

FIRST DIVISION

[G.R. No. 169055, February 22, 2012]

SPOUSES JOSE AND MILAGROS VILLACERAN AND FAR EAST BANK & TRUST COMPANY, PETITIONERS, VS. JOSEPHINE DE GUZMAN, RESPONDENT.

D E C I S I O N

VILLARAMA, JR., J.:

Before us is a petition for review on certiorari assailing the November 26, 2004 Decision^[1] and June 29, 2005 Resolution^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 71831. The CA had affirmed with modification the Decision^[3] of the Regional Trial Court (RTC), Branch 24, of Echague, Isabela, in Civil Case No. 24-0495 entitled "*Josephine De Guzman vs. Spouses Jose and Milagros Villaceran, et al.*"

The antecedent facts follow:

Josephine De Guzman filed a Complaint^[4] with the RTC of Echague, Isabela against the spouses Jose and Milagros Villaceran and Far East Bank & Trust Company (FEBTC), Santiago City Branch, for declaration of nullity of sale, reconveyance, redemption of mortgage and damages with preliminary injunction. The complaint was later amended to include annulment of foreclosure and Sheriff's Certificate of Sale.

In her Amended Complaint,^[5] De Guzman alleged that she is the registered owner of a parcel of land covered by Transfer Certificate of Title (TCT) No. T-236168,^[6] located in Echague, Isabela, having an area of 971 square meters and described as Lot 8412-B of the Subdivision Plan Psd-93948. On April 17, 1995, she mortgaged the lot to the Philippine National Bank (PNB) of Santiago City to secure a loan of P600,000. In order to secure a bigger loan to finance a business venture, De Guzman asked Milagros Villaceran to obtain an additional loan on her behalf. She executed a Special Power of Attorney in favor of Milagros. Considering De Guzman's unsatisfactory loan record with the PNB, Milagros suggested that the title of the property be transferred to her and Jose Villaceran and they would obtain a bigger loan as they have a credit line of up to P5,000,000 with the bank.

On June 19, 1996, De Guzman executed a simulated Deed of Absolute Sale^[7] in favor of the spouses Villaceran. On the same day, they went to the PNB and paid the amount of P721,891.67 using the money of the spouses Villaceran. The spouses Villaceran registered the Deed of Sale and secured TCT No. T-257416^[8] in their names. Thereafter, they mortgaged the property with FEBTC Santiago City to secure a loan of P1,485,000. However, the spouses Villaceran concealed the loan release from De Guzman. Later, when De Guzman learned of the loan release, she asked for the loan proceeds less the amount advanced by the spouses Villaceran to pay the

PNB loan. However, the spouses Villaceran refused to give the money stating that they are already the registered owners of the property and that they would reconvey the property to De Guzman once she returns the P721,891.67 they paid to PNB.^[9]

De Guzman offered to pay P350,000 provided that the spouses Villaceran would execute a deed of reconveyance of the property. In view of the simulated character of their transaction, the spouses Villaceran executed a Deed of Absolute Sale^[10] dated September 6, 1996 in favor of De Guzman. They also promised to pay their mortgage debt with FEBTC to avoid exposing the property to possible foreclosure and auction sale. However, the spouses Villaceran failed to settle the loan and subsequently the property was extrajudicially foreclosed. A Sheriff's Certificate of Sale was issued in favor of FEBTC for the amount of P3,594,000. De Guzman asserted that the spouses Villaceran should be compelled to redeem their mortgage so as not to prejudice her as the real owner of the property.^[11]

On the other hand, the spouses Villaceran and FEBTC, in their Amended Answer,^[12] averred that in 1996 De Guzman was introduced to Milagros by a certain Digna Maranan. Not long afterwards, De Guzman requested Milagros to help her relative who had a loan obligation with the PNB in the amount of P300,000. As a consideration for the accommodation, De Guzman would convey her property located at Maligaya, Echague, Isabela which was then being held in trust by her cousin, Raul Sison. Because of this agreement, Milagros paid De Guzman's obligation with the PNB in the amount of P300,000.

When Milagros asked for the title of the lot, De Guzman explained that her cousin would not part with the property unless he is reimbursed the amount of P200,000 representing the amount he spent tilling the land. Milagros advanced the amount of P200,000 but De Guzman's cousin still refused to reconvey the property. In order for De Guzman to settle her obligation, she offered to sell her house and lot in Echague, Isabela. At first, Milagros signified her non-interest in acquiring the same because she knew that it was mortgaged with the PNB Santiago for P600,000. De Guzman proposed that they will just secure a bigger loan from another bank using her house and lot as security. The additional amount will be used in settling De Guzman's obligation with PNB. Later, De Guzman proposed that she borrow an additional amount from Milagros which she will use to settle her loan with PNB. To this request, Milagros acceded. Hence, they went to the PNB and paid in full De Guzman's outstanding obligation with PNB which already reached P880,000.^[13]

Since De Guzman's total obligation already reached P1,380,000, the spouses Villaceran requested her to execute a deed of absolute sale over the subject property in their favor. Thus, the Deed of Absolute Sale is supported by a valuable consideration, and the spouses Villaceran became the lawful owners of the property as evidenced by TCT No. 257416 issued by the Office of the Register of Deeds of Isabela. Later, they mortgaged the property to FEBTC for P1,485,000.

