

SECOND DIVISION

[G.R. No. 201070, August 01, 2016]

**LUZ S. NICOLAS, PETITIONER, VS. LEONORA C. MARIANO,
RESPONDENT.**

D E C I S I O N

DEL CASTILLO, J.:

When both parties are in *pari delicto* or in equal fault, none of them may expect positive relief from the courts in the interpretation of their agreement; instead, they shall be left as they were at the time the case was filed.

This Petition for Review on *Certiorari*^[1] assails the Court of Appeals' (CA) June 21, 2011 Decision^[2] and March 1, 2012 Resolution^[3] denying herein petitioner's Motion for Partial Reconsideration^[4] in CA-G.R. CV No. 93532.

Factual Antecedents

The CA's summation of the facts is hereby adopted, thus:

The subject of the instant controversy is the one-half portion of a 155-square meter parcel of land known as Lot 13-A, Block 40 located at 109 Kapayapaan Street, Bagong Barrio, Caloocan City and covered by *Transfer Certificate of Title No. (TCT) No. C-44249*. The parcel of land is part of the National Housing Authority's (NHA) Bagong Barrio Project and built thereon is plaintiff-appellee Leonora Mariano's^[5] five-unit apartment which she leases out to tenants.

In 1972, Leonora Mariano filed with the NHA *Application No. 99-02-0323* for a land grant under the Bagong Barrio Project. In 1978, the NHA approved the *Application*, thus, her institution as grantee of the foregoing parcel of land. The grant, however, is subject to a mortgage inscribed as *Entry No. 98464/C-39393* on the dorsal side of *TCT No. C-44249, viz[.]*:

— NATIONAL HOUSING AUTHORITY —

TO GUARANTEE A PRINCIPAL XXX (illegible) IN THE SUM OF P36,036.10 PAYABLE WITHIN TWENTY FIVE (25) YEARS WITH ANNUAL INTEREST OF TWELVE (12%) PERCENT UNTIL FULLY PAID IN THREE HUNDRED (300) EQUAL MONTHLY INSTALLMENTS.xxx

DATE OF INSTRUMENT - Feb. 12, 1981

DATE OF INSCRIPTION - May 8, 1981

and further subject to a *proviso*, proscribing any transfer or encumbrance of said parcel of land, *viz*[.]:

"EXCEPT BY HEREDITARY SUCCESSION, THE HEREIN LOT OR ANY PART THEREOF CANNOT BE xxx (illegible), TRANSFERRED, OR ENCUMBERED WITHIN FIVE (5) YEARS FROM THE DATE OF RELEASE OF THE MORTGAGE INSCRIBED AT THE BACK HEREOF WITHOUT PRIOR WRITTEN CONSENT AND AUTHORITY FROM THE NATIONAL HOUSING AUTHORITY."

Accordingly, the NHA withheld conveyance of the original *TCT No. C-44249* to Leonora Mariano, furnishing her instead a photocopy thereof as the issuance of the original *TCT* in her name is conditioned upon her full payment of the mortgage loan. Leonora Mariano's last payment was in February 1999. The NHA's *Statement of Account* indicates that as of September 30, 2004, Leonora Mariano's outstanding obligation amounted to P37,679.70. Said obligation remained unpaid.

On January 28, 1998, Leonora Mariano obtained a P100,000.00 loan from defendant-appellant Luz Nicolas^[6] with a payment term often (10) months at the monthly interest rate of 7%. To secure the loan, she executed a *Mortgage Contract* over the subject property, comprising the one-half portion of the parcel of land.

