

SPOUSES ROBERTO AND ADELAIDA PEN, PETITIONERS, VS. SPOUSES SANTOS AND LINDA JULIAN, RESPONDENTS.*G.R. No. 160408. January 11, 2016*

Ponente: BERSAMIN, J.

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The petitioners who were the buyers of the mortgaged property of the respondents seek the reversal of the decision promulgated on October 20, 2003,[1] whereby the Court of Appeals (CA) affirmed with modification the adverse judgment rendered on August 30, 1999 by the Regional Trial Court (RTC), Branch 77, in Quezon City.[2] In their respective rulings, the CA and the RTC both declared the deed of sale respecting the respondents' property as void and inexistent, albeit premised upon different reasons.

Antecedents

The CA summarized the antecedent facts and procedural matters in its assailed decision as follows:

On April 9, 1986, the appellees (the Julians) obtained a P60,000.00 loan from appellant Adelaida Pen. On May 23, 1986 and on the (sic) May 27, 1986, they were again extended loans in the amounts of P50,000.00 and P10,000.00, respectively by appellant Adelaida. The initial interests were deducted by appellant Adelaida, (1) P3,600.00 from the P60,000.00 loan; (2) P2,400.00 from the P50,000.00 loan; and (3) P600.00 from the P10,000.00 loan. Two (2) promissory notes were executed by the appellees in favor of appellant Adelaida to evidence the foregoing loans, one dated April 9, 1986 and payable on June 15, 1986 for the P60,000.00 loan and another dated May 22, 1986 payable on July 22, 1986 for the P50,000.00 loan. Both loans were charged interest at 6% per month. As security, on May 23, 1986, the appellees executed a Real Estate Mortgage over their property covered by TCT No. 327733 registered under the name of appellee Santos Julian, Jr. The owner's duplicate of TCT No. 327733 was delivered to the appellants.

Appellant's version of the subsequent events run as follows: When the loans became due and demandable, appellees failed to pay despite several demands. As such, appellant Adelaida decided to institute foreclosure proceedings. However, she was prevailed upon by appellee Linda not to foreclose the property because of the cost of litigation and since it would cause her embarrassment as the proceedings will be announced in public places at the City Hall, where she has many friends. Instead, appellee Linda offered their mortgaged property as payment in kind. After the ocular inspection, the parties agreed to have the property valued at P70,000.00. Thereafter, on October 22, 1986 appellee executed a two (2) page Deed of Sale duly signed by her on the left margin and over her printed name. After the execution of the Deed of Sale, appellant Pen paid the capital gains tax and the required real property tax. Title to the property was transferred to the appellants by the issuance of TCT No. 364880 on July 17, 1987. A reconstituted title was also issued to the appellants on July 09, 1994 when the Quezon City Register of Deeds was burned (sic).

On July 1989, appellants allege that appellee Linda offered to repurchase the property to which the former agreed at the repurchase price of P436,115.00 payable in cash on July 31, 1989. The appellees failed to repurchase on the agreed date. On February 1990, appellees again offered to repurchase the property for the same amount, but they still failed to repurchase. On June 28, 1990, another offer was made to repurchase the

property for the same amount. Appellee Linda offered to pay P100,000.00 in cash as sign of good faith. The offer was rejected by appellant Adelaida. The latter held the money only for safekeeping upon the pleading of appellee Linda. Upon the agreement of the parties, the amount of P100,000.00 was deducted from the balance of the appellees' indebtedness, so that as of October 15, 1997, their unpaid balance amounted to P319,065.00. Appellants allege that instead of paying [the] said balance, the appellees instituted on September 8, 1994 the civil complaint and filed an adverse claim and lis pendens which were annotated at the back of the title to the property.

On the other hand, the appellees aver the following: At the time the mortgage was executed, they were likewise required by the appellant Adelaida to sign a one (1) page document purportedly an "Absolute Deed of Sale". Said document did not contain any consideration, and was "undated, unfilled and unnotarized". They allege that their total payments amounted to P115,400.00 and that their last payment was on June 28, 1990 in the amount of P100,000.00.

In December 1992, appellee Linda Julian offered to pay appellant Adelaida the amount of P150,000.00. The latter refused to accept the offer and demanded that she be paid the amount of P250,000.00. Unable to meet the demand, appellee Linda desisted from the offer and requested that she be shown the land title which she conveyed to the appellee Adelaida, but the latter refused. Upon verification with the Registry of Deeds of Quezon City, she was informed that the title to the mortgaged property had already been registered in the name of appellee Adelaida under TCT No. 364880, and that the transfer was entered on July 17, 1987. A reconstituted title, TCT No. RT-45272 (364880), also appeared on file in the Registry of Deeds replacing TCT No. 364880.

