

**THE NATIONAL IRRIGATION ADMINISTRATION (NIA), REPRESENTED
BY THE PROJECT MANAGER, MAGAT RIVER MULTI-PURPOSE
PROJECT, PETITIONER, VS. ESTANISLAO GAMIT AND THE
HONORABLE COURT OF ...**

G.R. No. 85869. November 06, 1992

Ponente: PADILLA, J.

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PADILLA, J.:

On 23 January 1985, the plaintiff Estanislao Gamit (private respondent herein) filed with the RTC of Roxas, Isabela, Branch XXIII, a complaint[1] against the defendant National Irrigation Administration (petitioner herein) for reformation of contract, recovery of possession and damages, docketed therein as Civil Case No. 4, alleging, among others, as follows:

"2. That defendant is in charge of the implementation of the Irrigation Program of the national government to increase food production nationwide, and in pursuance of this policy, the Magat River Multi-Purpose Project was undertaken to provide irrigation in the Cagayan Valley region, particularly in the province of Isabela, funded by a multi-billion loan from the world bank; that as an indispensable component of the project, massive infrastructure improvements such as buildings and the like, were constructed to house the different offices monitoring the actual implementation of the project;

"3. That for the purpose above mentioned, and sometime on June 5, 1975, herein plaintiff and defendant, thru its Officer-in-Charge, Magat River Multi-Purpose Project (MRMP) then with business office at San Mateo, Isabela, after some negotiations were made, entered into a CONTRACT OF LEASE, over plaintiff's urban parcel of land, more particularly described as follows:

'An undivided portion of twenty five thousand (25,000) square meters, more or less, and forming part of that parcel of land with a total area of thirty thousand and five (30,005) square meters, more or less, embraced in TCT No. T-85689 of the land records of Isabela, under Tax Declaration No. S3-5603, situated at the poblacion (Centro), San Manuel, Isabela, which portion leased is bounded as follows:

NORTH: Estanislao Gamit; EAST: National Road; SOUTH: Dominador Bullungan; WEST: Dominador Bullagan

For a consideration or rental in the sum of ten centavos (P0.10) per square meter, per year, for ten (10) years, from date of execution of the instrument, for the use by defendant on which to construct the Administration Building and other facilities for Division III, Magat River Multi-Purpose Project at San Manuel, Isabela, and other purposes that maybe deemed necessary for the operation and maintenance of the system when completed; certified xerox copy of the title is hereto attached as Annex "A", to form part hereof.

4. That in at least three paragraphs, (4, 8, 9) of the contract of lease the defendant surreptitiously inserted, the following stipulations, which are hereby quoted:

'4. That should LESSEE decides (sic) to continue utilizing the said portion of twenty five thousand (25,000) square meters, more or less, beyond the ten (10) year period that this contract is in force, then lessee may purchase

the property and all rentals paid to lessor shall be considered part of the purchase price (which) shall not exceed twenty five thousand (P25,000.00) Pesos;' (underlining ours).

'8. That six (6) months before the expiration of the ten (10) year period, LESSOR shall request LESSEE in writing about the latter's final intention on the herein (property) leased; likewise, LESSEE shall inform LESSOR in writing about LESSEE'S definite intention on the area; failure of parties to make bilateral communication shall be deemed that this contract is in force and effect even after the ten (10) year period, as if LESSOR, his successors, or assigns allowed continued use of the property by LESSEE without any additional compensation whatsoever.' (underlining ours).

'9. That upon payment of the said amount of Twenty Five Thousand (P25,000.00) Pesos, the land owner, Estanislao Gamit shall be deemed to have ceded and conveyed all his rights and interest on the subject property free from all liens and encumbrances in favor of the National Irrigation Administra-tion. (underlining ours). Certified xerox copy of the contract is hereto attached as Annex "B", to form part hereof.

