

**JUAN OLIVARES AND DOLORES ROBLES, PETITIONERS, VS.
ESPERANZA DE LA CRUZ SARMIENTO, RESPONDENT.***G.R. No. 158384. June 12, 2008*

Ponente: CARPIO, J.

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This is a petition for review[1] of the Decision[2] dated 30 October 2002 and the Resolution dated 8 May 2003 of the Court of Appeals in CA-G.R. CV No. 48949. The Court of Appeals reversed the Decision dated 1 March 1993 of the Regional Trial Court of Iloilo, Branch 36.

The Facts

Respondent Esperanza de la Cruz Sarmiento (respondent) was the owner of a 230-square meter parcel of residential land located at Barangay San Antonio, Oton, Iloilo, covered by TCT No. T-86397. On 18 August 1976, respondent and her husband Manuel Sarmiento (Manuel) obtained a P12,000 loan from the Development Bank of the Philippines (DBP) for the construction of a residential house on the land. Respondent mortgaged the land to DBP as security for the payment of the loan. Respondent and Manuel failed to pay the monthly amortizations on the loan. In 1979, respondent allegedly obtained a loan of P35,000 from Luis Boteros (Boteros) so she could pay her obligation with the DBP and to prevent the foreclosure of the mortgaged land. Boteros was respondent's neighbor and the godfather of her eldest son. Respondent alleged that instead of getting the amount she loaned from Boteros, she authorized Boteros and his niece Segunda Planta (Planta) to pay her loan with the DBP. Respondent accused Boteros and Planta of forging her signatures in two deeds of sale, making it appear that respondent and her husband Manuel sold the land and the house (property) constructed thereon to Boteros.

Boteros, on the other hand, alleged that in 1979, respondent offered to sell the property to him, provided Boteros would pay respondent's loan with the DBP plus the interest due thereon. Boteros accepted the offer and paid respondent's loan plus interest with the DBP, totaling P21,009.62.[3] Boteros made a final payment of the loan on 26 June 1979 and the DBP thereafter issued a certification of cancellation of mortgage[4] dated 28 June 1979. Meanwhile, the agreement between Boteros and respondent was put in writing through a notarized Deed of Definite Sale[5] dated May 1979, signed by both respondent and Boteros. Under the terms of the Deed of Definite Sale, respondent sold the property to Boteros for P2,000 in cash, with the condition that Boteros will assume respondent's P12,000 loan from the DBP, together with the interest due thereon. After Boteros fully paid respondent's loan with the DBP, respondent and Boteros executed another document, a Deed of Absolute Sale dated 2 July 1979, stating that spouses respondent and Manuel were selling the property to Boteros for P25,000. The Deed of Absolute Sale was signed by both respondent and her husband Manuel. On 24 July 1979, the Register of Deeds cancelled TCT No. T-86397 and issued a new title, TCT No. T-99121 in the name of Boteros. On 7 January 1984, Boteros sold the property to spouses Juan Olivares (Olivares) and Dolores Robles (Robles) for P27,000.[6] Boteros alleged that respondent was aware of the sale of the property to Olivares and Robles

(petitioners) since respondent was among those who looked for interested buyers of the property.

Olivares testified that before buying the property from Boteros, he approached respondent who confirmed to him that she already sold the property to Boteros. On 7 January 1984, petitioners bought the property from Boteros. On 3 April 1985, the Register of Deeds cancelled TCT No. T-99121 and issued a new title, TCT No. T-115,672 in petitioners' name. After the title was transferred to petitioners' name, Olivares demanded that respondent vacate the property. Respondent allegedly requested that she be given some time to find a place where her family could transfer. Petitioners eventually filed with the Municipal Trial Court of Oton an illegal detainer case[7] against respondent and Manuel when they continued to stay on the property despite repeated demands from petitioners for them to vacate the property. On 14 October 1988, the Municipal Trial Court rendered a decision[8] in the illegal detainer case and ordered respondent and Manuel to vacate the property and deliver the possession thereof to petitioners.

Meanwhile, on 7 December 1984, respondent filed a civil case for recovery of possession, ownership, annulment of title, and damages against Boteros and Planta, which was docketed as Civil Case No. 16177. On 23 April 1986, Civil Case No. 16177 was dismissed without prejudice.

On 26 September 1986, respondent filed with the Regional Trial Court of Iloilo a complaint[9] for recovery of ownership, annulment of title, and damages against Boteros, Planta, and petitioners, which was docketed as Civil Case No. 17242.