By reason of the foregoing discoveries, appellee filed an Affidavit of Adverse Claim on January 1993. Counsel for the appellees, on August 12, 1994, formally demanded the reconveyance of the title and/or the property to them, but the appellants refused. In the process of obtaining other documents; the appellees also discovered that the appellants have obtained several Declarations of Real Property, and a Deed of Sale consisting of two (2) pages which was notarized by one Atty. Cesar Ching. Said document indicates a consideration of P70,000.00 for the lot, and was made to appear as having been executed on October 22, 1986. On September 8, 1994, appellees filed a suit for the Cancellation of Sale, Cancellation of Title issued to the appellants; Recovery of Possession; Damages with Prayer for Preliminary Injunction. The complaint alleged that appellant Adelaida, through obvious bad faith, maliciously typed, unilaterally filled up, and caused to be notarized the Deed of Sale earlier signed by appellee Julian, and used this spurious deed of sale as the vehicle for her fraudulent transfer unto herself the parcel of land covered by TCT No. 327733.[3]

Judgment of the RTC

In its judgment rendered on August 30, 1999,[4] the RTC ruled in favor of the respondents. According greater credence to the version of the respondents on the true nature of their transaction, the trial court concluded that they had not agreed on the consideration for the sale at the time they signed the deed of sale; that in the absence of the consideration, the sale lacked one of the essential requisites of a valid contract; that the defense of prescription was rejected because the action to impugn the void contract was imprescriptible; and that the promissory notes and the real estate mortgage in favor of the petitioners were nonetheless valid, rendering the respondents liable to still pay their outstanding obligation with interest.

The RTC disposed thusly:

WHEREFORE, judgment is hereby rendered:

- Declaring the Deed of Sale, dated October 22, 1986, void or inexistent;
- Cancelling TCT No. RT-45272 (364480) and declaring it to be of no further legal force and effect;

- Ordering the defendants to reconvey the subject property to the plaintiffTs and to deliver to them the possession thereof; and

- Ordering the plaintiffs to pay to the defendants the unpaid balance of their indebtedness plus accrued interest totaling P319,065.00 as of October 15, 1997, plus interests at the legal rate counted from the date of filing of the complaint and until the full payment thereof, without prejudice to the right of the defendants to foreclose the mortgage in the event that plaintiffTs will fail to pay their obligation.

No pronouncement as to cost.

SO ORDERED.[5]

Decision of the CA

On appeal by the petitioners, the CA affirmed the RTC with modification under its assailed decision of October 20, 2003,[6] decreeing:

WHEREFORE, premises considered, the Decision of the Regional Trial Court of Quezon City is AFFIRMED WITH modification. Judgement is hereby rendered:

- Declaring the Deed of Sale, dated October 22, 1986, void or inexistent;

- Cancelling TCT No. RT-45272 (364880) and declaring it to be of no further legal force and effect;

- Ordering the appellants-defendants to reconvey the subject property to the plaintiffTs-appellees and to deliver to them the possession thereof; and

- Ordering the plaintiffs-appellees to pay to the defendants the unpaid balance of their indebtedness, P43,492.15 as of June 28, 1990, plus interests at the legal rate of 12% per annum from said date and until the full payment thereof, without prejudice to the right of the defendants to foreclose the mortgage in the event that plaintiffs-appellees will fail to pay their obligation.

SO ORDERED.[7]

The CA pronounced the deed of sale as void but not because of the supposed lack of consideration as the RTC had indicated, but because of the deed of sale having been executed at the same time as the real estate mortgage, which rendered the sale as a prohibited pactum commissorium in light of the fact that the deed of sale was blank as to the consideration and the date, which details would be filled out upon the default by the respondents; that the promissory notes contained no stipulation on the payment of interest on the obligation, for which reason no monetary interest could be imposed for the use of money; and that compensatory interest should instead be imposed as a form of damages arising from Linda's failure to pay the outstanding obligation.

Issues

In this appeal, the petitioners posit the following issues, namely: (1) whether or not the CA erred in ruling against the validity of the deed of sale; and (2) whether or not the CA erred in ruling that no monetary interest was due for Linda's use of Adelaida's money.

Ruling of the Court

The appeal is partly meritorious.

That the petitioners are raising factual issues about the true nature of their transaction with the respondent is already of itself, sufficient reason to forthwith deny due course to the petition for review on certiorari. They cannot ignore that any appeal to the Court is limited to questions of law because the Court is not a trier of facts.

As such, the factual findings of the CA should be respected and accorded great weight, and even finality when supported by the substantial evidence on record.[8] Moreover, in view of the unanimity between the RTC and the CA on the deed of sale being void, varying only in their justifications, the Court affirms the CA, and adopts its conclusions on the invalidity of the deed of sale.