5. That prior to the signing of the contract of lease as stated in the immediately preceding paragraphs, serious negotiations were made, the first was, when the Municipal Mayor and Chief of Police of the Municipality of San Manuel, Isabela, approached plaintiff in behalf of defendant, to allow the latter thru its Project Manager or his duly authorized representatives and equipments to enter into and occupy three (3) hectares or 30,000 square meters of his land on which to establish the Office of Division III, of the Project, and plaintiff and his wife signed a written permit dated April 24, 1975, witnessed by Mayor Paulino A. Domingo and Chief of Police Pedro R. Pascua, which permit was granted 'pending the perfection of documents pertinent to a formal lease contract with the right to purchase' to be executed by and between plaintiff and defendant. Certified xerox copy of the permit is hereto attached as Annex "B-1", to form part hereof;

That further negotiations followed, and a document denominated as 'AGREEMENT' was prepared by herein defendant for the signature of plaintiff and the latter and his wife signed the same, with one Engr. Antonio A. Ramos, then the Chief of Division III, MRMP, San Manuel, Isabela, signing as an instrumental witness; for reasons known only to the Asst. Project Manager, the document was not however signed by him, for which reason, the contract of lease was not perfected possibly because defendant's Assistant Project Manager wanted to prolong plaintiff's anxiety and the same was aggravated by the latter's deep financial need, which fact is known by the Assistant Project Manager during the negotiations, thereby exercising undue influence or advantage over that of plaintiff, when the contract of lease was finally signed on June 6, 1975. Certified xerox copy of the unperfected agreement is hereto attached as Annex "B-2", to form part hereof.

"6. That contemporaneously or subsequently thereafter and sometime on August 27, 1975 or thereabout, the whole rental of the leased premises was offered to be paid by the defendant and the plaintiff being then in need of cash, as he was then in financial distress, accepted the offer, and finally received the whole amount, as evidenced by a certified xerox copy of the corresponding voucher, hereto attached as Annex "C", to form part hereof;

"7. That only recently, in a letter dated November 23, 1984, sent by the Assistant Project Manager to the plaintiff, herein defendant notified the former, of the election to purchase the leased premises, allegedly in accordance with stipulation No. 8 quoted above, and contained in the contract of lease (Annex "B"). Certified xerox copy of the same is hereto attached as Annex "D", to form part hereof.

"8. That the contract of lease entered into, by and between herein plaintiff and defendant does not express the real agreement or intention of the parties, as there was error or mistake of fact on the part of plaintiff, aggravated by his state of financial distress at the time the contract was signed, and herein defendant acted fraudulently or inequitably, exercising undue influence over plaintiff on account of the latter's financial distress, in such a way that their real agreement was not reflected or expressed in the contract of lease signed by the parties.

“9. That the real agreement or intention of the parties was only for the lease of the twenty five (25,000) thousand square meters by defendant at the rate of P0.10 centavos per square meter, for a period of ten (10) years from date of execution with the right of defendant to purchase the area upon the termination of the lease, on a price certain or consideration to be negotiated and agreed upon, by and between the parties after the lapse of the ten (10) year period;

“10. That it was not the real agreement or intention of the parties, at least that of herein plaintiff, to have the rentals paid as forming part of the purchase price later to be negotiated or agreed upon, much less was it their intention at least on the part of herein plaintiff, that the price shall not exceed P25,000.00 (see stipulation No. 4, Lease of Contract), otherwise, there will be a gross inadequacy of the purchase price, enough to shock the conscience of man and that of the court; that it was not also the intention or agreement of the parties, at least that of herein plaintiff, that in case the lease contract is not renewed after the lapse of the ten (10) year period, for failure of the parties to make bilateral communication, the lessor or his successors or assigns are deemed to have allowed continued use of the land in suit without any additional compensation whatsoever (see stipulation no. 8, contract of lease) and neither was it the true agreement or real intention of the parties, at least on the part of herein plaintiff, that upon payment of the rental amount of P25,000.00, herein plaintiff shall be deemed to have conveyed and ceded all his rights and interest on the subject property, in favor of herein defenant. (see stipulation No. 9);

