

**ILVINO AGALO-OS AND GREGORIO AGALO-OS,
PLAINTIFFS-APPELLANTS, VS. INTERMEDIATE APPELLATE COURT,
DEVELOPMENT BANK OF THE PHILIPPINES AND JULIO GEROCHE,
RESPONDENTS-APPELLEES.**

G.R. No. 67220. May 07, 1987

Ponente: PADILLA, J.

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PADILLA, J.:

This is a petition or review on certiorari of the decision of the Intermediate Appellate Court (now Court of Appeals)[1] in CA-G.R. No. 57845-R, dated 25 August 1983, which affirmed the decision of the then Court of First Instance of Negros Occidental, Branch V, in Civil Case no. 10332, dismissing petitioners' complaint for reformation of instrument and damages.

The facts of the case are not disputed. Consuelo Gonzales Agalo-os, predecessor-in-interest of petitioners herein, was granted leasehold rights by the Government over a parcel of public land, i.e., a fishpond, particularly, Lot no. 2-1360 pt. with an area of 41.7984 hectares, more or less, situated in Bo. Junobjunob, Escalante, Negros Occidental, and covered by Fishpond Lease Application (FLA) no. 719, which expired on 31 December 1965.

On 11 November 1955, while their leasehold rights were still subsisting, the spouses Vicente and Consuelo Agalo-os obtained an agricultural loan of P20,000.00 from the Rehabilitation Finance Corporation (RFC) now Development Bank of the Philippines (DBP), payable on or before 23 August 1965, in yearly installments and at six percent (6%) interest per annum. The loan was evidenced by a promissory note secured by an assignment of leasehold rights on said Lot no. 2-1360 pt. A document captioned "Assignment of Leasehold Rights" was duly approved by the Secretary of Agriculture and Natural Resources. The promissory note matured on 23 August 1965, without said spouses having paid any amortization due thereon.

Notwithstanding the failure of the spouses Vicente and Consuelo Agalo-os and/or petitioners herein to pay the annual amortizations, the Bank (DBP) deferred the enforcement of its rights to take immediate possession of the security.

Thereafter, or on 4 November 1966, or after the death of the spouses Vicente and Consuelo Agalo-os in 1959 and 1957, respectively, Ilvino Agalo-os petitioner-appellee herein, entered into a contract entitled "Supplemental Agreement" with Julio Geroche, private respondent herein, leasing to the latter for a period of ten (10) years or to expire on 10 April 1976 the same Lot no. 2-1360 pt. for an annual rental of P4,500.00, to be paid by Geroche directly to DBP, which payments were to be applied to the account of petitioners' predecessors-in-interest with the DBP. Said agreement was confirmed or approved by respondent DBP.

Several payments were made by respondent Geroche to DBP, as agreed upon in the Supplemental Agreement but such payments were not sufficient to cover the outstanding obligation of petitioners' predecessors-in-interest with DBP.

Finally, on 2 March 1972, respondent DBP took possession of Lot no. 2-1360 pt. by virtue of the assignment of leasehold rights previously executed in its favor.

On 23 May 1972, petitioners filed a complaint in the Court of First Instance of Negros Occidental, Branch V, against the DBP and Julio Geroche for reformation of instrument and damages alleging, among others, that the assignment of leasehold rights was a contract of mortgage and not an assignment of rights and that the DBP's act of taking possession of the fishpond without any foreclosure proceedings was, therefore, illegal. Petitioners, further alleged that the assignment of leasehold rights and the promissory note were novated by the Supplemental Agreement so that the debtor (Geroche) had up to 1976 to pay the amount of the obligation to DBP, as agreed upon by all parties.

After trial on the merits, and on the basis of the stipulation of facts agreed upon by both parties, the lower court dismissed the complaint. While declaring that the assignment of leasehold rights was indeed a mortgage to guarantee the loan of P20,000.00 and, therefore, foreclosure proceedings were necessary before the DBP could take possession of the property, yet, the lower court said that such foreclosure proceedings could no longer be instituted, because the contract of lease with the Government had expired on 31 December 1965; hence, plaintiffs (petitioners herein) have no more rights over the property, nor a cause of action against defendants.

On the issue of novation, the lower court ruled in the negative, holding that at the time the Supplemental Agreement was executed, the lease agreement with the Government had already expired on 31 December 1965; hence, there was nothing to novate. Also, it was noted that the Supplemental Agreement was never approved by the Secretary of Agriculture and Natural Resources.

