

## SECOND DIVISION

[ G.R. NO. 151333, September 20, 2005 ]

**SPOUSES NATALIO AND FELICIDAD SALONGA, PETITIONERS,  
VS. SPOUSES MANUEL AND NENITA CONCEPCION AND  
FLORENCIA REALTY CORPORATION, RESPONDENTS.**

### D E C I S I O N

**CALLEJO, SR., J.**

The spouses Natalio Salonga and Felicidad Salonga were the owners of eight (8) prime parcels of land located in Dagupan City covered by Transfer Certificate of Title (TCT) Nos. 40886, 40887, 43547, 26506, 35156, 49460, 49459 and 53650.<sup>[1]</sup> They had a commercial building with four floors which stood on their property located along A.B. Fernandez Avenue, Dagupan City and covered by TCT No. 53650. The spouses leased the building to traders and merchants, and lived in a house along Arellano Street. The house stood on a lot which they also owned, covered by TCT No. 26506.

To finance their business, the spouses secured a loan from the Associated Bank. To secure the payment thereof, they executed a Real Estate Mortgage in favor of the bank over the property covered by TCT Nos. 40886, 40887, 43547, 35156 and 49459.<sup>[2]</sup> The spouses likewise secured a loan from the Philippine National Bank (PNB), and also executed a real estate mortgage over their property covered by TCT No. 26506.<sup>[3]</sup> A real estate mortgage over their property covered by TCT No. 53650 was also executed, including the commercial building thereon, as security for their loan from the Development Bank of the Philippines (DBP).<sup>[4]</sup> Their loan from the Rural Bank of Malasiqui, Inc. (Pangasinan) was secured by a real estate mortgage over their property covered by TCT No. 49460.<sup>[5]</sup>

The devastating earthquake of July 16, 1990 severely damaged the spouses' commercial building, adversely affecting their business.<sup>[6]</sup> Consequently, they defaulted in the payment of their loans. The creditor banks foreclosed or threatened to foreclose their real estate mortgages. On September 4, 1991, their property covered by TCT No. 49460 mortgaged to the Rural Bank of Malasiqui, Inc. was sold at public auction with the said bank as the highest bidder.<sup>[7]</sup> The DBP had the property covered by TCT No. 53650 sold at public auction on November 21, 1991.<sup>[8]</sup> The Certificate of Sale in favor of the bank as the winning bidder was filed with the Office of the Register of Deeds on January 2, 1992.<sup>[9]</sup>

On October 1, 1992, the Associated Bank filed a petition with the Regional Trial Court (RTC) of Dagupan City for the extrajudicial foreclosure of the Real Estate Mortgage over the property of the spouses covered by TCT Nos. 49459, 40886, 40887, 43547 and 35156, for the satisfaction of the balance of their loans and the increments thereof totaling P571,132.70 as of August 31, 1992. The sheriff set the

sale at public auction on December 10, 1992.<sup>[10]</sup>

Beleaguered, the spouses Salonga secured a loan, this time, from the spouses Manuel and Nenita Concepcion, who were engaged in the business of lending money, to repay their loan to the PNB. The spouses Salonga borrowed P500,000.00 from the spouses Concepcion, which the latter remitted to the PNB on November 6, 1992 in payment of the spouses Salonga's account. The latter were issued a receipt.<sup>[11]</sup> They also paid P2,756.85 to the PNB for surcharges.<sup>[12]</sup> Thus, on November 11, 1992, the PNB executed a Deed of Release of Real Estate Mortgage<sup>[13]</sup> which the bank delivered to Manuel Concepcion; the receipt of the said payment and the owner's duplicate of TCT No. 26506 was likewise released to Manuel Concepcion.

The spouses Concepcion also agreed to the spouses Salonga's plea for another loan to enable them to settle their obligations with the Associated Bank. Concepcion remitted the amount of P200,000.00 to the bank on December 8, 1992;<sup>[14]</sup> P200,000.00, on December 21, 1992;<sup>[15]</sup> and P186,520.50 on January 18, 1993<sup>[16]</sup> for the account of the spouses Salonga, for which the latter were issued receipts by the bank.<sup>[17]</sup> The bank executed a Cancellation of the Real Estate Mortgage<sup>[18]</sup> on January 20, 1993 and delivered the amount together with the owner's duplicate of the titles over the five parcels of land, and the aforesaid receipt to spouses Concepcion.

The spouses Salonga secured another loan from the spouses Concepcion in the amount of P2,042,377.19, which the latter paid to the DBP for the account of the spouses Salonga. The bank executed a Deed of Redemption and Cancellation of Liens<sup>[19]</sup> on January 5, 1993. The spouses Concepcion took delivery of the deed and the owner's duplicate of TCT No. 53650 and the receipt issued by the DBP for said amount in the names of the spouses Salonga.

The spouses Concepcion required the spouses Salonga to pay 3% of the loans as monthly interest, on top of a 5% commission if the property was sold to third-parties.