“11. That herein defendant acted fraudulent-ly and inequitably, taking advantage of the financial distress of herein plaintiff, when it caused the unlawful insertion of the stipulation contained in paragraphs 4, 8 and 9 quoted above, in the contract of lease, and the same are all contrary to law and void ab-initio, because the fixing of the price of the land to be purchased can never be left to the discretion or will of one of the contracting parties; and in this case, it was defendant alone who determined the price and if this is so, then the validity or compliance of the contract can not be demanded by herein defendant, for the reason that a contract of sale, is essentially bilateral in character;

“12. That evidently, the contract as drafted and prepared by herein defendant for the signature of herein plaintiff is a contract commonly known as ADHESION CONTRACT, which is one where one party (plaintiff herein) merely signs care-fully prepared contracts of big companies, such as contracts of insurance, construction and the like; as in the case of herein defendant where the project involves multi-billion contracts funded from the World Bank, thus, the same should be strictly interpreted against defendant, and liberally in favor of herein plaintiff, because the latter was virtually helpless to bargain for better terms on account of his financial need at the time;

“13. That the fair and reasonable price or market value of the land in suit which is an urban land located at the Poblacion or Centro of the town of San Manuel, this province, is no less than Fifty Pesos (P50.00) per square meter, and plaintiff makes this offer, subject to the acceptance of herein defendant;

“14. That as agreed upon, the area to be leased is only twenty five (25,000) thousand square meters, as evidenced by the encumbrance registered at the back of TCT No. T-85689, in the name of plaintiff leaving a portion of five (5,000) thousand square meters, as free from the lien and encumbrance;

“15. That after the lease contract was executed and registered, herein defendant fenced the area leased, but in the process, the latter stealthily and surreptitiously expanded its occupation and it included the remaining portion of five (5,000) thousand square meters, unencumbered, as evidenced by a relocation survey conducted by one Geodetic Engineer Apolinar P. Alvarez in the premises, a blue print copy of the sketch map is hereto attached as Annex "E" to form part hereof, and the xerox copy of the letter of plaintiff dated August 27, 1984, addressed to the Manager of Division III, Magat River Multi-Purpose Project, San Manuel, Isabela, requesting for a relocation of the leased premises, is hereto attached as Annex "E-1", to form part hereof;

“16. That the encroached area of five (5,000) thousand square meters which is irrigated, can be easily planted to palay and would yield an average of no less than one (100) hundred cavans of palay at 46 kilos per cavan,

per crop, for three (3) croppings a year, with a selling price of P3.50 per kilo;

“17. That herein plaintiff failed to realize the expected income stated in the immediately preceding paragraph due to the unlawful occupation of the area by defendant since the year 1975 to the present, and despite repeated demands, the defendant refuses to deliver the possession of the encroached portion of 5,000 square meters to the plaintiff, with accounting of its corresponding produce, up to the present; however, should defendant desires to purchase the remaining portion of 5,000 square meters, plaintiff offers a price of no less than P50.00 per square meter which is the fair and reasonable market value of the land;

“18. That due to the unlawful, inequitable and malicious actuations of herein defendant, plaintiff was forced to engage the services of counsel for a contingent fee of 30% of whatever is due plaintiff, plus P300.00 as appearance fee, for the protection, respect, and preservation of his rights and interests in the premises;

“19. That likewise, for the fraudulent and inequitable acts committed by defendant, plain-tiff is entitled to actual or compensatory damages representing unrealized income of the 5,000 square meters encroached portion, which is estimated to be no less than 25 cavans of palay (25% of 100 as rental per crop, for three (3) croppings a year), or a total of 75 cavans per year and/or a grand total of 750 cavans of palay at 46 kilos per cavan for ten (10) years, at the current price of P3.50 per kilo; and entitled to nominal or temperate damages in the sum of P30,000.00 plus moral and exemplary damages of no less than P60,000.00 for the public good;

"WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Court that judgment be rendered in favor of your plaintiff and against herein defendant by:

“1. Ordering, that the contract of lease with right to purchase (Annex "B") be reformed, so that the real and true agreement or intention of the parties be reflected and/or expressed therein;

