

FIRST DIVISION

[G.R. No. 160408, January 11, 2016]

**SPOUSES ROBERTO AND ADELAIDA PEN, PETITIONERS, VS.
SPOUSES SANTOS AND LINDA JULIAN, RESPONDENTS.**

DECISION

BERSAMIN, J.:

The petitioners who were the buyers of the mortgaged property of the respondents seek the reversal of the decision promulgated on October 20, 2003,^[1] whereby the Court of Appeals (CA) affirmed with modification the adverse judgment rendered on August 30, 1999 by the Regional Trial Court (RTC), Branch 77, in Quezon City.^[2] In their respective rulings, the CA and the RTC both declared the deed of sale respecting the respondents' property as void and inexistent, albeit premised upon different reasons.

Antecedents

The CA summarized the antecedent facts and procedural matters in its assailed decision as follows:

On April 9, 1986, the appellees (the Julians) obtained a P60,000.00 loan from appellant Adelaida Pen. On May 23, 1986 and on the (sic) May 27, 1986, they were again extended loans in the amounts of P50,000.00 and P10,000.00, respectively by appellant Adelaida. The initial interests were deducted by appellant Adelaida, (1) P3,600.00 from the P60,000.00 loan; (2) P2,400.00 from the P50,000.00 loan; and (3) P600.00 from the P10,000.00 loan. Two (2) promissory notes were executed by the appellees in favor of appellant Adelaida to evidence the foregoing loans, one dated April 9, 1986 and payable on June 15, 1986 for the P60,000.00 loan and another dated May 22, 1986 payable on July 22, 1986 for the P50,000.00 loan. Both loans were charged interest at 6% per month. As security, on May 23, 1986, the appellees executed a Real Estate Mortgage over their property covered by TCT No. 327733 registered under the name of appellee Santos Julian, Jr. The owner's duplicate of TCT No. 327733 was delivered to the appellants.

Appellant's version of the subsequent events run as follows: When the loans became due and demandable, appellees failed to pay despite several demands. As such, appellant Adelaida decided to institute foreclosure proceedings. However, she was prevailed upon by appellee Linda not to foreclose the property because of the cost of litigation and since it would cause her embarrassment as the proceedings will be announced in public places at the City Hall, where she has many friends.

Instead, appellee Linda offered their mortgaged property as payment in kind. After the ocular inspection, the parties agreed to have the property valued at P70,000.00. Thereafter, on October 22, 1986 appellee executed a two (2) page Deed of Sale duly signed by her on the left margin and over her printed name. After the execution of the Deed of Sale, appellant Pen paid the capital gains tax and the required real property tax. Title to the property was transferred to the appellants by the issuance of TCT No. 364880 on July 17, 1987. A reconstituted title was also issued to the appellants on July 09, 1994 when the Quezon City Register of Deeds was burned (sic).

On July 1989, appellants allege that appellee Linda offered to repurchase the property to which the former agreed at the repurchase price of P436,115.00 payable in cash on July 31, 1989. The appellees failed to repurchase on the agreed date. On February 1990, appellees again offered to repurchase the property for the same amount, but they still failed to repurchase. On June 28, 1990, another offer was made to repurchase the property for the same amount. Appellee Linda offered to pay P100,000.00 in cash as sign of good faith. The offer was rejected by appellant Adelaida. The latter held the money only for safekeeping upon the pleading of appellee Linda. Upon the agreement of the parties, the amount of P100,000.00 was deducted from the balance of the appellees' indebtedness, so that as of October 15, 1997, their unpaid balance amounted to P319,065.00. Appellants allege that instead of paying [the] said balance, the appellees instituted on September 8, 1994 the civil complaint and filed an adverse claim and lis pendens which were annotated at the back of the title to the property.

On the other hand, the appellees aver the following: At the time the mortgage was executed, they were likewise required by the appellant Adelaida to sign a one (1) page document purportedly an "Absolute Deed of Sale". Said document did not contain any consideration, and was "undated, unfilled and unnotarized". They allege that their total payments amounted to P115,400.00 and that their last payment was on June 28, 1990 in the amount of P100,000.00.

In December 1992, appellee Linda Julian offered to pay appellant Adelaida the amount of P150,000.00. The latter refused to accept the offer and demanded that she be paid the amount of P250,000.00. Unable to meet the demand, appellee Linda desisted from the offer and requested that she be shown the land title which she conveyed to the appellee Adelaida, but the latter refused. Upon verification with the Registry of Deeds of Quezon City, she was informed that the title to the mortgaged property had already been registered in the name of appellee Adelaida under TCT No. 364880, and that the transfer was entered on July 17, 1987. A reconstituted title, TCT No. RT-45272 (364880), also appeared on file in the Registry of Deeds replacing TCT No. 364880.