On 1 March 1993, the Regional Trial Court of Iloilo, Branch 36 rendered a decision, the dispositive portion of which reads:

WHEREFORE, viewed from the foregoing considerations, judgment is hereby rendered DISMISSING the complaint and ordering the plaintiff [Esperanza de la Cruz Sarmiento] to pay herein defendants [Luis Boteros, Segunda Planta, Juan Olivares, and Dolores Robles]:

- The amount of P3,000.00 for moral damages;
- The amount of P5,000.00 for attorney's fees; and
- The amount of P2,000.00 as litigation expenses.

SO ORDERED.[10]

On appeal, the Court of Appeals rendered its Decision dated 30 October 2002, the dispositive portion of which reads:

WHEREFORE, the appealed judgment is hereby REVERSED and SET ASIDE and a new one entered declaring the following deeds of sale as NULL and VOID:

- (a) Deed of Definite Sale from Esperanza de la Cruz to Luis Boteros, dated May 1979;
- (b) Deed of Absolute Sale from Manuel Sarmiento and Esperanza de la Cruz to Luis Boteros, dated July 2, 1979, and
- (c) Definite Sale from Luis Boteros to Juan Olivares and Dolores Robles dated January 7, 1984.

The plaintiff-appellant [Esperanza de la Cruz] shall be restored in possession of the subject property.

However, the plaintiff-appellant is ordered to pay defendants-appellees Juan and Dolores within thirty (30) days from the finality of this Decision the following:

- P21,009.62, the amount paid by defendant-appellee Luis to DBP.

- Interest thereon at the legal rate computed from the date of the subject transaction up to the time that the plaintiff-appellant was ejected from the said property in 1989, and
- The costs.

In case of default on the part of the plaintiff-appellant to settle her obligation within the period herein set forth, the property shall be sold at public auction and the proceeds applied to the mortgage debts and the costs.

SO ORDERED.[11]

Petitioners moved for reconsideration, which the Court of Appeals denied for lack of merit.

Hence, this petition for review.

The Ruling of the Trial Court

The trial court upheld the validity and genuineness of the Deed of Absolute Sale executed by respondent in favor of Boteros, who subsequently sold it to petitioners. The trial court held that respondent's mere denial of entering into a contract of sale with Boteros, which was not corroborated by any other evidence, cannot be given evidentiary weight against the notarized deed of sale.

On the validity of the Deed of Absolute Sale, the trial court ruled:

The validity of the Deed of Sale in favor of the defendant [Boteros] must likewise be upheld, since all the requisites for a valid contract were present, namely, consent, object certain and consideration. Consent is evident from the signature of the defendant on the document (which signature was confirmed to be genuine by the National Bureau of Investigation) made in the presence of two witnesses and before Notary Public Manuel C. Roa, (Exhibit "9" and "9-A" for the defendant). The object of the contract is likewise certain, that is lot No. 2328-B covered by TCT No. T-86397. The cause or consideration is also duly established, that is, for the sum of P25,000.00.[12]

The Ruling of the Court of Appeals

The Court of Appeals held that the transaction between respondent and Boteros was not a contract of sale but merely an equitable mortgage. The Court of Appeals ruled that the P25,000 consideration indicated on the Deed of Absolute Sale dated 2 July 1979 was unusually inadequate for the sale of the property.

Considering that respondent's educational level was only grade 3 and she could not understand English, the Court of Appeals held that the contents of the deed of sale should have been fully explained to respondent, in accordance with Article 1332[13] of the Civil Code. Because Boteros failed to explain the contents of the deed of sale, respondent could not have fully understood the import and consequence of her signing the deed of sale.

The Court of Appeals further noted that respondent and her family stayed on the property even after the alleged sale to Boteros, which under Article 1602 of the Civil Code is one of the cases where a contract can be presumed to be an equitable mortgage.

Since the contract is merely an equitable mortgage and not an absolute sale, the Court of Appeals ruled that respondent can still recover the property from petitioners who were not buyers in good faith. The Court of Appeals noted that petitioners, who were neighbors of respondent, were aware that respondent still occupied the property. Thus, petitioners should have made inquiries before buying the property from Boteros. Since Boteros was not the owner of the property, he had no right to sell the property to petitioners.