“2. In the alternative, should the defendant pursue to BUY the land in suit (30,000 square meters) at a price certain agreed upon by the parties after serious negotiations at the rate of P50.00 per square meter, then the necessary and proper document be drawn and prepared, under the strict supervision of the Court, and the corresponding purchase price or compensation to be paid by defendant, be deposited with the court under custodia legis;

“3. Ordering the defendant to pay plaintiff, the unrealized income or profit, plaintiff suffered, by virtue of the unlawful occupation by defendant of the remaining portion of 5,000 square meters from 1975 to the present or until possession is finally restored;

“4. Ordering defendant to pay plaintiff, the sum of P30,000.00, by way of nominal or temperate damages and the sum of P60,000.00, by way of moral and exemplary damages, for the public good, plus attorney's fees on a contingent basis of 30%, depending on the amount finally adjudicated in favor of plaintiff, plus appearance fee of P300.00 when the case is called for hearing or for any other purpose;

“5. Ordering the parties to strictly abide by, and comply with their commitments in the documents that maybe executed in the premises;

“6. If for any reason, the parties can not agree on reasonable terms for the continuation of their relationship and the lease contract ordered terminated, and/or, should the defendant elects not to purchase the whole 30,000 square meters, defendant be ordered to deliver the possession of the land in suit to the plaintiff, and the defendant allowed to remove the infrastructure improvements introduced on the land, with right of retention to the former;"

In due time, the defendant filed its answer[2] alleging, inter alia, as follows:

“2. That defendant admits the allegations in paragraph 2 of the complaint;

“3. That defendant admits the allegations in paragraph 3 of the complaint that a Contract of Lease With Right

to Purchase was entered into between the parties on June 6, 1975, but it specifically denies the rest of the allegation therein, more specifically that plaintiff's land is urban land, the fact of the matter being that it is riceland at the time NIA took possession of the same;

"4. That defendant specifically denies the material allegations in paragraph 4 of the complaint alleging that stipulations No. 4, 8 and 9 of the Contract of Lease with Right to Purchase was surreptitiously inserted it appearing plaintiff is an intelligent person who knows English, and that his wife, Estelita Santos, is likewise a signatory to the document;

"5. That defendant admits the allegations in paragraph 5 of the complaint concerning plaintiff's issuance of a permit to enter the property in question on April 24, 1975, but it specifically denies the rest of the allegations therein, for being without basis in fact and in law;

"6. That defendant admits the allegations in paragraph 6 of the complaint whereby plaintiff acknowledged receipt of the amount of P25,000.00 as payment for the land in question, but specifically denies the rest of the allegations therein for being self-serving and baseless conclusions of fact, it appearing the delay in the payment for such property was due to plaintiff's fault, who was not paid until he was able to register the property in his own name;

"7. That defendant admits the material allegations in paragraph 7 of the complaint;

"8. That defendant specifically denies the allegations in paragraphs 8 and 9 of the complaint for being self-serving, without basis in fact, and for reasons to be stated in the Special and Affirmative defenses;

"9. That defendant specifically denies the allegations in paragraphs 10, 11, 12 and 13, of the complaint for being without basis in law and in fact;

"10. That defendant admits the allegations in paragraph 14 of the complaint that 25,000 square meters was the subject of the Contract of Lease with Right of Repurchase, with the qualification that the remaining 5,000 square meters was intended to be donated by the plaintiff to defendant upon the execution of a Deed of Sale;

"11. That defendant specifically denies the allegations in paragraph 15 of the complaint for reasons stated in the preceding paragraph;

"12. That defendant specifically denies the allegations in paragraph 16 of the complaint for being unwarranted conclusions of fact;

"13. That defendant specifically denies the allegations in paragraphs 17, 18 and 19 of the complaint for being self-serving, speculative and without basis in fact; and by way of -

SPECIAL AND AFFIRMATIVE DEFENSES

defendant respectfully alleges:

"14. That it repleads and incorporates the foregoing as integral part hereof;

"15. That the contract entered into on June 6, 1975 is the law between the parties and the same should be complied with in good faith (Art. 1159, Civil Code);

