

THIRD DIVISION

[G.R. No. 199852, November 12, 2014]

**SPS. FELIPE SOLITARIOS AND JULIA TORDA, PETITIONERS, VS.
SPS. GASTON JAQUE AND LILIA JAQUE, RESPONDENTS.**

D E C I S I O N

VELASCO JR., J.:

Nature of the Case

In this Petition for Review on Certiorari under Rule 45 of the Rules of Court, petitioners spouses Felipe Solitarios and Julia Torda (spouses Solitarios) seek the reversal of the August 31, 2010 Decision and November 24, 2011 Resolution of the Court of Appeals (CA) in CA-G.R. CEB-CV No. 00112, which in turn set aside the Decision of the Regional Trial Court of Calbayog City, Branch 31 (RTC), in Civil Case No. 772.

The Facts

The property subject of this suit is a parcel of agricultural land designated as Lot 4089, consisting of 40,608 square meters (sq. m.), and located in Calbayog, Samar. It was originally registered in the name of petitioner Felipe Solitarios under Original Certificate of Title (OCT) No. 1249, and, thereafter, in the name of the respondents, spouses Gaston and Lilia Jaque (the Jaques), under Transfer Certificate of Title (TCT) No. 745.

In a Complaint for Ownership and Recovery of Possession with the RTC of Calbayog City, the respondents spouses Jaque alleged that they purchased Lot 4089 from the petitioners, spouses Solitarios in stages. According to respondents, they initially bought one-half of Lot No. 4089 for P7,000.00. This sale is allegedly evidenced by a notarized Deed of Sale dated May 8, 1981. Two months later, the spouses Solitarios supposedly mortgaged the remaining half of Lot 4089 to the Jaques via a Real Estate Mortgage (REM) dated July 15, 1981, to secure a loan amounting to P3,000.00.

After almost two (2) years, the spouses Solitarios finally agreed to sell the mortgaged half. However, instead of executing a separate deed of sale for the second half, they executed a Deed of Sale dated April 26, 1983 for the whole lot to save on taxes, by making it appear that the consideration for the sale of the entire lot was only P12,000.00 when the Jaques actually paid P19,000.00 in cash and condoned the spouses Solitarios' P3,000.00 loan.

On the basis of this second notarized deed, the Jaques had OCT No. 1249 cancelled and registered Lot 4089 in their name under Transfer Certificate of Title (TCT) No. 745.

In spite of the sale, the Jaques, supposedly out of pity for the spouses Solitarios, allowed the latter to retain possession of Lot 4089, subject only to the condition that the spouses Solitarios will regularly deliver a portion of the property's produce. In an alleged breach of their agreement, however, the spouses Solitarios stopped delivering any produce sometime in 2000. Worse, the spouses Solitarios even claimed ownership over Lot 4089. Thus, the Jaques filed the adverted complaint with the RTC.

For their part, the spouses Solitarios denied selling Lot 4089 and explained that they merely mortgaged the same to the Jaques after the latter helped them redeem the land from the Philippine National Bank (PNB).

The spouses Solitarios narrated that, way back in 1975, they obtained a loan from PNB secured by a mortgage over Lot 4089. They were able to pay this loan and redeem their property with their own funds. Shortly thereafter, in 1976, they again mortgaged their property to PNB to secure a P5,000.00 loan. This time, the Jaques volunteered to pay the mortgage indebtedness, including interests and charges and so gave the spouses Solitarios P7,000.00 for this purpose.

However, this accommodation was made, so the spouses Solitarios add, with the understanding that they would pay back the Jaques by delivering to them a portion of the produce of Lot 4089, in particular, one-half of the produce of the rice land and one-fourth of the produce of the coconut land. The spouses Solitarios contended that this agreement was observed by the parties until May 2000, when Gaston Jaque informed them that he was taking possession of Lot 4089 as owner. And to their surprise, Gaston Jaque showed them the Deeds of Sale dated May 8, 1981 and April 26, 1983, the REM contract dated July 15, 1981, and TCT No. 745 to prove his claim. The spouses Solitarios contended that these deeds of sale were fictitious and their signatures therein forged. Further, the spouses Solitarios challenge the validity of TCT No. 745, alleging that the Jaques acquired it through fraud and machinations and by taking advantage of their ignorance and educational deficiency. Thus, they prayed that the RTC: (1) cancel TCT No. 745; (2) declare the adverted deeds of sales dated May 8, 1981 and April 26, 1983 as null and void; (3) declare them the true and lawful owners of Lot 4089; and (4) award them moral and actual damages.

During the course of the trial, and in compliance with the February 7, 2001 Order of the RTC, the spouses Solitarios deposited with the court *a quo* the Jaques' purported share in the produce of Lot 4089 for the years 2001-2003, which amounted to P16,635.60.^[1]

On April 15, 2004, the RTC rendered a Decision^[2] upholding the validity of the deeds of sale in question and TCT No. 745, rejecting the allegations of forgery and fraud. However, in the same breath, the RTC declared that what the parties entered into was actually an equitable mortgage as defined under Article 1602 in relation to Article 1604 of the New Civil Code, and not a sale. Consequently, the RTC ordered, among others, the reformation of the Deeds of Sale dated May 9, 1981 and April 26, 1983, and the cancellation of TCT No. 745 in the name of the Jaques. The dispositive portion of the RTC Decision reads:

WHEREFORE, this Court dismisses the instant case and pronounces Judgment against plaintiffs and hereby orders the following:

1. Reformation of the Deed of Sale dated May 9, 1981 (Exhibit "E") and the Deed of Sale dated April 26, 1983 (Exhibit "G") into contracts of mortgage;
2. Cancellation of TCT No. 745 in the name of spouses Gaston Jaque and Lilia Laure Jaque;
3. Considering the total mortgage debt of Php 12,000.00 as totally paid pursuant to Article 1602 of the New Civil Code;
4. Release of the amounts deposited to the Court by defendants to them minus lawful charges for their safekeeping, if any; and
5. Payment of costs of the proceedings by the plaintiffs.

