

CECILIA MATA, PETITIONER, VS. HON. COURT OF APPEALS AND METROPOLITAN BANK & TRUST COMPANY, RESPONDENTS.

G.R. No. 87880. April 07, 1992

Ponente: CRUZ, J.

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CRUZ, J.:

This controversy arose from a contract of lease between petitioner Cecilia Mata as lessor with private respondent Metropolitan Bank and Trust Company (Metrobank) as lessee over a parcel of land belonging to her and located in Binakayan, Kawit, Cavite. The contract was executed on August 20, 1973,[1] and provided pertinently as follows:

- a) That the lessor shall construct on her land described above, at her own expense, a reinforced and concrete building in accordance with the plans and specifications prepared at the instance of the lessor and with the approval of the lessee Metrobank insofar as the portion to be occupied by the said bank;
- b) That the lease shall be for a period of twenty (20) years, renewable at the option of the lessee bank, starting thirty days from occupancy of the premises;
- c) That the lessee bank shall grant a loan of P390,000.00 upon signing of the contract to finance the construction of the aforementioned commercial building under terms and conditions contained in a separate document of loan and mortgage, which loan shall be partially settled out of the monthly rentals on the leased premises.
- d) That the lessee-appellant shall pay to the lessor-appellee rentals at the rate of

1. 1st to 5th year - P 800.00 a month
2. 6th to 10th year - P1,300.00 a month
3. 11th to 15th year - P1,800.00 a month
4. 16th to 20th year - P2,200.00 a month

Pursuant thereto, the petitioner received from Metrobank during the period from October 2, 1973, to February 25, 1974, separate amounts totaling P396,046.00.[2]

To secure payment thereof, the petitioner executed the following deeds of real estate mortgage in favor of Metrobank:

- a) Real Estate Mortgage for P300,000.00 on September 18, 1973[3]
- b) Real Estate Mortgage for P90,000.00 on January 9, 1974[4]
- c) Real Estate Mortgage for P50,000.00 on March 28, 1974[5]

and signed the following promissory notes:

1. Promissory Note dated October 2, 1973 for P100,000.00[6]
2. Promissory Note dated November 6, 1973 for P100,000.00[7]
3. Promissory Note dated December 10, 1973 for P60,000.00[8]
4. Promissory Note dated December 19, 1973 for P40,000.00[9]
5. Promissory Note dated January 11, 1974 for P90,000.00[10]

To renew the loans covered by these instruments, the petitioner executed another promissory note for P435,200.00 on September 12, 1974.[11]

With the money received from these loans, the petitioner proceeded to construct the commercial building on her lot, with Metrobank's approval as to the part of the structure to be occupied by it in accordance with their contract. Concepcion Veles, the petitioner's niece acted on her behalf in administering the construction of the building.

On November 4, 1977, the petitioner filed with the then Court of First Instance of Cavite a complaint for reformation of the above-mentioned contracts.

She claimed that she was induced into signing the contract of lease, the deeds of mortgage and the promissory notes as a result of her ignorance, lack of skill and proper advice and the bad faith of Metrobank. She said she had never consented to pay for the construction of the building and neither did she agree to repay Metrobank with compounded interest. She pointed out that she could not have assented to the one-sided contracts, considering that upon the expiration of the lease after twenty years, her debt would amount to P1,277,946.00, representing the unpaid principal of P440,000.00 plus the interest of P1,203,946.00 less the total rental of P366,000.00.

On June 3, 1982, the court, through Judge Luis L. Victor, ruled for the petitioner, holding inter alia as follows:

Indeed, the record is bereft of any evidence to establish that defendant bank took the pains to advise plaintiff, considering her age and educational limitations, that the details of her loan agreement would entail such heavy burden on the part off the plaintiff that practically placed her in a situation where, during her lifetime, she may not be able to fulfill her end of the bargain to the defendant with the concomitant loss of her property consequent to non-payment of her indebtedness.