"16. That there could not have been any fraud or mistake in the execution of said contract because plaintiff appears to know English and his wife is a signatory to the instrument; besides, public officials are entitled to the presumption of regularity in the performance of their official duties;

"17. That from the appearance of their signatures, plaintiff and his wife are not ignorant or illiterate, otherwise they would have merely used their thumbmarks;

"18. That as public entity, defendant has not been motivated by any other consideration other than to reflect the true intentions of the parties in the instrument of June 6, 1975;

"19. That money claims for damages against the State should have been first had before the Commission on Audit (Carabao Inc. vs. Agricultural Productivity Commission, 35 SCRA 224 [1970]; Commissioner of Public Highways vs. San Diego, 31 SCRA 616 [1970];

"20. That there was no exhaustion of administrative remedies, and therefore, the instant suit does not state a valid cause of action (Abe-Abe vs. Manta, 90 SCRA 524 [1979])."

The plaintiff seasonably filed a reply[3] to the defend-ant's answer, after which, the case was set for pre-trial.

After the pre-trial, the court a quo issued on 4 March 1986 an order[4] incorporating therein the facts admitted by the parties during the pre-trial, and stating therein that:

"The parties agreed that the issue in this case is only a question of law because it involved the interpretation of the contract between the parties whether it is an absolute sale or a contract of lease only. That there is no genuine issue of material fact on the basis of which the court should try the case on the merits and require presentation of evidence to prove such issue of material fact.

"As there is no genuine issue of material fact this case could be decided by way of summary judgment pursuant to Sec. 3, Rule 20 of the Rules of Court which provides as follows:

'SEC. 3. Judgment on the pleadings and summary judgment at pre-trial. - If at the pre-trial the court finds that facts exist upon which a judgment on the pleadings or a summary judgment may be made, it may render judgment on the pleadings or a summary judgment as justice may require'."

Hence, the court a quo, without conducting a trial on the merits of the case, rendered on 20 March 1986 a decision[5] interpreting the contract between the parties as a contract of lease with the right to purchase. Thus, the trial court held:

"That the issue in this case, is a question of law not a question of fact because it involved the interpretation of the contract between the parties only. Therefore, there is no genuine issue of material fact to be determined by the court in a trial on the merits and the case may be decided by way of summary judgment under Sec. 3, Rule 20 of the Rules of Court.

"The pre-trial order was furnished to the parties giving them reasonable period of time to file any objection if any as mandated by Sec. 4 of Rule 20 of the Rules of Court to which the parties did not submit or file any pleading for the correction or amendment of the pre-trial order.

"With respect to the interpretation of the contract between the parties sought to be reform-ed in this case whether or not the contract is a lease contract or a contract of sale, there are terms and conditions of the agreement which maybe very pertinent and determinative of the nature of the contract entered into by the parties to wit:

"1. That the contract is denominated as contract of lease with the right to purchase and not a deed of sale;

"2. That the contract stipulated a period of ten (10) years from June 6, 1975 the date when it was executed to June 6, 1985;

"3. That the defendant has an option to buy the property.

"The parties are not ordinary parties to a contract and the court is of the opinion, that they intended their contract to be a contract of lease not sale. If it were otherwise, the party could have denominated their contract a deed of sale not a contract of lease with right to purchase. If the parties intended to execute a contract of sale