On February 22, 1999, Leonora Mariano, having defaulted in the payment of her obligation, executed in favor of Luz Nicolas a second mortgage deed denominated as *Sanglaan ng Lupa at Bahay*, this time mortgaging the subject property and the improvements thereon for a consideration of P552,000.00 inclusive of the original loan of P100,000.00. The *Sanglaan ng Lupa at Bahay* provides for a payment term of one (1) year and contains the following stipulations:

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1. Na kung sakali at mabayaran ng UNANG PAMG ang IKALAWANG PANIG o ang kahalili nito ang nabanggit na pagkakautang na halagang Limang Daan Limamput Dalawang Libong Piso (P552,000.00), salaping Pilipino, kasama ang interes o tubo, sa loob ng taning na panahon, ay mawalan ng bisa at saysay ang SANGLAANG ito;

2. Na kapag hindi nabayaran ng UNANG PANIG sa IKALAWANG PANIG ang buong halagang pagkakautang na nabanggit sa itaas, ay ituturing ng ma[g]kabilang panig na ang lupa at bahay na nakasangla ay nabili at pagmamay-ari na ng IKALAWANG PANIG at sumasang-ayon ang UNANG PANIG na magsagawa ng kaukulang Kasulatan ng Bilihan na wala nang karagdagang bayad o halagang ibinibigay sa nagsangla.

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On June 7, 2000, Leonora Mariano, similarly defaulting on the second obligation, executed a deed of *Absolute Sale of Real Property*, conveying to Luz Nicolas the ownership of the subject property and the improvements thereon for a purchase price of P600,000.00. A document denominated *Pagtanggap ng Kabuang Halaga*, executed before Punong Barangay Crispin C. Peña, Sr. attested to the full payment of the P600,000.00 to Leonora Mariano. It appears that from June 1999, the tenants of Leonora Mariano's five-unit apartment have been remitting monthly rentals to Luz Nicolas in the amount of P2,000.00, or P10,000.00 in the aggregate. From said period until June 2004, Luz Nicolas' rental collection amounted to P600,000.00.^[7] (Emphasis in the original)

Ruling of the Regional Trial Court

On July 8, 2004, Leonora C. Mariano (Mariano) sued Luz S. Nicolas (Nicolas) before the Regional Trial Court of Caloocan City (RTC). In her Amended Complaint^[8] for "Specific Performance with Damages and with Prayer for the Issuance of a Temporary Restraining Order and thereafter a Permanent Mandatory Injunction" before RTC Branch 121, Mariano sought to be released from the second mortgage agreement and stop Nicolas from further collecting upon her credit through the rentals from her apartments, claiming that she has fully paid her debt. In addition, she prayed for other actual damages, moral damages, attorney's fees, and injunctive relief.

In her Answer,^[9] Nicolas denied that she collected rentals from Mariano's apartments; that Mariano's debt remained unpaid; that the subject property and the improvements thereon were later sold to her via a deed of absolute sale executed by Mariano which, however, did not bear the written consent of the latter's husband; and that as a result of the sale, she obtained the right to collect the rentals from the apartment tenants. Nicolas thus prayed that Mariano be ordered to surrender the title to the subject property to her, and to pay her moral and exemplary damages and costs.

After trial, the trial court issued its Decision^[10] in Civil Case No. C-20937 dated August 26, 2009, decreeing as follows:

The Court is inclined to believe that what had been entered into by and between the parties was a mere contract of mortgage of real property and not a sale of real property.

The Court could not uphold the validity of the Deed of Absolute Sale of Real Property dated June 7, 2000 because it is tainted with flaws and defects. There is no evidence that the parties have given their consent thereto. A careful scrutiny of the document will readily show that at the time of the execution thereof there was no consideration for the sale of the property. The alleged vendor, plaintiff herein, made it appear that she received the sum of Php600,000.00 in foil and in her complete satisfaction from the alleged vendee, herein defendant. The lack of consideration was likewise bolstered by the defendant's production of the handwritten memorandum or note of the various amounts allegedly received by the aforesaid defendant from the plaintiff on different

occasions. It is important to stress, however, that even admitting arguendo that several amounts were received by the plaintiff from the defendant, there has not been any indication that the same were intended as consideration for the sale of the property in question. xxx It has been observed also that the alleged payments occurred long after the execution of the Deed of Sale, or a span of four (4) months to be more exact No less than the barangay captain had categorically declared that he did not see that the defendant even handed over the amount of Php600,000.00 to the plaintiff. Moreover, a scrutiny of the aforesaid fictitious Deed of Absolute Sale of Real Property will readily show that it did not even specifically described [sic] the subject-matter of the alleged sale.

