

THIRD DIVISION

[G.R. NO. 151217, September 08, 2006]

**SPOUSES CESAR R. ROMULO AND NENITA S. ROMULO,
PETITIONERS, VS. SPOUSES MOISES P. LAYUG, JR., AND
FELISARIN LAYUG, RESPONDENTS.**

D E C I S I O N

TINGA, J.:

This is an appeal by certiorari under Rule 45 of the 1997 Rules of Civil Procedure, assailing the Court of Appeals' Decision^[1] and Resolution^[2] in CA-G.R. CV No. 63965. Said Decision reversed and set aside the Decision^[3] of the Regional Trial Court (RTC), Branch 258, Parañaque City, which nullified the Deed of Absolute Sale and Contract of Lease executed between herein petitioners and respondents.

The following factual antecedents are matters of record.

On April 11, 1996, petitioners Spouses Cesar and Nenita Romulo filed a verified Complaint for Cancellation of Title, Annulment of Deed of Absolute Sale and Contract of Lease with Damages against respondents Spouses Moises and Felisarin Layug. The complaint was docketed as Civil Case No. 96-0172 and raffled to Branch 258 of the RTC of Parañaque.^[4]

Petitioners averred in their complaint that sometime in 1986, they obtained from respondents a loan in the amount of P50,000.00 with a monthly interest of 10%, which subsequently ballooned to P580,292.00. To secure the payment of the loan, respondents allegedly duped petitioners into signing a Contract of Lease and a Deed of Absolute Sale covering petitioners' house and lot located at Phase II, BF Homes, Sucat, Parañaque and covered by Transfer Certificate of Title (TCT) No. S-71528. The Deed of Absolute Sale purportedly facilitated the cancellation of petitioners' title on the house and lot and the issuance of TCT No. 20489 in the name of respondents. Thus, petitioners prayed for the nullification of the Deed of Absolute Sale, the contract of lease and TCT No. 20489, and the award of moral and exemplary damages.^[5]

Respondents denied petitioners' allegations. In their Answer,^[6] they vouched for the validity of the Deed of Absolute Sale, particularly as having been voluntarily executed by the parties for the purpose of extinguishing petitioners' indebtedness to respondents. As consideration of the sale, respondents allegedly paid the amount of P200,000.00 in addition to the writing off of petitioners' obligation to them. That they allowed petitioners to occupy the house and lot as lessees thereof was founded on the trust they reposed on petitioners, claimed respondents.^[7]

Prior to the filing of Civil Case No. 96-0172, respondent Moises Layug, Jr. ("Moises")

filed Civil Case No. 9422, an action for ejectment, against petitioners to compel the latter to vacate the house and lot allegedly sold by petitioners to Moises and subsequently rented out by him to petitioners. Moises alleged that petitioners violated the terms of the Contract of Lease when the latter failed to pay any rental or exercise their option to repurchase the house and lot and refused to vacate the property despite demand. The Metropolitan Trial Court (MeTC), Branch 77, Parañaque dismissed the complaint for lack of cause of action.^[8] The RTC, Branch 257, Parañaque, likewise dismissed Moises' appeal based on its finding that the parties did not intend to enter into a lease agreement.^[9] The Court of Appeals denied Moises' petition for review on the ground of late filing.^[10] Upon elevation to this Court, Moises' petition for review on certiorari was denied with finality by this Court.^[11]

On June 21, 1999, the trial court rendered judgment in favor of petitioners in Civil Case No. 96-0172. The dispositive portion of the decision reads:

WHEREFORE, the plaintiffs having been able to prove their claim by preponderance of evidence, judgment is hereby rendered in their favor and against spouses Moises P. Layug and Felisarin Layug whereby the Contract of Lease as well as the Deed of Sale allegedly executed by the herein parties are hereby declared NULL and VOID and of no force and effect and the Register of Deeds of the City of Parañaque is hereby ordered to cancel Transfer Certificate of Title No. 20489 registered in the names of MOISES P. LAYUG married to FELISARIN LAYUG and to issue a new one in the name of Spouses Cesar R. Romulo and Nenita S. Romulo, upon the payment of the required fees by the plaintiffs.

Likewise, defendants Spouses Moises P. Layug and Felisarin Layug are hereby ordered to pay jointly and severally Spouses Cesar R. Romulo and Nenita S. Romulo the following, to wit:

1. The amount of P100,000.00 as and by way of moral damages;
2. The amount of P80,000.00 as exemplary damages;
3. The amount of P50,000.00 as and by way of attorney's fees; and
4. The costs of suit.

SO ORDERED.^[12]

Respondents elevated the matter to the Court of Appeals, questioning, among others, the trial court's finding that the contract between petitioners and respondents was an equitable mortgage.^[13] The Court of Appeals reversed and set aside the RTC Decision, mainly on the ground that petitioners failed to present sufficient evidence to prove their allegation that their signatures to the Deed of Absolute Sale were obtained fraudulently. Their motion for reconsideration rebuffed,^[14] petitioners filed the instant petition raising the lone issue of whether or not the transaction between the parties constitutes an equitable mortgage.