over the two and one-half hectares they should have executed a deed of sale and not a contract of lease. The plaintiff much less the defendant could not claim ignorance of the contract executed by them because the latter is represented by a battery of corporate counsel aside from the office of the Solicitor General and a project Manager whose educational qualification is above an ordinary citizen or individual. The court cannot therefore sustain the contention of the defendant that the contract entered into is that of sale and hereby holds that it is a lease contract with the right to purchase not sale. The mere fact that there is a period agreed upon by the parties which is ten (10) years from June 6, 1975 to June 6, 1985 clearly indicate that the contract between them is a lease contract not sale. A contract of sale does not have any period because it is final and absolute. Likewise, the contract cannot be deemed to be that of sale because the defendant is given the option to buy and if the latter chooses to buy the land in question the price should be that which has already been paid the plaintiff as the consideration of the lease which was paid in advance in the amount of P25,000.00. The option to buy is not embodied in a contract of sale but it is a term which maybe agreed upon in a contract of lease. The agreement of the parties that the P25,000.00 paid in full to the plaintiff to be the purchase price of the two and one-half hectares however, cannot be considered as the consideration for purposes of the option to buy of the defendant for the reason that the said amount was paid to the plaintiff as rentals for the use of the property during the period of ten (10) years when the option to buy of the defendant is not yet being exercised by the latter otherwise it will be considered as pactum commissorium which in the eyes of the law is illegal per se. To hold otherwise, would deprived the plaintiff the reasonable rentals of the two and one-half hectares during the duration of the lease contract because then the P25,000.00 would be considered as advance payment of the land. x x x

xxx xxx xxx

"x x x. Hence, there is no need to reform the agreement. First, because it has already expired and second, the contract is very clear that it is only a contract of lease with option or right to purchase. However, the agreement or stipulation that should the defendant exercise its option to buy the amount of P25,000.00 paid as rental should be considered null and void as if there is no such agreement between the parties for it being illegal."

Dissatisfied, the defendant appealed to the Court of Appeals, where it was docketed as CA-G. R. CV No. 11538. On 14 November 1988, the Court of Appeals* promulgated a decision[6] affirming with modification the decision of the trial court, the dispositive portion of which reads:

"WHEREFORE, the judgment appealed from is AFFIRMED with the following modifications:

- 1) That in case the defendant would exercise its option to buy under the contract, the total purchase price of the two and one-half hectares is P25,000.00; and
- 2) The amount of attorney's fees is reduced to P30,000.00.

"SO ORDERED."

Hence, the present petition for review on certiorari of the decision of the Court of Appeals, the petitioner NIA formulating for resolution the following ISSUES:

“I

WHETHER OR NOT THE COURT OF APPEALS HAS PROPERLY INTERPRETED THE CONTRACT.

"II

WHETHER OR NOT THE STIPULATION IN THE CONTRACT THAT RENTALS PAID SHALL BE CONSIDERED PART OF THE PURCHASE PRICE IS NULL AND VOID, BEING PACTUM COMMISSORIUM.

"III

WHETHER OR NOT THE COURT OF APPEALS ERRED IN AWARDING DAMAGES AND ATTORNEY'S FEES."

"A contract", according to Article 1305 of the Civil Code, "is a meeting of the minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service." Once the minds of the contracting parties meet, a valid contract exists, whether it is reduced to writing or not. And, when the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, between the parties and their successors in interest, no evidence of such terms other than the contents of the written agreement, except when it fails to express the true intent and agreement of the parties thereto,[7] in which case, one of the parties may bring an action for the reformation of the instrument to the end that such true intention may be expressed.[8]

Equity orders the reformation of an instrument in order that the true intention of the contracting parties may be expressed. The courts do not attempt to make another contract for the parties. The rationale of the doctrine of reformation is that it would be unjust and inequitable to allow the enforcement of a written instrument which does not reflect or disclose the real meeting of the minds of the parties. The rigor of the legalistic rule that a written instrument should be the final and inflexible criterion and measure of the rights and obligations of the contracting parties is thus tempered, to forestall the effect of mistake, fraud, inequitable conduct or accident.[9]

In order that an action for reformation of instrument as provided in Article 1359 of the Civil Code 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.

A perusal of the complaint at bar and the relief prayed for therein shows that this is clearly a case for reformation of instrument under Articles 1359 and 1362[10] of the Civil Code of the Philippines. Thus, the complaint alleges:

"8. That the contract of lease entered into, by and between herein plaintiff and defendant does not express the real agreement or intention of the parties, as there was error or mistake of fact on the part of plaintiff, aggravated by his state of financial distress at the time the contract was signed, and herein defendant acted fraudulently or inequitably, exercising undue influence over plaintiff on account of the latter's financial distress, in such a way that their real agreement was not reflected or expressed in the contract of lease signed by the parties.