The import of the real estate mortgages, which plaintiff signed, Exhibits C, D and E, was not explained to plaintiff, nor its terms clearly elucidated to her. The promissory notes, Exhibits H, I, J and K, were not shown to have been discussed by the parties and plaintiff Mata made aware of the contents and legal effects thereof. Evidence is lacking that defendant Metrobank made plaintiff Mata understood the meaning of the credit line, Exhibit F. Nor is there ample proof that defendant explained to plaintiff Mata why she had to sign the promissory note, Exhibit M, for P435,200.00 when she had already signed four (4) previous promissory notes.

x x x

x x x this Court is convinced that the loan agreement between the parties herein is altogether inequitably one-sided in favor of the defendant bank and unconscionably disadvantageous to plaintiff. Had defendant bank explained fully to plaintiff the terms of the promissory notes she signed and the interest she will have to assume on the principal obligation, the manner she can offset her account with the anticipated income derivable from the lease, and such other details of payment, perhaps this Court may not constitute itself guardian of plaintiff in the light of the Vales v. Villa pronouncement. But in the case at bar, defendant, the more knowledgeable of the contracting parties, did not clear the doubt, contingency or risk affecting the object of the lease agreement to plaintiff Mata, whose layman's grasp of the contract emanated only from a general understanding of the contents thereof. Thus, this Court will intervene between the parties herein to prevent an apparent injustice and to give meaning and substance to the dictum that when one of the parties is unable to

understand the signification of a contract because of ignorance, or lack of skill, the person enforcing the contract must show that all the terms thereof have been fully explained to the former. As earlier stated, there is no evidence that defendant Metrobank had taken the necessary steps to enlighten the plaintiff Cecilia Mata on the signification of the mortgages and promissory notes that she signed in support of the contract of lease.

Premises considered, in view of the conclusions arrived at by this Court, as above discussed, judgment is hereby rendered ordering the reformation of the contract of lease, more particularly the terms and conditions contained in the separate documents of law, mortgages and promissory notes in accordance with justice and equity, ever guided by the maxim of law of rendering to everyone his due.

Metrobank appealed to the respondent court, contending that the trial court erred in ordering reformation, this not being allowed by law, let alone the fact that the petitioner had not adduced sufficient evidence to show that the contracts sought to be reformed were inequitable.

In its decision dated November 22, 1988,[12] the Court of Appeals reversed the trial court and on April 10, 1989, denied reconsideration. It ruled that it was not legally possible to reform the contract of lease because it expressed the true intention of the parties and the petitioner understood its terms and conditions. If it was true that the contracts were not explained to her, the lack of meeting of the minds between the parties would also make reformation legally inapplicable. The respondent court also said that there was no factual basis for the finding that the loan agreement was inequitable. The error of the trial court, it said, lay in its misimpression that the total loan granted to Mata would be paid or amortized solely from the agreed graduated rentals of the portions occupied by Metrobank. In fact, the loan would only be partially paid with its monthly rentals as the rest of the building was to be leased by Mata to other tenants whose rentals would also be used for paying the loans.

This Court has carefully examined the questioned decision and agrees that the lease contract and the other related contracts are not inequitable as alleged by the petitioner. The contract of lease was somewhat complicated by the inclusion of the loan agreement for P390,000.00 but that did not make the contract unconscionable.

Like the contract of lease, the real estate mortgages and the promissory notes are not contrary to law, morals, good customs or public policy. They are the usual transactions entered into by banks in the regular course of their business of lending money at stipulated interests and for adequate security.

It is not denied that the loan was for P440,000.00 and that at the end of the 20-year period, the petitioner's liability with interest at 12% per annum would amount to P753,512.00, representing the unpaid interest of P679,512.00 plus the outstanding capital of P74,000.00.[13] But this amount would not make the contract per se inequitable. The interest rate charged by Metrobank on the loan was the ordinary banking rate on forbearance of money at that time and it was definitely not usurious then, nor is it now.

It is noted that in leases of this nature, which are normally for 20 years, the loan granted by the bank will eventually be offset at the end of the lease period by the rentals it would have paid during that time. However, this arrangement is not applicable in the case at bar because Metrobank occupies only a portion of the building and so does not pay the total revenue derived from the lease of the whole building. In her computations, the petitioner does not take into account the rentals derived from the lease of the rest of the building, which is the reason why her payments to Metrobank appear lopsided vis-a-vis the payments of Metrobank to her. Her total indebtedness to Metrobank should be juxtaposed against not only the rentals of Metrobank but the total rentals to be derived from the lease of the whole building. Let it be added, as a no less significant consideration, that the building will remain in her name even after the end of the 20-year lease to Metrobank.