The spouses Salonga failed to pay the loans, interest and commission despite the lapse of several months. In the meantime, they continued residing in the same house. Much as they tried, the spouses Salonga failed to sell their property to any interested buyer. Worse, the spouses Concepcion pressed them to pay their loan accounts, plus the interests thereon. Their property covered by TCT No. 49460 was sold at public auction with the Rural Bank of Malasiqui, Inc. as the winning bidder. The bank consolidated its title on August 20, 1993.<sup>[20]</sup> The Register of Deeds cancelled TCT No. 49460 and issued TCT No. 60384 to the bank.<sup>[21]</sup>

On August 31, 1993, the spouses Salonga executed, in favor of the spouses Concepcion, a Deed of Absolute Sale<sup>[22]</sup> over their property previously mortgaged to the Associated Bank covered by TCT Nos. 43547, 40886, 40887, 35156 and 49459. It appears on the said deed that the property was sold for the price of P575,000.00, and that the spouses Salonga received the amount from the spouses Concepcion.

On September 20, 1993, the spouses Concepcion executed a Deed of Absolute Sale over the property covered by TCT Nos. 40886, 40887, and 43547 in favor of the

Florencia Realty Corporation for P600,000.00. On September 21, 1993, the spouses Concepcion filed the said deed in the Office of the Register of Deeds. The spouses Concepcion then filed the cancellation of real estate mortgage executed by the Associated Bank, the deed of absolute sale executed by the spouses Salonga, and the deed of absolute sale in favor of the Florencia Realty Corporation in the Office of the Register of Deeds, which issued TCT Nos. 60530, 60531 and 60532 in the names of the Florencia Realty Corporation, and TCT Nos. 60533, 60534 and 60694 in the names of the spouses Concepcion on September 21, 1993.

On October 18, 1993, the Spouses Salonga executed a Deed of Absolute Sale<sup>[23]</sup> over their properties previously mortgaged with the PNB and DBP, covered by TCT Nos. 53650 and 26506 including the improvements therein in favor of the spouses Concepcion. It appears that the lots were sold for P1,500,000.00, receipt of which was acknowledged by the spouses Salonga in the said deed. The spouses Concepcion filed the deed of absolute sale on the same day with the Office of the Register of Deeds, which issued TCT Nos. 60694 and 60695 in the names of the spouses Concepcion following the payment of the capital gains taxes. However, the spouses Salonga continued to reside in the same house.

Sometime in 1994, the daughter of the spouses Salonga arrived from abroad. The spouses and their daughter offered to redeem the property from the spouses Concepcion. However, the latter informed the spouses Salonga and their daughter that the title to the property had already been transferred to their names, and agreed to the redemption of the property for P8,000,000.00 and the spouses Concepcion increased it to P10,000,000.00.

On July 12, 1994, the spouses Salonga filed a complaint against the spouses Concepcion and the Florencia Realty Corporation with the RTC of Dagupan City for annulment of the August 31, 1993 and October 18, 1993 Deeds of Absolute Sale, as well as the reconveyance of the property subject of said deeds with damages.

The spouses Salonga alleged that the two deeds of absolute sale were simulated and did not reflect their true agreements, that is, that their property would guarantee the "payment of the total amount of remittances the defendants had paid to the mortgagors-banks for the redemption of their property, plus 3% a month of their loans as interests, and if the property were sold to a third-party, a 5% commission of the purchase price thereof." They also alleged that their agreement with the spouses Concepcion that the latter would not register the said deeds in the Office of the Register of Deeds and secure titles over the properties in their names; the defendants, in evident bad faith, registered the said deeds and secured titles in their names; the market price of the whole property amounted to P10,000,000.00, but it appeared that the property was sold to the spouses Concepcion for only P2,000,000.00, which was the amount the spouses Concepcion remitted to the bank in their account; they offered to repay their loans and their offers were rejected. The spouses Salonga prayed that judgment be rendered in their favor, thus:

WHEREFORE, it is respectfully prayed that after due hearing, judgment be rendered in accordance with the several causes of action hereof;

1. Declaring the Deed[s] of Absolute Sales, (*sic*), (Annexes "I" and "J") dated August 31, 1993 and October 18, 1993, respectively as a simulated contracts and

therefore VOID AB INITIO;

2. Ordering the Register of Deeds of Dagupan City to cancel TCT Nos. 60533, 60534, 60695, 60694, 60624 in the name of the defendants and TCT Nos. 60530, 60531 and 60532 in the name of Florencia Realty Corporation, Inc., and to restore TCT Nos. 40886, 40887, 43547, 20506, 35156, 49460, 49459 and 53650 in the name of the plaintiffs Spouses Natalio Salonga and Felicidad Salonga;
3. Ordering defendants spouses Manuel Concepcion and Nenita Viado to pay plaintiffs the sum of P500,000.00 as damages authorized to be awarded under Article 19 of the same code;
4. Ordering defendants Spouses Manuel Concepcion and Nenita Viado to pay plaintiffs the sum of P2,000,000.00 for moral damages; the sum of P100,000.00 for exemplary damages;
5. Ordering defendants Spouses Manuel Concepcion and Nenita Viado to pay plaintiffs the sum of P100,000.00 as and for attorney's fees plus the sum of P1,000.00 as per Court appearance fee; the sum of P100,000.00 for litigation expenses.

