SPS. CARLOS AND EULALIA RAYMUNDO AND SPS. ANGELITO AND JOCELYN BUENAOBRA, PETITIONERS, VS. SPS. DOMINADOR AND ROSALIA BANDONG, RESPONDENTS.

G.R. NO. 171250. July 04, 2007

Ponente: CHICO-NAZARIO, J.

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CHICO-NAZARIO, J.:

This is a Petition for Review on Certiorari under Rule 45 of the Revised Rules of Court, filed by petitioners Spouses Carlos and Eulalia Raymundo and Spouses Angelito and Jocelyn Buenaobra seeking the reversal and setting aside of the Decision[1] of the Court of Appeals dated 26 September 2005 and its Resolution[2] dated 24 January 2006 in CA-G.R. CV No. 59557. The Court of Appeals, in its assailed Decision and Resolution, reversed the Decision[3] of the Regional Trial Court (RTC) dated 28 January 1998, in Civil Case No. C-14980, declaring the Deed of Sale executed by respondent Dominador Bandong (Dominador) in favor of petitioner Eulalia Raymundo (Eulalia) as valid and binding. The dispositive portion of the asailed Court of Appeals Decision reads:

> WHEREFORE, premises considered, we hereby GRANT the appeal. The January 28, 1998 decision of the RTC, Branch 126, Caloocan City is hereby REVERSED and SET ASIDE and a new one entered:
>
> - ANNULLING the Deed of Absolute Sale dated February 3, 1989 as a deed of sale, and considering it instead as a real estate mortgage of the disputed property to secure the payment of the P70,000.00 the plaintiffs-appellants spouses Bandong owe the defendants- appellees spouses Raymundo. The spouses Bandong are given one (1) year from the finality of this Decision within which to pay the P70,000.00 owed to the spouses Raymundo, at 12% interest per annum computed from July 17, 1991 until its full payment.
>
> - ANNULLING the Deed of Absolute Sale dated September 25, 1990, between the spouses Raymundo as vendors and the spouses Buenaobra as vendees.
>
> - ORDERING the Register of Deeds of Caloocan City to issue a new Transfer Certificate of Title covering Lot 18, Block 2 of the subdivision plan PSD 16599, a portion of Lot 1073 of the Cadastral Survey of Caloocan, in the names of the spouses Dominador and Rosalia Bandong, after the cancellation pursuant to this Decision of TCT No. 222871 currently in the names of the spouses Angelito and Jocelyn Buenaobra; and FURTHER ORDERING the said Register of Deeds to annotate in the new Transfer Certificate of Title in the names of the spouses Bandong a real estate mortgage in favor of the spouses Carlos and Eulalia Raymundo reflecting the terms of this Decision.
>
> - AWARDING - moral damages in the amount of P50,000.00; exemplary damages of P20,000.00; and attorney's fees and expenses of litigation of P20,000.00, plus P500.00 per proven appearance of the plaintiffs-appellants' counsel in court - all solidarily payable by the spouses Carlos and Eulalia Raymundo and the spouses Angelito and Jocelyn Buenaobra, to the spouses Dominador and Rosalia Bandong.
>
> - ORDERING the payment of the costs of the suit, payable by the spouses Carlos and Eulalia Raymundo and the spouses Angelito and Jocelyn Buenaobra.[4]

The factual and procedural backdrop of this case are as follows:

Eulalia was engaged in the business of buying and selling large cattle from different provinces within the Philippines. For this purpose, she employed "biyaheros" whose primary task involved the procuring of large cattle with the financial capital provided by Eulalia and delivering the procured cattle to her for further disposal. In order to secure the financial capital she advanced for the "biyaheros," Eulalia required them to surrender the Transfer Certificates of Title (TCTs) of their properties and to execute the corresponding Deeds of Sale in her favor.

Dominador had been working for Eulalia as one of her biyaheros for three decades. Considering his long years of service without any previous derogatory record, Eulalia no longer required Dominador to post any security in the performance of his duties.[5]

However, in 1989, Eulalia found that Dominador incurred shortage in his cattle procurement operation in the amount of P70,000.00. Dominador and his wife Rosalia Bandong (Rosalia) then executed a Deed of Sale[6] in favor of Eulalia on 3 February 1989, covering a parcel of land with an area of 96 square meters, more or less, located at Caloocan City and registered under TCT No. 1421 (subject property), in the name of the Spouses Bandong. On the strength of the aforesaid deed, the subject property was registered in the names of Eulalia and her husband Carlos Raymundo (Carlos). The subject property was thereafter sold by the Spouses Raymundo to Eulalia's grandniece and herein co-petitioner, Jocelyn Buenaobra (Jocelyn). Thus, the subject property came to be registered in the name of Jocelyn and her husband Angelito Buenaobra (Angelito).