"9. That the real agreement or intention of the parties was only for the lease of the twenty five (25,000) thousand square meters, by defendant at the rate of P0.10 centavos per square meter, for a period of ten (10) years from date of execution with the right of defendant to purchase the area upon the termination of the lease, on a price certain or consideration to be negotiated and agreed upon, by and between the parties after the lapse of the ten (10) year period;

"10. That it was not the real agreement or intention of the parties, at least that of herein plaintiff, to have the rentals paid as forming part of the purchase price later to be negotiated or agreed upon, much less was it their intention at least on the part of herein plaintiff, that the price shall not exceed P25,000.00 (see stipulation No. 4, Lease of Contract), otherwise, there will be a gross inadequacy of the purchase price, enough to shock the conscience of man and that of the court; that it was not also the intention or agreement of the parties, at least that of herein plaintiff, that in case the lease contract is not renewed after the lapse of the ten (10) year period, for failure of the parties to make bilateral communication, the lessor or his successors or assigns are deemed to have allowed continued use of the land in suit without any additional compensation whatsoever (see stipulation no. 8, contract of lease) and neither was it the true agreement or real intention of the parties, at least on the part

of herein plaintiff, that upon payment of the rental amount of P25,000.00, herein plaintiff shall be deemed to have conveyed and ceded all his rights and interest on the subject property, in favor of here in defendant. (see stipulation No. 9);

"11. That herein defendant acted fraudulently and inequitably, taking advantage of the financial distress of herein plaintiff, when it caused the unlawful insertion of the stipulation contain-ed in paragraphs 4, 8 and 9 quoted above, in the contract of lease, and the same are all contrary to law and void ab-initio, because the fixing of the price of the land to be purchased can never be left to the discretion or will of one of the contracting parties; and in this case, it was defendant alone who determined the price and if this is so, then the validity or compliance of the contract can not be demanded by herein defendant, for the reason that contract of sale, is essentially bilateral in character;"

and prays, among others, as follows:

"1. Ordering, that the contract of lease with right to purchase (Annex "B") be reformed, so that the real and true agreement or intention of the parties be reflected and/or expressed therein;"

Otherwise stated, the complaint at bar alleges that the contract of lease with right to purchase does not express the true intention and agreement of the parties thereto due to mistake on the part of the plaintiff (private respondent) and fraud on the part of the defendant (petitioner), i.e., by unlawfully inserting the stipulations contained in paragraphs 4, 8 and 9 in said contract of lease.

As a general rule, parol evidence is not admissible for the purpose of varying the terms of a contract. However, when the issue that a contract does not express the inten-tion of the parties and the proper foundation is laid therefor -- as in the present case -- the court should hear the evidence for the purpose of ascertaining the true intention of the parties.[11]

From the foregoing premises, we hold that the trial court erred in holding that the issue in this case is a question of law and not a question of fact because it merely involves the interpretation of the contract between the parties. The lower court erred in not conducting a trial for the purpose of determining the true intention of the parties. It failed to appreciate the distinction between interpretation and reformation of contracts. While the aim in interpretation of contracts is to ascertain the true intention of the parties, interpretation is not, however, equivalent to reformation of contracts.

"Interpretation" is the act of making intelligible what was before not understood, ambiguous, or not obvious. It is a method by which the meaning of language is ascertained.[12] The "interpretation" of a contract is the determination of the meaning attached to the words written or spoken which make the contract.[13] On the other hand, "reformation" is that remedy in equity by means of which a written instrument is made or construed so as to express or conform to the real intention of the parties.[14] In granting reformation, therefore, equity is not really making a new contract for the parties, but is confirming and perpetuating the real contract between the parties which, under the technical rules of law, could not be enforced but for such reformation.[15] As aptly observed by the Code Commission, the rationale of the doctrine is that it would be unjust and inequitable to allow the enforcement of a written instrument which does not reflect or disclose the real meeting of the minds of the parties.[16]

Since the complaint in the case at bar raises the issue that the contract of lease does not express the true intention or agreement of the parties due to mistake on the part of the plaintiff (private respondent) and fraud on the part of the defendant (petitioner), the court a quo should have conducted a trial and received the evidence of the parties for the purpose of ascertaining the true intention of the parties when they executed the instrument in question.

