine and re-evaluate the evidence on record.[6] Considering, however, that the CA and the RTC came up with divergent findings regarding the real nature of the transaction in question, the Court is now constrained to review the evidence on record so as to resolve the conflict.[7]

After a careful examination of the evidence on record, the Court sustains the CA's ruling that the transaction between the parties was one of sale and not of loan.

An action for reformation of an instrument finds ground in Article 1359 of the Civil Code, which provides:

ARTICLE 1359. When, there having been a meeting of the minds of the parties to a contract, their true intention is not expressed in the instrument purporting to embody the agreement, by reason of mistake, fraud, inequitable conduct or accident, one of the parties may ask for the reformation of the instrument to the end that such true intention may be expressed.

x x x x

Reformation is a remedy in equity, whereby a written instrument is made or construed so as to express or conform to the real intention of the parties, where some error or mistake has been committed. In granting reformation, the remedy in equity is not making a new contract for the parties, but establishing and perpetuating the real contract between the parties which, under the technical rules of law, could not be enforced but for such reformation.[8]

In order that an action for reformation of instrument may prosper, the following requisites must concur: (1) there must have been a meeting of the minds of the parties to the contract; (2) the instrument does not express the true intention of the parties; and (3) the failure of the instrument to express the true intention of the parties is due to mistake, fraud, inequitable conduct or accident.[9]

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In the present case, there is no question that there was a meeting of the minds between the parties. What remains to be resolved is whether the contract expressed their true intention; and, if not, whether it was due to mistake, fraud, inequitable conduct or accident.

While intentions involve a state of mind which may sometimes be difficult to decipher, subsequent and contemporaneous acts of the parties as well as the evidentiary facts as proved and admitted can be reflective of one's intention.[10]

The onus probandi is upon the party who insists that the contract should be reformed.[11] Moreover, the presumption is that an instrument sets out the true agreement of the parties thereto and that it was executed for valuable consideration.[12] Unfortunately, petitioner was not able to overturn the presumption of validity of the contract and it also failed to discharge the burden of proving that the true intention of the parties has not been expressed.

In support of its contention that the transaction is one of loan, petitioner relies principally on the letter dated January 11, 1991, wherein respondent offered to purchase on January 10, 1992 the Land Bank bonds from petitioner for the total amount of P11,557,972.60.[13] According to petitioner, the amount borrowed by respondent was P9,000,000.00, with interest, or a total of P11,557,972.60, payable within one year.[14] Petitioner insists that the buy-back letter proves that the transaction was indeed a loan, for if it was a sale, why would respondent buy back the bonds in the same amount that was payable under their alleged loan agreement?[15]

There is nothing on record, as well as in the buy-back letter, that clearly and convincingly proves or substantiates petitioner's contention that the real intent of the parties was to enter into a loan agreement for the amount of P11,557,972.60, inclusive of interest. In fact, respondent's buy-back letter supports the finding that the agreement entered into by the parties was a sale transaction. For if the bonds were only to serve as a collateral for the loan, why would respondent offer to buy them back from petitioner if they were not sold in the first place? Obviously, ownership of the bonds had been transferred from respondent to petitioner on January 11, 1991; for if it were not so and the bonds were merely being held by petitioner as a security for the payment of the alleged loan, then ownership would have remained with respondent and there would have been no need to buy it back.

The Court agrees with and adopts the findings of the CA, thus:

> The lower court, and the appellee, advance that it was highly improbable that plaintiff would really purchase the Land Bank bonds for 9 million pesos, when it would have called for only 6.5 million pesos if sold in the market. Aside from such self-serving statements, however, there is no direct or substantial proof that the bonds would have demanded a lower actual price when it was sold. In any case, poor business decisions are not adequate grounds to nullify the effects of a contract entered into in the course of business operations. x x x
>
> Furthermore, the fact that the Confirmation of Agreement (Exhibit "1") and offer to purchase by defendants (Exhibit "B") were executed simultaneously and delivered to the plaintiff, is not inconsistent with the conclusion that the contract between the parties was truly a Sale. In order to hold that the parties' agreement was really a loan, more concrete and convincing evidence must be produced. x x x[16]

In addition, and more significantly, what militates against petitioner's argument that their agreement was a loan is the fact that subsequent thereto, petitioner endorsed and transferred the bonds to the AFP Mutual Benefits Association, Inc., as collateral for an investment. Petitioner did not rebut or at the very least, offer a plausible explanation for said transfer which is unmistakably an act of ownership. It sufficiently established the CA finding that the transaction is one of sale, thus:

> Aside from Exhibit "1", evidence on record, particularly Exhibits "8" to "9" show that the bonds were indeed delivered to the plaintiff pursuant to the Contract of Sale. Furthermore, almost immediately after taking

> possession of the subject bonds, plaintiff corporation through its Vice-President and incorporator, Natividad Aureola, endorsed and transferred the same to the AFP Mutual Benefits Association, Inc., as collateral for an investment made by the latter. Such endorsement and transfer, to our mind, amount to an act of ownership, which can only be made by one who owns a certain property, and not by one who holds a property only as security for loan. Defendants' position that it had sold the bonds to the plaintiff pursuant to Exhibit "1" is thus fortified. [17]

Finally, petitioner failed to show that mistake, fraud, inequitable conduct or accident attended the execution of the agreement such that their true intention was not reflected. As admitted by petitioner, the parties agreed to execute a purchase and sale agreement "for purposes of expediency and convenience."[18] Expediency and convenience, however, are not grounds for the reformation of an instrument. As such, absent any proof of mistake, fraud, inequitable conduct or accident, the Confirmation of Agreement dated January 11, 1991 remains the best evidence to ascertain the real intent of the parties.

The transaction of sale entered into by the parties on January 11, 1991 is accurately expressed in the Confirmation of Agreement. Petitioner, therefore, has no cause of action for its reformation.

WHEREFORE, the petition is DENIED for lack of merit.

Costs against petitioner.

SO ORDERED.

Ynares-Santiago, (Chairperson), Chico-Nazario, and Nachura, JJ., concur.

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[*] The Court of Appeals, impleaded as respondent, is deleted from the title of herein case, pursuant to Section 4, Rule 45 of the Rules of Court.

[1]Records, pp. 2-4.

[2] Id. at 39-43.

[3] Id. at 581.

[4] Penned by Associate Justice Rodrigo V. Cosico, with Associate Justices Rebecca de Guia-Salvador and Regalado E. Maambong, concurring; CA rollo, pp. 138-150.

[5] Rollo, pp. 14-15.

[6] Microsoft Corporation v. Maxicorp, Inc., G.R. No. 140946, September 13, 2004, 438 SCRA 224, 232.

[7] Id. at 233.

[8] Quiros v. Arjona, G.R. No. 158901, March 9, 2004, 425 SCRA 57, 65.

[9] The National Irrigation Administration v. Gamit, G.R. No. 85869, November 6, 1992, 215 SCRA 436, 451.

[10]Sarming v. Dy, 432 Phil. 685, 699 (2002).

[11]Huibonhua v. Court of Appeals, 378 Phil. 386, 407 (1999).

[12] BA Finance Corporation v. Intermediate Appellate Court, G.R. No. 76497, January 20, 1993, 217 SCRA 261, 277.

[13] Records, p. 8.

[14]Rollo, p. 11.

[15] Id. at 16.

[16] CA rollo, pp. 149-150.

[17] Id. at 148-149.

[18] Records, p. 2.

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