After the TCT of the subject property was transferred to their names, the Spouses Buenaobra instituted before the Metropolitan Trial Court (MeTC) of Caloocan City, an action for ejectment against the Spouses Bandong, docketed as Civil Case No. 20053, seeking the eviction of the latter from the subject property, which the Spouses Bandong opposed on the ground that they are the rightful owners and possessors thereof. The MeTC ruled in favor of the Spouses Buenaobra which, on appeal, was affirmed in toto by the RTC[7] and subsequently, by the Court of Appeals.[8] Finally, when the case was raised on appeal before us in G.R. No. 109422, we issued a Resolution[9] dated 12 July 1993, finding that no substantial arguments were raised therein to warrant the reversal of the appealed decision.

To assert their right to the subject property, the Spouses Bandong instituted an action for annulment of sale before the RTC against Eulalia and Jocelyn on the ground that their consent to the sale of the subject property was vitiated by Eulalia after they were served by Jocelyn's counsel with the demand to vacate. This was docketed as Civil Case No. C-14980. The Spouses Bandong alleged that there was no sale intended but only equitable mortgage for the purpose of securing the shortage incurred by Dominador in the amount of P70,000 while employed as "biyahero" by Eulalia.

Eulalia countered that Dominador received from her a significant sum of money, either as cash advances for the purpose of procuring large cattle or as personal loan, and when he could no longer pay his obligations, the Spouses Bandong voluntarily ceded the subject property to her by executing the corresponding deed of sale in her favor. Indeed, the Spouses Bandong personally appeared before the Notary Public and manifested that the deed was their own voluntary act and deed.

For her part, Jocelyn maintained that she was a buyer in good faith and for value for she personally inquired from the Register of Deeds of the presence of any liens and encumbrances on the TCT of the subject property and found that the same was completely free therefrom. While she admitted that she had previous notice that Dominador and a certain Lourdes Santos (Lourdes) were in possession of the subject property, Jocelyn claimed that the said possessors already acknowledged her ownership thereof and even asked for time to vacate. In the

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end, though, they refused to leave the premises.

On 28 June 1998, the RTC rendered a Decision[10] in Civil Case No. C-14980 in favor of Eulalia and Jocelyn by declaring that the Deed of Sale between Dominador and Eulalia was valid and binding and, consequently, the subsequent sale between Eulalia and Jocelyn was also lawful absent any showing that Jocelyn was a buyer in bad faith. The dispositive portion of the said decision reads:

> WHEREFORE, judgment is hereby rendered DISMISSING the complaint filed by the [Spouses Bandong] and ordering said [Spouses Bandong] to pay [herein petitioners] spouses Raymundo and Buenaobra the amount of P50,000 and P30,000, respectively, as attorney's fees and costs of the suit.

On appeal in CA-G.R. SP No. 59557, the Court of Appeals reversed the RTC Decision and found that the transaction entered into by Dominador and Eulalia was not one of sale but an equitable mortgage considering that the purchase price was grossly inadequate and the Spouses Bandong remained as possessors of the subject property after Eulalia's alleged purchase thereof. The appellate court likewise charged Jocelyn with knowledge that the Spouses Raymundo were not the absolute owners of the subject property negating the presumption that she was an innocent purchaser for value.

The Court of Appeals found the Motion for Reconsideration filed by petitioners unmeritorious and denied the same in its Resolution[11] dated 24 January 2006.

Hence, this instant Petition for Review on Certiorari filed by the petitioners assailing the Decision dated 26 September 2005 and the Resolution dated 24 January 2006 rendered by the Court of Appeals. For the resolution of this Court are the following issues:

> I.
>
> WHETHER OR NOT THE DEED OF SALE BETWEEN DOMINADOR AND EULALIA IS VALID AND BINDING.
>
> II.
>
> WHETHER OR NOT JOCELYN IS A BUYER IN GOOD FAITH.