Summary judgment can be resorted to only where there are no questions of fact in issue or where the material

allegations of the pleadings are not disputed.[17] A cursory reading of the pleadings in this case shows that there is a genuine issue or material controversy raised therein. Hence, summary judgment is not proper.

WHEREFORE, the decision of the trial court dated 20 March 1986 as well as the decision of the Court of Appeals dated 14 November 1988 are hereby SET ASIDE and the case should be, as it is hereby, REMANDED to the court of origin for further proceedings in accordance with this decision. Without costs.

SO ORDERED.

Cruz, (Chairman), Griño-Aquino, and Bellosillo, JJ., concur.
Medialdea, J., on leave.

[1] Original Record, p. 1

[2] Ibid., p. 47

[3] Ibid., p. 56

[4] Ibid, p. 115

[5] Ibid., p. 118. The dispositive portion of the decision, as amended, reads as follows:

"WHEREFORE, the decision rendered by this Court is hereby modified and amended as follows:

1. Declaring the contract between the parties a contract of lease with the right to purchase not sale;
2. Granting unto the defendant NIA the option to buy the two and one-half hectares to the plaintiff. The expenses of segregation of the portion in question shall be borne by the defendant;
3. Ordering the defendant to pay damages consisting of the unrealized harvest of the one-half hectares portion in the amount of P102,500.00;
4. In the alternative that the defendant will back out from the option to buy notwithstanding that it had already manifested its desire under Exhibit "B" the defendant is hereby ordered to vacate the premises and surrender the peaceful possession of the three hectares parcel of land to the plaintiff considering that the lease contract had already expired within fifteen (15) days after the finality of this judgment by removing its improvements thereon. Failure to do so, the court will issue a writ of execution.
5. Ordering the defendant NIA to pay the plaintiff attorney's fee in the amount of P50,000.00

"SO ORDERED.

"Roxas, Isabela, March 20, 1986."

* Sixth Division composed of Justices Floreliana Castro-Bartolome, Ricard L. Pornove, Jr. (ponente) and Bonifacio A. Cacdac, Jr.

[6] Rollo, p. 24

[7] Sec. 9, Rule 130, Revised Rules on Evidence

[8] Article 1359, Civil Code of the Philippines, which provides:

"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 can ask for the reformation of the instrument to the end that such true intention may be expressed.

"If mistake, fraud, inequitable conduct, or accident has prevented a meeting of the minds of the parties, the proper remedy is not reformation of the instrument but annulment of the contract."

[9] Report of the Code Commission, p. 36

[10] Article 1362 of the Civil Code, provides: "If one party was mistaken and the other acted fraudulently or inequitably in such a way that the instrument does not show their true intention, the former may ask for the reformation of the instrument. In *Ong Chua vs. Carr, et al.*, this Court held that reformation will be given "where there is a mistake on one side and fraud or unfair dealing on the other." (53 Phil. 975).

[11] *Tolentino and Manio v. Gonzales Sy Chiam*, 50 Phil. 558, 567

[12] *Martin, Comments on the Rules of Court*, Vol. V, 1986 ed., p. 124, citing *Dick vs. King*, 236 P. 1059, 73 Mont. 465

[13] *Ibid.*, citing *Dent vs. Industrial Oil & Gas Co.*, Ark. 122 2d. 162, 164

[14] *Conde vs. Cuenca*, 99 Phil. 1056

[15] *Centenera vs. Garcia Palicio*, 29 Phil. 470, 480

[16] *Supra*.

[17] *Martin, Comments on the Rules of Court*, Vol. 2, 1986 ed., p. 159, citing *Ibanez, et al. vs. North Negros Sugar Co., et al.*, 96 Phil. 980

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