From said decision, adverse to them, petitioners appealed to the Intermediate Appellate Court which affirmed in toto the decision of the Court of First Instance of Negros Occidental. The respondent Court's decision, now under review, reads:

"There is no merit in the argument of the appellants that it was erroneous for the trial court to rule that they have no cause of action against the appellees and that appellants' leasehold rights expired on December 31, 1965.

"The facts show that fishpond Lease Agreement No. 719 issued in the name of the late Consuelo Gonzales, plaintiff's predecessor-in-interest, expressly provided that the 10-year lease of the subject fishpond was to expire on December 31, 1965 (Exhibit C, Folder of Exhibits, p. 3). Indeed, it was not renewed thereafter. The contending parties themselves admit this in paragraph 7 of the stipulations of facts.

"The source of the rights upon which the plaintiffs-appellants rests their cases is therefore inexistent.

"Clearly, the appellants cannot take a contrary or different position considering that they have made an express admission its expiration and non-renewal. This does not require proof and cannot be contradicted because there is no previous evidence that the admission was made through palpable mistake (Section 2, Rule 129, Rules of Court); *Yu vs. Magpayo*, 44 SCRA 1963, 176; *Cunanan vs. Amparo*, 80 Phil. 227, 232; *McDaniel vs. Apacible*, 44 Phil. 248).

"Appellants' pretension that there was an implied renewal of the lease agreement has no basis. Neither can such alleged implied renewal be presumed. Under Section 16 of Presidential Decree No. 704, only holders of permits, licenses or leases issued by the proper authorities can occupy or enter public land for fishing activities. Inferentially, persons who do not have any permit or lease properly issued by the authorities cannot do any act mentioned in Section 6 of Presidential Decree No. 704. The fact that the appellants are the heirs of the previous lessee of the subject fishpond does not give them an automatic license to the subject fishponds. They have to apply for it themselves and show that they are qualified for the grant of the lease, license or permit (Section 29, Presidential Decree No. 704).

"With our finding that the source of plaintiffs' rights is inexistent and, therefore, their complaint has no basis in fact and in law, it becomes unnecessary for us to consider the other issues raised on appeal as they depend entirely on the resolution of the question as to whether a cause of action exists against the defendants-appellants or not. And the fact that there was a contract (Exhibit F, Folder of Exhibits, p. 10) entered into between the plaintiff Ilvino Agalo-os and defendant Julio Geroche, to which defendant bank had signified its conformity, after the expiration of the lease contract on December 31, 1965, will not alter our findings and conclusions in this case for the simple reason that the parties to the said contract cannot bind the public land in question without the approval of the Secretary of Agriculture and Natural Resources.

"WHEREFORE, the appealed decision is hereby affirmed in toto. Costs against the plaintiffs-appellants."[2]

Petitioner's filed a motion for reconsideration which was denied by the respondent appellate court. Hence, this petition.

In this petition, petitioners claim that the lower court went beyond its jurisdiction in holding that the leasehold rights in question had already expired. The principal issue, according to the petitioners, was whether the assignment of leasehold rights was a sale or an equitable mortgage, and not whether said rights had already expired. Consequently, petitioners argue, since the lower court had no jurisdiction to rule on the issue of lease expiration, neither can the respondent appellate Court rule on the same.[3]

We see no cogent reason to set aside the findings of the trial court and the respondent Court. A careful examination of the records shows that the factual findings of the respondent Court are fully substantiated by the evidence on record. It is not disputed, as admitted by both parties in the stipulation of facts, particularly paragraph 7 thereof, that FLA no. 719 expired on 31 December 1965 and that it was not renewed. As aptly found by the respondent Court —

"The facts show that Fishpond Lease Agreement No. 719 issued in the name of the late Consuelo Gonzales, plaintiffs' predecessor-in-interest, expressly provided that the 10-year lease of the subject fishpond was to expire on December 31, 1965 (Exhibit C, Folder of Exhibits, p. 3). Indeed, it was not renewed thereafter. The contending parties themselves admit this in paragraph 7 of the stipulation of facts.

"The source of the rights upon which the plaintiffs-appellants rests their case is therefore inexistent.