In arguing that the sale between Dominador and Eulalia is valid, petitioners posit that gross inadequacy of the price is not sufficient to invalidate the sale, and granting arguendo that insufficient consideration may void a sale, it has not been proven that the consideration of sale between Dominador and Eulalia was grossly inadequate.

Elaborating, petitioners maintain that the amount of P110,000.00 (which they claimed they have given to Dominador), or even the sum of P70,000.00 (which respondents admitted receiving), was a substantial consideration, sufficient to support a sale contract. Mere inadequacy of the price is not sufficient to invalidate a sale; the price must be grossly inadequate or utterly shocking to the conscience in order to avoid a contract of sale.

Petitioners further aver that the alleged market value of the subject property as submitted by the appraiser, one of respondents' witnesses, would not serve as an objective basis in determining the actual value of the subject property, much less the supposed amount of its purchase price, in the absence of any logical and valid basis for its determination.

Finally, petitioners contend that so long as the contract was voluntarily entered into by the parties and in the absence of a clear showing that their consent thereto was vitiated by fraud, mistake, violence or undue influence, such as in the case at bar, the said contract should be upheld.

We do not agree.

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An equitable mortgage is one that - although lacking in some formality, forms and words, or other requisites demanded by a statute - nevertheless reveals the intention of the parties to charge a real property as security for a debt and contains nothing impossible or contrary to law.[12]

The instances when a contract - regardless of its nomenclature - may be presumed to be an equitable mortgage are enumerated in the Civil Code as follows:

> Art. 1602. The contract shall be presumed to be an equitable mortgage, in any of the following cases:
>
> (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 purchaser retains for himself a part of the purchase price;
>
> (5) When the vendor binds himself to pay the taxes on the thing sold.
>
> (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.
>
> Art. 1604. The provisions of Article 1602 shall also apply to a contract purporting to be an absolute sale.

For Articles 1602 and 1604 to apply, two requisites must concur: one, the parties entered into a contract denominated as a contract of sale; and two, their intention was to secure an existing debt by way of an equitable mortgage.[13]

There is no question that Dominador and Eulalia entered into a contract of sale as evidenced by the document denominated as Deed of Sale[14] signed by them. As to whether the parties intended to transfer ownership of the subject property or merely to constitute a security for an existing debt is an issue that needs to be addressed by this Court.

In resolving this kind of controversy, the doctrine in Reyes v. Court of Appeals[15] directs us to give utmost consideration to the intention of the parties in light of the relative situation of each and the circumstances surrounding the execution of the contract, thus:

> In determining whether a deed absolute in form is a mortgage, the court is not limited to the written memorials of the transaction. 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 all the surrounding circumstances, such as the relative situation of the parties at that time, the attitude acts, conduct, declarations of the parties, the negotiations between them leading to the deed, and generally, all pertinent facts having a tendency to fix and determine the real nature of their design and understanding. x x x[16] (Emphasis supplied.)

By applying the aforestated principle to the case at bar, we are constrained to rule that in executing the said Deed of Sale, Dominador and Eulalia never intended the transfer of ownership of the subject property but to burden the same with an encumbrance to secure the indebtedness incurred by Dominador on the occasion of his employment with Eulalia.

By Eulalia's own admission,[17] it was her customary business practice to require her biyaheros to deliver to her the titles to their real properties and to execute in her favor the corresponding deeds of sale over the said properties as security for the money she provided for their cattle procurement task, and since Dominador worked for Eulalia's business for years, he was allowed to advance the money without any security. Significantly, it was

only after he incurred a shortage that the sale contract was executed.

We are not inclined to believe the contention of the petitioners that Dominador ceded his property to Eulalia as payment for his obligation for it is contrary to human experience that a person would easily part with his property after sustaining a debt. Rather, he would first look for means to settle his obligation, and the selling of a property on which the house that shelters him and his family stands, would be his last resort. The only reasonable conclusion that may be derived from Dominador's act of executing a Deed of Sale in favor of Eulalia is that the latter required him to do so in order to ensure that he will subsequently pay his obligation to her.

This conclusion is in accord with the doctrine we enunciated in Aguirre v. Court of Appeals,[18] that:

> The explicit provision of Article 1602 that any of those circumstances would suffice to construe a contract of sale to be one of equitable mortgage is in consonance with the rule that the law favors the least transmission of property rights. 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.