The spouses Villaceran denied having executed a deed of conveyance in favor of De Guzman relative to the subject property and asserted that the signatures appearing on the September 6, 1996 Deed of Sale, which purported to sell the subject property back to De Guzman, are not genuine but mere forgeries.^[14]

After due proceedings, the trial court rendered its decision on September 27, 2000.

The RTC ruled that the Deed of Sale dated June 19, 1996 executed by De Guzman in favor of the spouses Villaceran covering the property located in Echague, Isabela was valid and binding on the parties. The RTC ruled that the said contract was a relatively simulated contract, simulated only as to the purchase price, but nonetheless binding upon the parties insofar as their true agreement is concerned. The RTC ruled that De Guzman executed the Deed of Absolute Sale dated June 19, 1996 so that the spouses Villaceran may use the property located in Echague, Isabela as collateral for a loan in view of De Guzman's need for additional capital to finance her business venture. The true consideration for the sale, according to the RTC, was the P300,000 the spouses Villaceran gave to De Guzman plus the P721,891.67 they paid to PNB in order that the title to the subject property may be released and used to secure a bigger loan in another bank.

The RTC also found that although the spouses Villaceran had already mortgaged the subject property with FEBTC and the title was already in the possession of FEBTC -- which facts were known to De Guzman who even knew that the loan proceeds amounting to P1,485,000 had been released -- the spouses Villaceran were nonetheless still able to convince De Guzman that they could still reconvey the subject property to her if she pays the amount they had paid to PNB. The RTC found that the Deed of Sale dated September 6, 1996 was actually signed by the spouses Villaceran although De Guzman was able to pay only P350,000, which amount was stated in said deed of sale as the purchase price. The RTC additionally said that the spouses Villaceran deceived De Guzman when the spouses Villaceran mortgaged the subject property with the understanding that the proceeds would go to De Guzman less the amounts the spouses had paid to PNB. Hence, according to the RTC, the spouses Villaceran should return to De Guzman (1) the P350,000 which she paid to them in consideration of the September 6, 1996 Deed of Sale, which sale did not materialize because the title was in the possession of FEBTC; and (2) the amount of P763,108.33 which is the net proceeds of the loan after deducting the P721,891.67 that the spouses paid to PNB. Thus, the decretal portion of the RTC decision reads:

WHEREFORE, judgment is hereby rendered as follows:

- a) declaring the Deed of Sale, dated June 1996 (Exhibit "B") as valid and binding;
- b) ordering defendants Villaceran to pay to plaintiff the amount of P763,108.33 and P350,000.00 or the total amount of P1,113,108.33 plus the legal rate of interest starting from the date of the filing of this case;
- c) declaring the Extrajudicial Foreclosure and the Certificate of Sale as valid;
- d) ordering defendants Villaceran to pay attorney's fees in the amount of P20,000.00 and to pay the costs of suit.

SO ORDERED. [15]

Aggrieved, the spouses Villaceran appealed to the CA arguing that the trial court erred in declaring the June 19, 1996 Deed of Sale as a simulated contract and ordering them to pay De Guzman P1,113,108.33 plus legal rate of interest and attorney's fees.^[16]

On November 26, 2004, the CA rendered its Decision, the dispositive portion of which reads as follows:

IN VIEW OF ALL THE FOREGOING, the judgment appealed from is hereby **AFFIRMED with MODIFICATION**, to read as follows:

WHEREFORE, judgment is hereby rendered as follows:

1. Declaring the Deed of Sale dated June 16, 1996 (*Exh. "B"*) and September 6, 1996, as not reflective of the true intention of the parties, as the same were merely executed for the purpose of the loan accommodation in favor of the plaintiff-appellee by the defendants-appellants;
2. Ordering defendants-appellants Villaceran to pay plaintiff-appellee the difference between the *FEBTC* loan of P1,485,000.00 less P721,891.67 (used to redeem the *PNB* loan), plus legal interest thereon starting from the date of the filing of this case;
3. Declaring the extrajudicial foreclosure and certificate of sale in favor of *FEBTC*, as valid; and
4. For the appellants to pay the costs of the suit.

SO ORDERED.^[17]

The CA ruled that the RTC was correct in declaring that there was relative simulation of contract because the deeds of sale did not reflect the true intention of the parties. It found that the evidence established that the documents were executed for the purpose of an agency to secure a higher loan whereby the spouses Villaceran only accommodated De Guzman. However, the CA did not find any evidence to prove that De Guzman actually parted away with the P350,000 as consideration of the reconveyance of the property. Thus, it held the trial court erred in ordering the spouses Villaceran to return the P350,000 to De Guzman.

Furthermore, the CA observed that the spouses Villaceran were the ones who redeemed the property from the mortgage with *PNB* by paying P721,891.67 so that De Guzman's title could be released. Once registered in their name, the spouses Villaceran mortgaged the property with *FEBTC* for P1,485,000. With the loan proceeds of P1,485,000, there was no need for the spouses Villaceran to demand for the return of the P721,891.67 they paid in releasing the *PNB* loan before the property is reconveyed to De Guzman. All they had to do was to deduct the amount of P721,891.67 from the P1,485,000 *FEBTC* loan proceeds. Hence, the CA ruled that only the balance of the P1,485,000 loan proceeds from *FEBTC* minus the