Nonetheless, We will take the occasion to explain why we concur with the CA's justification in discrediting the deed of sale between the parties as pactum commissorium.

Article 2088 of the Civil Code prohibits the creditor from appropriating the things given by way of pledge or mortgage, or from disposing of them; any stipulation to the contrary is null and void. The elements for pactum commissorium to exist are as follows, to wit: (a) that there should be a pledge or mortgage wherein property is pledged or mortgaged by way of security for the payment of the principal obligation; and (b) that there should be a stipulation for an automatic appropriation by the creditor of the thing pledged or mortgaged in the event of non-payment of the principal obligation within the stipulated period.[9] The first element was present considering that the property of the respondents was mortgaged by Linda in favor of Adelaida as security for the former's indebtedness. As to the second, the authorization for Adelaida to appropriate the property subject of the mortgage upon Linda's default was implied from Linda's having signed the blank deed of sale simultaneously with her signing of the real estate mortgage. The haste with which the transfer of property was made upon the default by Linda on her obligation, and the eventual transfer of the property in a manner not in the form of a valid dacion en pago ultimately confirmed the nature of the transaction as a pactum commissorium.

It is notable that in reaching its conclusion that Linda's deed of sale had been executed simultaneously with the real estate mortgage, the CA first compared the unfilled deed of sale presented by Linda with the notarized deed of sale adduced by Adelaida. The CA justly deduced that the completion and execution of the deed of sale had been conditioned on the non-payment of the debt by Linda, and reasonably pronounced that such circumstances rendered the transaction pactum commissorium. The Court should not disturb or undo the CA's conclusion in the absence of the clear showing of abuse, arbitrariness or capriciousness on the part of the CA.[10]

The petitioners have theorized that their transaction with the respondents was a valid dacion en pago by highlighting that it was Linda who had offered to sell her property upon her default. Their theory cannot stand scrutiny. Dacion en pago is in the nature of a sale because property is alienated in favor of the creditor in satisfaction of a debt in money.[11] For a valid dacion en pago to transpire, however, the attendance of the following elements must be established, namely: (a) the existence of a money obligation; (b) the alienation to the creditor of a property by the debtor with the consent of the former; and (c) the satisfaction of the money obligation of the debtor.[12] To have a valid dacion en pago, therefore, the alienation of the property must fully extinguish the debt. Yet, the debt of the respondents subsisted despite the transfer of the property in favor of Adelaida.

The petitioners insist that the parties agreed that the deed of sale would not yet contain the date and the consideration because they had still to agree on the price.[13] Their insistence is not supported by the established circumstances. It appears that two days after the loan fell due on October 15, 1986,[14] Linda offered to sell the mortgaged property;[15] hence, the parties made the ocular inspection of the premises on October 18, 1986. By that time, Adelaida had already become aware that the appraiser had valued the property at P70,000.00. If that was so, there was no plausible reason for still leaving the consideration on the deed of sale blank if the deed was drafted by Adelaida on October 20, 1986, especially considering that they could have conveniently communicated with each other in the meanwhile on this significant aspect of their transaction. It was also improbable for Adelaida to still hand the unfilled deed of sale to Linda as her copy if, after all, the deed of sale would be eventually notarized on October 22, 1986.

According to Article 1318 of the Civil Code, the requisites for any contract to be valid are, namely: (a) the consent of the contracting parties; (b) the object; and (c) the consideration. There is a perfection of a contract when there is a meeting of the minds of the parties on each of these requisites.[16] The following passage has fittingly discussed the process of perfection in *Moreno, Jr. v. Private Management Office*: [17]

To reach that moment of perfection, the parties must agree on the same thing in the same sense, so that their minds meet as to all the terms. They must have a distinct intention common to both and without doubt or difference; until all understand alike, there can be no assent, and therefore no contract. The minds of parties must meet at every point; nothing can be left open for further arrangement. So long as there is any uncertainty or indefiniteness, or future negotiations or considerations to be had between the parties, there is not a completed contract, and in fact, there is no contract at all.[18]

In a sale, the contract is perfected at the moment when the seller obligates herself to deliver and to transfer ownership of a thing or right to the buyer for a price certain, as to which the latter agrees.[19] The absence of the consideration from Linda's copy of the deed of sale was credible proof of the lack of an essential requisite for the sale. In other words, the meeting of the minds of the parties so vital in the perfection of the contract of sale did not transpire. And, even assuming that Linda's leaving the consideration blank implied the authority of Adelaida to fill in that essential detail in the deed of sale upon Linda's default on the loan, the conclusion of the CA that the deed of sale was a pactum commisorium still holds, for, as earlier mentioned, all the elements of pactum commisorium were present.