While we agree in the petitioners' insistence that inadequacy of the price is not sufficient to nullify the contract of sale, their persistence is, however, misplaced. It is worthy to note that the factual circumstances attendant in the case at bar call not for the application of the legal and jurisprudential principles on annulment of contract per se, but more aptly, of the provisions of Articles 1602 and 1604 of the Civil Code on the construction of the contract of sale as an equitable mortgage.

Consequently, the agreement between Dominador and Eulalia was not avoided in its entirety so as to prevent it from producing any legal effect at all. Instead, we construe that said transaction is an equitable mortgage, thereby merely altering the relationship of the parties from seller and buyer, to mortgagor and mortgagee, while the subject property is not transferred but subjected to a lien in favor of the latter.

Moreover, granting that the purchase price is adequate, the fact that respondents remain in possession of the subject property after its supposed sale is sufficient to support our finding that the contract is one of equitable mortgage and not of sale. To reiterate, 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.[19]

Having threshed the issue that there was no sale in favor of Eulalia but an equitable mortgage leads us to an inevitable conclusion that she has no right to subsequently transfer ownership of the subject property, in consonance with the principle that nobody can dispose of what he does not have.[20] One of the exceptions[21] to this rule, however, can be found in Article 1506 of the Civil Code, wherein the seller has voidable title to a property but his title has not yet been nullified at the time of the sale, and the subsequent buyer of the property was in good faith.

An innocent purchaser for value is one who buys the property of another, without notice that some other person has a right or interest in the property, for which a full and fair price is paid by the buyer at the time of the purchase or before receipt of any notice of claims or interest of some other person in the property.[22]

Petitioners are harping on the contention that Jocelyn was an innocent purchaser for value. Invoking the indefeasibility of a Torrens title, they assert that there is nothing in the subject property's TCT that should arouse Jocelyn's suspicion as to put her on guard that there is a defect in Eulalia's title.

Again, we are not persuaded. The burden of proving the purchaser's good faith lies in the one who asserts the same. In discharging the burden, it is not enough to invoke the ordinary presumption of good faith.[23] In Arrofo

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v. Quiño,[24] we have elucidated that:

> [A] person dealing with registered land, [is not required] to inquire further that what the Torrens title on its face indicates. This rule, however, is not absolute but admits of exceptions.
>
> Thus, while it is true x x x that a person dealing with registered lands need not go beyond the certificate of title, it is likewise a well-settled rule that a purchaser or mortgagee cannot close his eyes to facts which should put a reasonable man on his guard, and then claim that he acted in good faith under the belief that there was no defect in the title of the vendor or mortgagor. His mere refusal to face up to the fact that such defect exists, or his willful closing of his eyes to the possibility of the existence of a defect in the vendor's or mortgagor's title, will not make him an innocent purchaser for value, if it afterwards develops that the title was in fact defective, and it appears that he had such notice of the defect as would have led to its discovery had he acted with the measure of precaution which may be required of a prudent man in a like situation.

In the present case, we are not convinced by the petitioners' incessant assertion that Jocelyn is an innocent purchaser for value. To begin with, she is a grandniece of Eulalia and resides in the same locality where the latter lives and conducts her principal business. It is therefore impossible for her not to acquire knowledge of her grand aunt's business practice of requiring her biyaheros to surrender the titles to their properties and to sign the corresponding deeds of sale over said properties in her favor, as security. This alone should have put Jocelyn on guard for any possible abuses that Eulalia may commit with the titles and the deeds of sale in her possession.

The glaring lack of good faith of Jocelyn is more apparent in her own admission that she was aware that Dominador and a certain Lourdes were in possession of the subject property. A buyer of real property that is in the possession of a person other than the seller must be wary. A buyer who does not investigate the rights of the one in possession can hardly be regarded as a buyer in good faith.[25] Jocelyn's self-serving statement that she personally talked to Dominador and Lourdes about her acquisition of the subject property and intention to take possession of the same, and that Dominador and Lourdes even pleaded for time to vacate the subject property cannot be given credence in light of the prompt filing by the Spouses Bandong of an action for the annulment of the sale contract between Dominador and Eulalia after they received the demand to vacate from Jocelyn's lawyer.