The Issues

Petitioners raise the following issues:

- WHETHER THE APPELLATE COURT CAN DISREGARD THE FACTS ESTABLISHED BY THE TRIAL COURT BY UPHOLDING THE UNCORROBORATED TESTIMONY/DENIAL OF THE RESPONDENT OVER AND ABOVE THE AFFIRMATIVE TESTIMONIES OF WITNESSES AND NOTARY PUBLIC.
- WHETHER THE FINDINGS OF FACTS AND CONCLUSION REACHED BY THE APPELLATE COURT WERE ENTIRELY GROUNDED ON SPECULATION, WITHOUT CITATION OF THE SPECIFIC EVIDENCE ON WHICH THEY ARE BASED.
- WHETHER THE SUBJECT DEED OF DEFINITE SALE CAN BE CONSTRUED AS AN EQUITABLE MORTGAGE, AND THEREAFTER BE DECLARED NULL AND VOID INSTEAD OF BEING REFORMED.
- WHETHER THE APPELLATE COURT CAN LEGALLY ORDER A MORTGAGEE TO REDEEM THE PROPERTY MORTGAGED.
- WHETHER THE PETITIONER[S] IN RELYING ON THE CLEAN TITLE OF LUIS BOTEROS AND DEED OF SALE EXECUTED BY RESPONDENT CAN BE ADJUDGED BUYER[S] IN GOOD FAITH.[14]

The resolution of the issues requires the determination of the real nature of the transaction between respondent and Boteros concerning the subject property.

The Ruling of the Court

We find merit in the petition.

Deed of Absolute Sale is Valid

Respondent denies that she signed the Deed of Definite Sale dated May 1979 and the Deed of Absolute Sale dated 2 July 1979. However, respondent failed to prove that her signatures on the Deed of Definite Sale and the Deed of Absolute Sale were indeed forged. In fact, the Office of the Provincial Fiscal of Iloilo dismissed the complaint for falsification of public document filed by respondent against Boteros and Planta for insufficiency of evidence.[15] Furthermore, the NBI Report[16] dated 25 February 1985 on the handwriting examination on the signatures of respondent and Manuel on the Deed of Absolute Sale dated 2 July 1979 stated that the respondent's signature on the Deed of Absolute Sale and respondent's sample signatures on other documents submitted for comparative examination were written by one and the same person. However, the NBI could not render a definite finding on whether Manuel's signature on the Deed of Absolute Sale and his sample signatures were written by one and the same person because of lack of sufficient and appropriate basis for comparative examination.

On the other hand, Planta, who was one of the witnesses who signed the Deed of Absolute Sale, testified that she saw respondent and Manuel sign the Deed of Absolute Sale.[17] Atty. Manuel Roa, a retired judge who notarized the Deed of Definite Sale and the Deed of Absolute Sale, likewise testified that he was present when respondent signed the Deed of Definite Sale and the Deed of Absolute Sale.[18]

As found by the trial court, the essential requisites for a valid contract were present: (1) consent of the parties, as evidenced by their signatures; (2) object certain which is the subject property; and (3) the consideration which is P25,000. Furthermore, the notarized Deed of Absolute Sale is a public document which has the presumption of regularity and whose validity should be upheld absent any clear and convincing evidence to contradict its validity.[19]

Contract of Loan Not Proven

We cannot subscribe to respondent's bare allegation that the agreement between her and Boteros was merely a loan for P35,000 and not the sale of the property. Respondent failed to substantiate her claim that the transaction was merely a loan. In fact, there was no written document evidencing the alleged loan transaction. It is quite improbable that Boteros, who knew that respondent was unable to pay her P12,000 loan from the DBP, would agree to grant respondent a P35,000 loan which is almost thrice as much as the DBP loan, without insisting that the loan be embodied in a written document. Furthermore, respondent admitted that she has never paid a single centavo of her alleged loan with Boteros.

On the other hand, the notarized Deed of Definite Sale and the notarized Deed of Absolute Sale signed by respondent and Manuel clearly bely respondent's claim that the agreement was merely a loan transaction. These circumstances clearly indicate that the agreement was indeed a sale of real property and not merely a loan.

Where the terms of the contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control.[20] The contract is the law between the parties and when the words of the contract are clear and can be easily understood, there is no room for construction.[21]

Contract was not an Equitable Mortgage

An equitable mortgage is defined as one that, although lacking some formality or form, nevertheless reveals the intention of the parties to charge a real property as security for a debt.[22] A contract of sale is considered an equitable mortgage when the real intention of the parties was to secure an existing debt by way of mortgage.[23] In this case, the land which was the subject of the Deed of Absolute Sale was already mortgaged not to the buyer but to another entity who was not a party to the contract. The land was already mortgaged to DBP by the sellers (respondent and her husband Manuel), who were unable to pay their loan. The records show that the property was about to be foreclosed so respondent and Manuel decided to sell the property to Boteros. Under the terms of the Deed of Definite Sale dated May 1979, the consideration for the sale was P2,000 plus the assumption of Boteros of the sellers' loan from the DBP, including all interests. Prior to their sale transaction, there is no evidence that respondent had an existing debt with Boteros. There is likewise no substantial evidence on the records that the parties to the contract agreed upon a different transaction other than the sale of real property.