Clearly, the appellants cannot take a contrary or different position considering that they have made an express admission of its expiration and non-renewal. This does not require proof and cannot be contradicted because there is no previous evidence that the admission was made through palpable mistake. (Section 2, Rule 129, Rules of Court; *Yu vs. Magpayo*, 44 SCRA 163, 167; *Cunanan vs. Amparo*, 30 Phil. 227, 232; *McDaniel vs. Apacible*, 44 Phil. 248).[4]

Paragraph 7 of the stipulation of facts reads:

"7. That FLA 719 expired on December 31, 1965, without having been renewed; however, both plaintiffs and defendants DBP have separate application for renewal and transfer of the leasehold rights over subject fishpond pending action by the Department of Agriculture and Natural Resources."[5]

Furthermore, petitioners, in their brief filed before the respondent Court admitted that "the basic issue in this case is whether the contract of lease with the Government expired on December 31, 1965."[6] Petitioners cannot now take different or contrary stand and claim that the lower court went beyond its jurisdiction in holding that the leasehold rights have already expired, as this was not the principal issue raised before said lower court and that, such being the case, neither could the respondent Court rule on the same issue.

Findings of facts of the respondent Court may not, as a general rule, be disturbed; only legal questions, not factual issues, should be raised in the Supreme Court. Thus, in *Rizal Cement Co., Inc. vs. Villareal*,[7] this Court said:

"A painstaking review of the evidence on record failed to disclose any evidence or circumstance of note sufficient enough to overrule said findings and conclusions. The jurisdiction of this Court in cases brought to Us from the Court of Appeals (now Intermediate Appellate Court), is limited to the review of errors law, said appellate court's findings of fact being conclusive upon us except (1) when the conclusion is a finding grounded entirely on speculation, surmises or conjectures; (2) when the inference made is manifestly absurd, mistaken or impossible; (3) when there is grave abuse of discretion in the appreciation of facts; (4) when the judgement is premised on a misapprehension of facts; (5) when the findings of fact are conflicting; and (6) when the Court of Appeals, in making its findings went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee, none of which obtain in the case at bar.

"The appellate court did what is required of it under the law and it cannot be faulted after regarding a conclusion adverse to herein petitioner. The decision on the merits of the case hinges on the determination of the pertinent facts, and the findings of the Court of Appeals when supported by substantial evidence are beyond our power of review."

And in *Baniqued, et al. vs. Court of Appeals*,^[8] it was held:

"This Court cannot set aside the express finding of the Court of Appeals. Time and again We have ruled that 'it is not the function of the Supreme Court to analyze or weigh such evidence all over again, its jurisdiction being limited to reviewing errors of law that might have been committed by the lower court (*Tiongco vs. dela Merced*, 58 SCRA 89).' "

Additionally, petitioners contend that even if the lower court and the respondent Court indeed had jurisdiction to rule on the expiration of the lease agreement, the result should still be favorable to them (petitioners) because, while the contract of lease terminated or expired on 31 December 1965, it was renewed impliedly by acquiescence of the lessor.^[9] To support their contention, petitioners cite Section 16 of P.D. 704 which refers to the grant of lease, license or permit over fishponds and Articles 1670, 1682 and 1687 of the Civil Code.

The aforesaid provisions cited by the petitioners find no application in the case at bar. Articles 1670, 1682 and 1687 of the Civil Code refer to lease of rural and urban lands and not to a lease of a fishpond, which is a public land, such as that involved in the present case, while Section 16 of P.D. 704 expressly provides:

"Section 16. License, lease and permit. — No person shall exploit, occupy, produce, cul-ture, capture or gather fish, or fry or fingerling of any species of fish, or fishery/aquatic products, or engage in any fishery activity in Philippine or municipal waters without a license, lease or permit. x x x x"

According to petitioner's pretense, the word lease in the above section is not qualified. Consequently, it includes express or implied lease.^[10] We do not agree. A contract of lease will not be implied.^[11] Mutual consent is essential to the formation of a contract of lease. Mere negotiations looking toward a lease ordinarily leave no binding force.^[12]

IN VIEW OF ALL THE FOREGOING, the petition is hereby DENIED. Costs against the petitioners.

SO ORDERED.

Fernan, (Chairman), Gutierrez, Jr., Bidin, and Cortes, JJ., concur.
Paras, J., no part because I took part in the CA decision while there.

[1] Penned by Justice Crisolito Pascual with the concurrence of Justices Edgardo L. Paras and Rosario Quetulio-Losa

[2] Rollo, pp. 36-37

[3] Petition, p. 12

[4] Rollo, p. 36

[5] Rollo, p. 31

[6] Brief for Appellants in respondent Court, p. 8

[7] 135 SCRA 15, 24

[8] 127 SCRA 596, 601

[9] Rollo, p. 22

[10] Id., p. 21

[11] 51C C.J.S. Landlord & Tenant Sec. 187

[12] 51C C.J.S. Landlord & Tenant Sec. 188

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