SO ORDERED.^[3]

The RTC anchored its holding on the nature of the pertinent contracts in question on its findings that: (1) after the alleged sale, the spouses Solitarios remained in possession of the land; (2) the Jaques did not physically occupy Lot 4089; (3) the consideration for the sale of the whole land as stated in the Deed of Sale dated April 26, 1983, was only P12,000.00, an amount grossly inadequate for a titled coconut and rice lands consisting of 40,608 sq. m.; (3) the Jaques did not disturb the possession of Lot 4089 by Leonora Solitarios, Felipe's sister-in-law, who resided therein; and (4) the Jaques never had a tenant in the subject property.

On appeal, the CA^[4] reversed and set aside the RTC Decision, rejecting the trial court's holding that the contract between the parties constituted an equitable mortgage.

The CA noted that the allegation that the transaction is an equitable mortgage and not one of sale was not presented before the trial court and was raised belatedly on appeal. Even then, the CA held that the spouses Solitarios failed to convincingly prove that the deeds of sale were sham, noting that their bare denial as to their authenticity was insufficient to overcome the positive value of the notarized deeds of sale. The CA further found that the spouses Solitarios' claim of inadequacy of the purchase price is unsupported by any evidence on record and that the spouses Solitarios' possession of Lot 4089 after the sale was not in the concept of an owner. In addition, the appellate court gave weight to the fact that the Jaques paid the taxes on Lot 4089 since 1984. The CA, thus, concluded that based on the parties' actuations before, during, and after the transactions, it was unmistakable that they had no other intention but to enter into a contract of sale of Lot 4089.

Their Motion for Reconsideration having thereafter been denied by the CA in its Resolution dated November 24, 2011, the spouses Solitarios^[5] have filed the instant petition.

Issue

From the foregoing narration of facts, it is abundantly clear that the only material point of inquiry is whether the parties effectively entered into a contract of absolute

sale or an equitable mortgage of Lot 4089.

The Court's Ruling

The petition is impressed with merit.

At the outset, We note that, contrary to the finding of the CA, petitioner spouses Solitarios actually presented before the RTC their position that the real agreement between the parties was a mortgage, and not a sale. Being unlettered, petitioners may have averred that the deeds of sale and TCT presented by respondents were forgeries, obtained as they were through fraud and machination. However, their saying that the sale instruments were "fictitious" and their signatures thereon were "forged" amounts to alleging that they never agreed to the sale of their lot, and they never intended to sign such conveyances. This reality is supported by the testimony of petitioner Felipe Solitarios that was offered to prove the true intention of the parties — that Lot 4089 was only mortgaged, not sold, to the Jaques. Before Felipe's direct examination, his counsel stated thus-

"ATTY. MARTIRES

*With the permission of the Court. This witness is one of the defendants; **he will testify that the land was just mortgaged to the plaintiff contrary to the claim of the plaintiff that the defendants sold the same to the plaintiffs; he will also testify that the defendants never executed deed of sale in favor of the plaintiffs; he will also testify that V2 of the produce of the cocoland subject of this case was delivered by the defendants to the plaintiffs and with regards to the riceland, 'A of the produce was also delivered to the plaintiffs; and he will also testify other matters related to this case."**^[6]*

The Court is, therefore, not precluded from looking into the real intentions of the parties in order to resolve the present controversy. For that reason, the Court takes guidance from Article 1370 of the Civil Code, which instructs that "if the words [of a contract] appear to be contrary to the evident intention of the parties, the latter shall prevail over the former." Indeed, it is firmly settled that clarity of contract terms and the name given to it does not bar courts from determining the true intent of the parties. In *Zamora vs. Court of Appeals*,^[7] the Court elucidated 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 executing the agreement.** As such therefore, documentary and parol evidence may be submitted and admitted to prove such intention.*^[8]

Further, in resolving this kind of controversy, the doctrinal teaching of *Reyes vs.*

Court of Appeals^[9] impels us to give utmost consideration to the intention of the parties in light of the relative situation of each, and the circumstances surrounding the execution of the contract, thus:

In determining whether a deed absolute in form is a mortgage, the court is not limited to the written memorials of the transaction. 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 all the surrounding circumstances, such as the relative situation of the parties at that time, the attitude, acts, conduct, declarations of the parties, the negotiations between them leading to the deed, and generally, all pertinent facts having a tendency to fix and determine the real nature of their design and understanding, x x x

There is no single conclusive test to determine whether a deed of sale, absolute on its face, is really a simple loan accommodation secured by a mortgage.^[10] However, Article 1602 in relation to Article 1604 of the Civil Code enumerates several instances when a contract, purporting to be, and in fact styled as, an absolute sale, is presumed to be an equitable mortgage, thus:

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

(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 purchaser retains for himself a part of the purchase price;*

(5) *When the vendor binds himself to pay the taxes on the thing sold;*

(6) *In any other case where it may be fairly inferred that the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation.*

In any of the foregoing cases, any money, fruits, or other benefit to be received by the vendee as rent or otherwise shall be considered as interest which shall be subject to the usury laws.^[11]

Art. 1604. The provisions of Article 1602 shall also apply to a contract purporting to be an absolute sale.