There are two sets of mortgage contracts executed by the parties herein. One in the amount of Php100,000.00 with an interest of 7% payable in ten (10) month period and the other one in a jacked up price of Php552,000.00 payable within a period of one (1) year from its execution. The plaintiffs contention that the unpaid obligation in the amount of Php100,000.00 has already been consolidated to the jacked up amount of Php552,000.00 is tenable. Anent the claim of the defendant that the plaintiff never paid her, such alleged failure however could not be attributed to the fault of the plaintiff considering that the latter had been tendering her payments not only once but for several times and it was the defendant who refused to accept the payments for various reasons. It is crystal clear that the defendant's refusal to accept the payments which were tendered by the plaintiff was nothing but a malicious scheme devised by the defendant to make the plaintiffs obligation ballooned [sic] to Php552,000.00, which would make it more difficult for the plaintiff to pay the increased amount of Php552,000.00 in lump sum. Hie actuations displayed by the defendant is indeed a downright manifestation of bad faith on her part in her desire to own the property belonging to herein plaintiff, which is in brazen violation of Article 19 of the Civil Code, which provides among others that 'Every person must in the exercise of his right and in the performance of his duties act with justice, give everyone his due and observe honesty and good faith.' Be that as it may, the plaintiff, despite her vigorous protestation to the jacked up amount of Php552,000.00 had agreed to sign the second mortgage denominated as '*Sanglaan Ng Bahay At Lupa*' payable within a period of one (1) year. Apparently, the defendant's consuming aspiration to push the plaintiff against the wall, had even accentuated when she demanded payment of the aforestated sum from the herein plaintiff even before its maturity.

It is important to stress however, that in plaintiffs sincere desire to settle her obligation, upon request of the defendant, had even executed a Special Power of Attorney in favor of the latter, authorizing the aforesaid defendant to collect the rentals from the five-door apartment belonging to the plaintiff, which commenced from June 1999 up to June 2004. Although the defendant assured the plaintiff that the payments by way of rentals would be applied to the indebtedness of the plaintiff, such verbal agreement was never reduced in writing in view of the trust and confidence reposed by the plaintiff upon the defendant.

In sum, the defendant was able to collect the total amount of Php612,000.00 from the tenants of the plaintiff, which evidently tremendously exceeded the amount of the alleged indebtedness of the plaintiff to the defendant in the increased amount of Php552,000.00.

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There is no doubt that the plaintiff has suffered mental anguish and injury due to the wrongful act done by the defendant against the plaintiff. Hence, the latter is entitled to an award of moral damages inasmuch as the sufferings and injuries suffered by the plaintiff are the proximate result of the defendant's wrongful act or omission (*Art. 2217, Civil Code of the Philippines*). However, the amount of moral damages suffered by the plaintiff in the amount of Php400,000.00 is unconscionable which must have to be reduced by the court.

WHEREFORE, premises considered, judgment is hereby rendered in favor of the plaintiff and against the defendant by:

1. Ordering the cancellation of the two (2) mortgages denominated as Mortgage Contract and the *Sanglaan Ng Lupa At Bahay*, thus releasing the plaintiff from her obligation relative thereto;
2. Ordering the defendant, to stop collecting further monthly rentals on the five-door apartment belonging to the plaintiff from the tenants of the latter; and,
3. To pay moral damages in the amount of Php100,000.00, and,
4. To pay the costs of suit.

SO ORDERED.^[11]

Ruling of the Court of Appeals

Nicolas filed an appeal before the CA, docketed as CA-G.R. CV No. 93532. In its assailed June 21, 2011 Decision, however, the CA ruled against Nicolas, stating thus:

Aggrieved, Luz Nicolas interposed this appeal, raising the following assignment of errors:

I

THE TRIAL COURT ERRED IN DECLARING THE DEED OF SALE AS NULL AND VOID FOR LACK OF CONSIDERATION;

II

THE TRIAL COURT ERRED IN RELEASING THE APPELLEE FROM HER OBLIGATION TO THE APPELLANT AND CANCELING THE