Anent interest, the CA deleted the imposition of monetary interest but decreed compensatory interest of 12% per annum.

Interest that is the compensation fixed by the parties for the use or forbearance of money is referred to as monetary interest. On the other hand, interest that may be imposed by law or by the courts as penalty or indemnity for damages is called compensatory interest. In other words, the right to recover interest arises only either by virtue of a contract or as damages for delay or failure to pay the principal loan on which the interest is demanded.[20]

The CA correctly deleted the monetary interest from the judgment. Pursuant to Article 1956 of the Civil Code, no interest shall be due unless it has been expressly stipulated in writing. In order for monetary interest to be imposed, therefore, two requirements must be present, specifically: (a) that there has been an express stipulation for the payment of interest; and (b) that the agreement for the payment of interest has been reduced in writing.[21] Considering that the promissory notes contained no stipulation on the payment of monetary interest, monetary interest cannot be validly imposed.

The CA properly imposed compensatory interest to offset the delay in the respondents' performance of their obligation. Nonetheless, the imposition of the legal rate of interest should be modified to conform to the prevailing jurisprudence. The rate of 12% per annum imposed by the CA was the rate set in accordance with *Eastern Shipping Lines, Inc., v. Court of Appeals*. [22] In the meanwhile, Bangko Sentral ng Pilipinas Monetary Board Resolution No. 796 dated May 16, 2013, amending Section 2 of Circular No. 905, Series of 1982, and Circular No. 799, Series of 2013, has lowered to 6% per annum the legal rate of interest for a loan or forbearance of money, goods or credit starting July 1, 2013. This revision is expressly recognized in *Nacar v. Gallery Frames*. [23] It should be noted, however, that imposition of the legal rate of interest at 6% per annum is prospective in application.

Accordingly, the legal rate of interest on the outstanding obligation of P43,492.15 as of June 28, 1990, as the CA found, should be as follows: (a) from the time of demand on October 13, 1994 until June 30, 2013, the legal rate

of interest was 12% per annum conformably with Eastern Shipping Lines; and (b) following Nacar, from July 1, 2013 until full payment, the legal interest is 6% per annum.

WHEREFORE, the Court AFFIRMS the decision promulgated on October 20, 2003 subject to the MODIFICATION that the amount of P43,492.15 due from the respondents shall earn legal interest of 12% per annum reckoned from October 13, 1994 until June 30, 2013, and 6% per annum from July 1, 2013 until full payment.

Without pronouncement on costs of suit.

SO ORDERED.

Sereno, C.J., Leonardo-De Castro, Perez, and Perlas-Bernabe, JJ., concur.

[1] Rollo, pp. 32-41; penned by Associate Justice Rosmari D. Carandang, with Associate Justices Eugenio S. Labitoria (retired) and Mercedes Gozo-Dadole (retired) concurring.

[2] Id. at 85-91, penned by Judge Vivencio S. Bacilig (retired).

[3] Id. at 33-35.

[4] Supra note 2.

[5] Rollo, p. 91.

[6] Supra note 1.

[7] Rollo, p. 40.

[8] Bernaldes v. Heirs of Julian Sambaan, G.R. No. 163271, January 15, 2010, 610 SCRA 90, 99.

[9] Francisco Realty and Development Corp. v. Court of Appeals, G.R. No. 125055, October 30, 1998, 298 SCRA 349, 362.

[10] Castillo v. Court of Appeals, G.R. No. 106472, August 7, 1996, 260 SCRA 374, 382.

[11] Dao Heng Bank, Inc. (now Banco de Oro Universal Bank) v. Laigo, G.R. No. 173856, November 20, 2008, 571 SCRA 434, 442.

[12] Rockville Excel International Exim Corporation v. Culla, G.R. No. 155716 October 2, 2009, 602 SCRA 128, 134.

[13] TSN, September 17, 1907, p. 42.

[14] Id. at 29.

[15] Id. at 32.

[16] Article 1305 of the Civil Code.

[17] G.R. No. 159373, November 16, 2006, 507 SCRA 63.

[18] Id. at 72.

[19] Starbright Sales Enterprises, Inc., v. Philippine Realty Corporation, G.R. No. 177936. January 18, 2012, 663 SCRA 326, 331.

[20] Siga-an v. Villanueva, G.R. No. 173227, January 20, 2009, 576 SCRA 696, 704.

[21] Id. at 704-705.

[22] G.R. No. 97412, July 12, 1994, 234 SCRA 78.

[23] G.R. No. 189871, August 13, 2013, 703 SCRA 439, 454-456.

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