On this issue, the RTC and the Court of Appeals differ in opinion. The trial court based its declaration that an equitable mortgage was intended by the parties on the finding that petitioners remained in possession of the house and lot even after the property was supposedly sold to respondents. The trial court also gave evidentiary weight to the decisions of the MeTC and RTC dismissing the action for ejectment in Civil Case No. 9422, where both courts found that petitioners neither vacated the property nor paid any rental even after the execution of the Deed of Absolute Sale. The Court of Appeals disagreed and declared that an absolute sale was contemplated by the parties based on the express stipulations in the Deed of Absolute Sale and on the acts of ownership by respondents subsequent to its execution.

Whether or not the parties intended an equitable mortgage is a factual issue. As a general rule, factual review is beyond the province of this Court. One of the exceptions to the rule is exemplified by the instant case where the factual findings of the RTC and Court of Appeals are contradictory.

That petitioners obtained loans from respondents between 1985 and 1987, which remained unpaid up to the time of the execution of the assailed Deed of Absolute Sale, is established.^[15] That petitioners signed the assailed instrument is also not disputed. Indeed, they admitted having signed said document qualifying, however, that they were forced by respondents to execute the same for the purpose of securing their indebtedness to respondents.^[16] Respondents, on the other hand, insisted that the parties executed the Deed of Absolute Sale as an honest-to-goodness sales transaction.

Respondents, however, admitted further that in addition to the amount of P200,000.00 stipulated in the Deed of Absolute Sale, the parties agreed to write off petitioners' loan as consideration of the sale, although this clause was not expressed in the instrument.^[17] From respondents' admission, it can be gathered that the assailed Deed of Absolute Sale does not reflect the true arrangement of the parties. Now, is petitioners' submission that the parties actually agreed to subject the house and lot as security for their unpaid obligation supported by the evidence? Did the parties execute the assailed Deed of Absolute Sale with the intention of subjecting petitioners' house and lot covered by the deed as a mere security for the payment of their debt?

The form of the instrument cannot prevail over the true intent of the parties as established by the evidence. We have also decreed that in determining the nature of a contract, courts are not bound by the title or name given by the parties. 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 their conduct, words, actions and deeds prior to, during and immediately after execution of the agreement.^[18] In order to ascertain the intention of the parties, their contemporaneous and subsequent acts should be considered. Once the intention of the parties has been ascertained, that element is deemed as an integral part of the contract as though it has been originally expressed in unequivocal terms.^[19] As such, documentary and parol evidence may be submitted and admitted to prove such intention. And, in case of doubt, a contract purporting to be a sale with right to repurchase shall be construed as an equitable mortgage.^[20]

Between 1985 and 1987, petitioner Nenita Romulo ("Nenita") obtained from respondent Felisarin Layug ("Felisarin") loans in various amounts totaling around P500,000.00. Being close friends at that time, Felisarin did not require any written instrument to secure payment, other than the title to the house and lot, which Nenita handed to Felisarin sometime in 1988.^[21] When respondents demanded payment of the loan, petitioners defaulted. Nevertheless, as admitted by Layug, despite her repeated demands, she allowed petitioners some more time within which to pay their debts.^[22] Felisarin claimed that eventually petitioners offered their house and lot as payment for their debt because petitioners no longer had any money.^[23] However, even after the execution of the assailed Deed of Absolute Sale, respondents continued to grant petitioners loan accommodations as evidenced by the three promissory notes executed by petitioner Cesar Romulo.^[24]

Respondents' continuing to lend money to petitioners does not make sense if the intention of the parties was really to extinguish petitioners' outstanding obligation. The logical and inevitable conclusion is that respondents deemed it wise to formalize a security instrument on petitioners' house and lot by executing the Deed of Absolute Sale after realizing that petitioners could no longer fully satisfy their obligation to respondents. At that time, as petitioners were hard-pressed to come up with funds to pay their loan, they were hardly in a position to bargain. The preponderance of evidence shows that they signed knowing that said documents did not express their real intention, and if they did so notwithstanding this, it was due to the urgent necessity of obtaining funds. "Necessitous men are not, truly speaking, free men; but to answer a present emergency will submit to any terms that the crafty may impose upon them."^[25] The circumstances surrounding the execution of the Deed of Absolute Sale, particularly the fact that respondents continued to extend some loans to petitioners after its execution, precludes the Court from declaring that the parties intended the transfer of the property from one to the other by way of sale.

Consistent with the foregoing state of the evidence, Articles 1604 and 1602 of the Civil Code come into play. The articles provide that when the parties to a contract of sale actually intended such contract to secure the payment of an obligation, it shall be presumed to be an equitable mortgage:

Art. 1602. The contract shall be presumed to be an equitable mortgage in any of the following cases: edwin

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 vendor binds himself to pay the taxes on the thing sold;