PLAINTIFFS further pray for such other reliefs just and equitable in the premises.<sup>[24]</sup>

In their answer to the complaint, the spouses Concepcion admitted that they gave loans to the spouses Salonga in the total amount of P3,131,154.54 which they remitted to the DBP, the PNB and Associated Bank for the plaintiffs' account, with the assurance that they would sell the property within three months; from the proceeds of the sale, their loans and the interest thereof at 3% per month and a commission of 5% of the purchase price of the property would be paid. They further alleged that despite extensions granted to them, the plaintiffs failed to pay their loans, and offered, instead, to sell their property for the price equivalent to the spouses Concepcion's remittances to the creditors-banks, plus an additional amount; the lots covered by TCT Nos. 53650 and 26506 were not part of the said sale; the spouses Salonga requested for more time to sell the remaining two lots.

The spouses Concepcion further alleged that they agreed to spouses Salonga's offer, and the latter executed a deed of absolute sale on August 31, 1993 covering the lots described in TCT Nos. 43547, 40886, 40887, 35156 and 49459; when the plaintiffs failed to sell the lots covered by TCT Nos. 53650 and 26506, they executed a deed of absolute sale over the said lots on October 18, 1993 and received the additional purchase price of P1,500,000.00 from the defendants; the plaintiffs promised to vacate their house in April 1994, but refused to do so; worse, the plaintiffs filed a complaint against them.

Subsequently, the spouses Concepcion as plaintiffs filed an action for ejectment against the spouses Salonga on August 23, 1994 with the Municipal Trial Court of

Dagupan City, praying for their eviction from the subject property.<sup>[25]</sup> The case was docketed as Civil Case No. CV-95- 00671-D.<sup>[26]</sup>

Felicidad Salonga testified that there was no period agreed upon to repay their loans from the defendants, and while they executed the Deeds of Absolute Sale dated August 31, 1993 and October 18, 1993 in favor of the defendants, they did not receive the amounts stated therein. The plaintiffs also adduced in evidence Olivia Arafiles' valuation of the property, pegged at P10,270,600.00.<sup>[27]</sup> Julio A. Garcia testified that he was in the house of the plaintiffs and affixed his signature on a document signed by the defendant Manuel Concepcion, quoted, *infra*:

I Manuel Concepcion of legal aged (*sic*), married to Nenita Viado and resident of Bautista Pangasinan have agreed (*sic*) to Mr. And Mrs. Natalio Salonga a resident of Dagupan city to sign a Deed of Sale and I will not registered (*sic*) as long as the spouses Salonga will pay the principal cash involved plus the interest of 3% per month.<sup>[28]</sup>

Felicidad further testified that she and her husband continued residing in their house even after the spouses Concepcion had paid their loans to the creditor banks. However, upon the latter's suggestion, they had the commercial building repainted and leased to a tenant, with the agreement that the rentals would be credited to their (spouses Salonga's) account. The latter paid interests on their account, but the spouses Concepcion refused to issue receipts therefor. Felicidad further declared that on March 10, 1993, Manuel Concepcion arrived in their house and suggested that a deed of sale over the property be executed in their favor while looking for prospective buyers. The spouses Salonga agreed, provided that said deed would not be registered in the Office of the Register of Deeds. Felicidad wrote an undertaking on a piece of paper, in which the spouses Concepcion promised not to register the said deed of sale in the Office of the Register of Deeds. Manuel Concepcion signed the note in the presence of Julio Garcia.<sup>[29]</sup>

Felicidad likewise testified that when she and her husband failed to sell their property and pay their account with the spouses Concepcion, she and her husband executed on August 31, 1993 a deed of sale over five (5) parcels of land previously mortgaged with the Associated Bank, for the latter to assume the right of the creditor banks to collect their loan account and interests; the property will only serve as security for the payment of their account. She further testified that she and her husband did not receive from the defendant the P575,000.00 and P1,500,000.00 stated in the said deeds as the purchase price of the subject properties.

Felicidad further narrated that when her daughter arrived in the Philippines in 1994, they sought to redeem the property from the spouses Concepcion, but the latter informed them that the titles to the property had already been transferred in their names and that the property could be redeemed for P10,000,000.00. In April 1996, they were finally evicted from the property by a sheriff and soldiers.

Manuel Concepcion testified that he and his wife agreed to grant loans to the plaintiffs to enable them to pay their loan account with their creditor banks, with their assurance that they will be able to sell their property within 60 days and pay their accounts plus interests and 5% commission. Despite several extensions