In the last analysis, good faith, or the lack of it, is a question of intention. But in ascertaining the intention that impels one on a given occasion, the courts are necessarily controlled by the evidence as to the conduct and other outward acts by which the motive may be safely determined.[26]

Petitioners question further the belated filing by the Spouses Bandong of an action for the annulment of sale, since the Spouses Bandong filed the same only after they received the notice to vacate, and not immediately after the execution of the assailed Deed of Sale. We have repeatedly held that the one who is in actual possession of a piece of land claiming to be the owner thereof may await to vindicate his right. His undisturbed possession gives him a continuing right to seek the aid of a court of equity to ascertain and determine the nature of the adverse claim of a third party and its effect on his own title, which right can be claimed only by one who is in possession.[27]

Finally, we agree with the Court of Appeals that the ejectment case which had been litigated to finality by the Spouses Buenaobra and the respondents need not alter our conclusion in the present case. Well entrenched is the doctrine that in ejectment cases, the sole question for resolution is the physical or material possession of the property in question, so that neither the claim of juridical possession nor an averment of ownership can outrightly prevent the court from taking cognizance of the case.[28] In ejectment cases, all the court may do is to resolve who is entitled to its possession although, in doing so, it may make a determination of who is the owner of the property in order to resolve the issue of possession. But such determination of ownership is not clothed with finality. Neither will it affect ownership of the property or constitute a binding and conclusive adjudication on the merits with respect to the issue of ownership.[29]

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WHEREFORE, IN VIEW OF THE FOREGOING, the instant Petition is DENIED. The Decision dated 26 September 2005, and the Resolution dated 24 January 2006, rendered by the Court of Appeals in CA-G.R. SP No. 59957, are hereby AFFIRMED. Costs against petitioner.

SO ORDERED.

Ynares-Santiago, (Chairperson), Austria-Martinez, and Nachura, JJ., concur.

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[1] Penned by Associate Justice Arturo D. Brion with Associate Justices Godardo A. Jacinto and Regalado L. Maambong, concurring; rollo, pp. 30-54.

[2]Id. at 55-56.

[3]Id. at 64-72.

[4] Id. at 52-53.

[5] Id. at 31-32.

[6] Records, Vol. I, pp. 514-516.

[7] Id. at 719-731.

[8] Appeal was docketed as CA- G.R. SP No. 29639

[9] Id. at 733.

[10] Id. at 64-72.

[11] Id. at 55-56.

[12] Ceballos v. Intestate Estate of the Late Emigdio Mercado, G.R. No. 155856, 28 May 2004, 430 SCRA 323, 335.

[13] Heirs of the Late Spouses Aurelio and Esperanza Balite v. Lim, G.R. No. 152168, 10 December 2004, 446 SCRA 57, 69.

[14] Records, Vol. I, pp. 9-10.

[15] Reyes v. Court of Appeals, 393 Phil. 479, 489 (2000).

[16] Id.

[17] Rollo, p. 14

[18] 380 Phil. 736, 742 (2000).

[19] Id.

[20] Azcona v. Reyes and Larracas, 59 Phil. 446, 450 (1934).

[21] The other exceptions are provided by Article 1505 of the Civil Code.

Art. 1505. Subject to the provisions of this Title, where goods are sold by a person who is not the owner thereof, and who does not sell them under authority or with the consent of the owner, the buyer acquires no better title to the goods than the seller had, unless the owner of the goods is by his conduct precluded from denying the seller's

authority to sell.

Nothing in this title, however, shall affect:

> (1) The provisions of any factors' acts, recording laws, or any other provision of law enabling the apparent owner of goods to dispose of them as if he were the true owner thereof;
>
> (2) The validity of any contract of sale under the statutory power of sale or under the order of a court of competent jurisdiction;
>
> (3) Purchases made in merchant's store, or in fair, or markets, in accordance with the Code of Commerce and special laws.

[22] Eastworld Motor Industries Corporation v. Skunac Corporation, G.R. No. 163994, 16 December 2005, 478 SCRA 420, 427-428.

[23] Potenciano v. Reynoso, 449 Phil. 396, 410 (2003).

[24] G.R. No. 145794, 26 January 2005, 449 SCRA 284, 296-297.

[25] Potenciano v. Reynoso, supra note 23.

[26] Eastworld Motor Industries Corp. v. Skunac Corporation, supra note 22.

[27] Arlegui v. Court of Appeals, 428 Phil. 381, 398 (2002).

[28] Spouses Diu v. Ibajan, 379 Phil. 482, 490 (2000).

[29] Id.

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