Article 1602 of the Civil Code enumerates the instances where a contract is presumed to be an equitable mortgage. Article 1602 reads:

Article 1602. The contract shall be presumed to be 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.

The foregoing provisions also apply to a contract purporting to be an absolute sale.[24]

In this case, the appellate court held that the contract should be presumed an equitable mortgage because the sale price of the property was unusually inadequate and the vendor remained in possession of the property.

The records of the case are bereft of any evidence which could lead to the conclusion that the sale price was unusually inadequate. No evidence was presented on the market value of real estate in the area where the property was located at the time of the sale. Neither was there testimony of any alleged disparity on the price and the market value of the property. There was no testimony nor evidence presented on the inadequacy of the sale price. Besides, the property which respondent sold to Boteros for P25,000 in 1979 was subsequently sold by Boteros to petitioners in 1984 for P27,000. If the price indicated on the Deed of Absolute Sale dated 2 July 1979 was indeed grossly inadequate, then Boteros could have sold the property five years later at a much higher price than P27,000. To presume that a contract is an equitable mortgage based on gross inadequacy of price, it must be clearly shown from the evidence presented that the consideration was in fact grossly inadequate at the time the sale was executed. In fact, mere inadequacy of price is not sufficient.[25]

Respondent's continuous possession of the property even after the property was sold to Boteros does not automatically mean that the transaction was an equitable mortgage and not an absolute sale. In this case, Boteros merely tolerated respondent's continued possession of the property until Boteros sold the property and the new buyers, petitioners herein, demanded respondent to vacate the property.

Based on the records of the case, we hold that the transaction between Boteros and respondent and Manuel was a contract of absolute sale of real property and not merely an equitable mortgage. Boteros can therefore validly sell the property to petitioners. In view of the conclusion we have reached, it is unnecessary to pass upon the last two issues raised by petitioners.

WHEREFORE, we GRANT the petition. We SET ASIDE the Decision dated 30 October 2002 and the Resolution dated 8 May 2003 of the Court of Appeals in CA-G.R. CV No. 48949. We REINSTATE the Decision dated 1 March 1993 of the Regional Trial Court of Iloilo, Branch 36.

SO ORDERED.

Puno, C.J., (Chairperson), Corona, Azcuna, and Leonardo-De Castro, JJ., concur.

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

[2] Penned by Associate Justice Delilah Vidallon-Magtolis with Associate Justices Andres B. Reyes, Jr. and Regalado E. Maambong, concurring.

[3] See DBP certification dated 8 January 1985; Exh. "8," Records, p. 246.

[4] Exh. "16," id. at 260.

[5] Id. at 22.

[6] See notarized Deed of Definite Sale dated 7 January 1984; id. at 254.

[7] Civil Case No. 555, filed in the MTC of Oton, Iloilo.

[8] Records, pp. 262-273.

[9] Id. at 1-5.

[10] CA rollo, p. 13.

[11] Rollo, pp. 33-34.

[12] CA rollo, p. 12.

[13] Article 1332 of the Civil Code provides that "[w]hen one of the parties is unable to read or if the contract is in a language not understood by him, and mistake or fraud is alleged, the person enforcing the contract must show that the terms thereof have been fully explained to the former."

[14] Rollo, p. 11.

[15] See Resolution dated 5 August 1985 of the Office of the Provincial Fiscal of Iloilo; Records, pp. 250-253.

[16] Exh. "9," *id.* at 247-248.

[17] TSN, 8 February 1989, p. 7; TSN, 15 March 1989, p. 6.

[18] TSN, 17 April 1989, pp. 4-7.

[19] *Ceballos v. Intestate Estate of the late Emigdio Mercado*, G.R. No. 155856, 28 May 2004, 430 SCRA 323.

[20] Article 1370 of the Civil Code.

[21] *Heirs of the Late Spouses Aurelio and Esperanza Balite v. Lim*, G.R. No. 152168, 10 December 2004, 446 SCRA 56; *Tuazon v. Court of Appeals*, 396 Phil. 32 (2000).

[22] *Lumayag v. Heirs of Jacinto Nemeño*, G.R. No. 162112, 3 July 2007, 526 SCRA 315; *Roberts v. Papio*, G.R. No. 166714, 9 February 2007, 515 SCRA 346.

[23] *Raymundo v. Bandong*, G.R. No. 171250, 4 July 2007, 526 SCRA 514; *Roberts v. Papio*, G.R. No. 166714, 9 February 2007, 515 SCRA 346.

[24] Article 1604 of the Civil Code.

[25] *San Pedro v. Lee*, G.R. No. 156522, 28 May 2004, 430 SCRA 338.

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