By reason of the foregoing discoveries, appellee filed an Affidavit of Adverse Claim on January 1993. Counsel for the appellees, on August 12, 1994, formally demanded the reconveyance of the title and/or the property to them, but the appellants refused. In the process of obtaining

other documents; the appellees also discovered that the appellants have obtained several Declarations of Real Property, and a Deed of Sale consisting of two (2) pages which was notarized by one Atty. Cesar Ching. Said document indicates a consideration of P70,000.00 for the lot, and was made to appear as having been executed on October 22, 1986. On September 8, 1994, appellees filed a suit for the Cancellation of Sale, Cancellation of Title issued to the appellants; Recovery of Possession; Damages with Prayer for Preliminary Injunction. The complaint alleged that appellant Adelaida, through obvious bad faith, maliciously typed, unilaterally filled up, and caused to be notarized the Deed of Sale earlier signed by appellee Julian, and used this spurious deed of sale as the vehicle for her fraudulent transfer unto herself the parcel of land covered by TCT No. 327733.^[3]

Judgment of the RTC

In its judgment rendered on August 30, 1999,^[4] the RTC ruled in favor of the respondents. According greater credence to the version of the respondents on the true nature of their transaction, the trial court concluded that they had not agreed on the consideration for the sale at the time they signed the deed of sale; that in the absence of the consideration, the sale lacked one of the essential requisites of a valid contract; that the defense of prescription was rejected because the action to impugn the void contract was imprescriptible; and that the promissory notes and the real estate mortgage in favor of the petitioners were nonetheless valid, rendering the respondents liable to still pay their outstanding obligation with interest.

The RTC disposed thusly:

WHEREFORE, judgment is hereby rendered:

1. Declaring the Deed of Sale, dated October 22, 1986, void or inexistent;
2. Cancelling TCT No. RT-45272 (364480) and declaring it to be of no further legal force and effect;
3. Ordering the defendants to reconvey the subject property to the plaintiffTs and to deliver to them the possession thereof; and
4. Ordering the plaintiffs to pay to the defendants the unpaid balance of their indebtedness plus accrued interest totaling P319,065.00 as of October 15, 1997, plus interests at the legal rate counted from the date of filing of the complaint and until the full payment thereof, without prejudice to the right of the defendants to foreclose the mortgage in the event that plaintiffTs will fail to pay their obligation.

No pronouncement as to cost.

SO ORDERED.^[5]

Decision of the CA

On appeal by the petitioners, the CA affirmed the RTC with modification under its assailed decision of October 20, 2003,^[6] decreeing:

WHEREFORE, premises considered, the Decision of the Regional Trial Court of Quezon City is AFFIRMED WITH modification. Judgement is hereby rendered:

- a. Declaring the Deed of Sale, dated October 22, 1986, void or inexistent;
- b. Cancelling TCT No. RT-45272 (364880) and declaring it to be of no further legal force and effect;
- c. Ordering the appellants-defendants to reconvey the subject property to the plaintiffs-appellees and to deliver to them the possession thereof; and
- d. Ordering the plaintiffs-appellees to pay to the defendants the unpaid balance of their indebtedness, P43,492.15 as of June 28, 1990, plus interests at the legal rate of 12% per annum from said date and until the full payment thereof, without prejudice to the right of the defendants to foreclose the mortgage in the event that plaintiffs-appellees will fail to pay their obligation.

SO ORDERED.^[7]

The CA pronounced the deed of sale as void but not because of the supposed lack of consideration as the RTC had indicated, but because of the deed of sale having been executed at the same time as the real estate mortgage, which rendered the sale as a prohibited *pactum commissorium* in light of the fact that the deed of sale was blank as to the consideration and the date, which details would be filled out upon the default by the respondents; that the promissory notes contained no stipulation on the payment of interest on the obligation, for which reason no monetary interest could be imposed for the use of money; and that compensatory interest should instead be imposed as a form of damages arising from Linda's failure to pay the outstanding obligation.

Issues

In this appeal, the petitioners posit the following issues, namely: (1) whether or not the CA erred in ruling against the validity of the deed of sale; and (2) whether or not the CA erred in ruling that no monetary interest was due for Linda's use of Adelaida's money.

Ruling of the Court