The onus probandi is upon the party who insists that the contract should be reformed because of the unfairness of its provisions. It was thus incumbent upon the petitioner to establish, through a preponderance of evidence, that

the contract was unconscionably operating to her disadvantage. She has not done so. In this connection, it bears stressing that a contract may not be reformed simply because a party later finds itself at the shorter end of an unwise bargain. It is only when the agreement is shown to be so grossly unjust as to be unduly oppressive that the strong arm of equity may intervene to grant relief to the aggrieved party.

The respondent court was correct when it said that if the petitioner never really intended to be bound by the said contracts, there consequently could have been no meeting of the minds between her and Metrobank. This would make reformation unavailable for lack of the first of the requisites of reformation as enumerated in Article 1359 of the Civil Code, thus:

- 1) there must have been a meeting of the minds upon the contract;
- 2) the instrument or document evidencing the contract does not express the true agreement between the parties; and
- 3) the failure of the instrument to express the agreement must be due to mistake, fraud, inequitable conduct or accident.

The other reason why reformation is not available is that, contrary to the second requisite, the contracts in question do express the true agreement between the parties.

The Court does not accept the petitioner's claim that she did not understand the terms and conditions of the transactions because she only reached Grade Three and was already 63 years of age when she signed the documents. She was literate, to begin with, and her age did not make her senile or incompetent. Moreover, the respondent court found that the terms of the contracts were explained to her by Edgardo B. Espiritu, the senior vice-president of Metrobank, and Rodolfo Gaspar, the lawyer in charge of its building and real estate properties.[14]

At any rate, Metrobank had no obligation to explain the documents to the petitioner as nowhere has it been proven that she is unable to read or that the contracts were written in a language not known to her. It was her responsibility to inform herself of the meaning and consequence of the contracts she was signing and, if she found them difficult to comprehend, to consult other persons, preferably lawyers, to explain them to her. After all, the transactions involved not only a few hundred or thousand pesos but, indeed, hundreds of thousands of pesos.

As the Court has held:

x x x The rule that one who signs a contract is presumed to know its contents has been applied even to contracts of illiterate persons on the ground that if such persons are unable to read, they are negligent if they fail to have the contract read to them. If a person cannot read the instrument, it is as much his duty to procure some reliable persons to read and explain it to him, before he signs it, as it would be to read it before he signed it if he were able to do so and his failure to obtain a reading and explanation of it is such gross negligence as will estop him from avoiding it on the ground that he was ignorant of its contents.[15]

We see no reversible error in the well-written and exhaustive decision penned by Justice Regina G. Ordoñez-Benitez, based as it is on the evidence of record and the pertinent law and jurisprudence. Indeed, it reflects the careful and conscientious study given to the case by the members of the appellate court who participated in its resolution.

ACCORDINGLY, the petition is DENIED and the challenged decision of the respondent Court of Appeals is AFFIRMED, with costs against the petitioner. It is so ordered.

Griño-Aquino and Medialdea, JJ., concur.

Narvasa, C.J., and Bellosillo, J., on leave.

[1] Annex B, Exhibits for the Plaintiff.

[2] Rollo, p. 154.

[3] Annex C, Exhibits for the Plaintiff.

[4] Annex D, Ibid.

[5] Annex E, Id.

[6] Annex G, id.

[7] Annex H, id.

[8] Annex I, id.

[9] Annex J, id.

[10] Annex K, id.

[11] Annex M, id.

[12] Ordoñez-Benitez, J., ponente; Bellosillo and Kalalo, JJ., concurring.

[13] This different amount is reached after deducting from the capital loan of P440,000 the yearly rentals. And this difference will be used as the basis for computing the interest rate for that year.

[14] Rollo, p. 160.

[15] Tan Sua Sia vs. Yu Baio Sontua, 56 Phil. 711.

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