

THIRD DIVISION

[G.R. No. 158377, August 13, 2010]

HEIRS OF JOSE REYES, JR., NAMELY: MAGDALENA C. REYES, OSCAR C. REYES, GAMALIEL C. REYES, NENITA R. DELA CRUZ, RODOLFO C. REYES, AND RODRIGO C. REYES, PETITIONERS, VS. AMANDA S. REYES, CONSOLACION S. REYES, EUGENIA R. ELVAMBUENA, LUCINA R. MENDOZA, PEDRITO S. REYES, MERLINDA R. FAMODULAN, EDUARDO S. REYES, AND JUNE S. REYES, RESPONDENTS.

D E C I S I O N

BERSAMIN, J.:

The petitioners^[1] assail the decision dated July 31, 2002 rendered in C.A.-G.R. CV No. 53039,^[2] by which the Court of Appeals (CA) affirmed the decision dated May 21, 1996 of the Regional Trial Court (RTC), Branch 9, in Malolos, Bulacan.^[3]

Antecedents

Antonio Reyes and his wife, Leoncia Mag-isa Reyes (Leoncia), were owners of a parcel of residential land with an area of 442 square meters, more or less, located in Pulilan, Bulacan and covered by Tax Declaration No. 7590. On that land they constructed their dwelling. The couple had four children, namely: Jose Reyes, Sr. (Jose, Sr.), Teofilo Reyes (Teofilo), Jose Reyes, Jr. (Jose, Jr.) and Potenciana Reyes-Valenzuela (Potenciana). Antonio Reyes died intestate, and was survived by Leoncia and their three sons, Potenciana having predeceased her father. Potenciana also died intestate, survived by her children, namely: Gloria Reyes Valenzuela, Maria Reyes Valenzuela, and Alfredo Reyes Valenzuela. Jose, Jr., and his family resided in the house of the parents, but Teofilo constructed on the property his own house, where he and his family resided.

On July 9, 1955, Leoncia and her three sons executed a deed denominated *Kasulatan ng Biling Mabibiling Muli*,^[4] whereby they sold the land and its existing improvements to the Spouses Benedicto Francia and Monica Ajoco (Spouses Francia) for P500.00, subject to the vendors' right to repurchase for the same amount *sa oras na sila'y makinabang*. Potenciana's heirs did not assent to that deed. Nonetheless, Teofilo and Jose, Jr. and their respective families remained in possession of the property and paid the realty taxes thereon.

Leoncia and her children did not repay the amount of P500.00.

The Spouses Francia both died intestate (*i.e.*, Monica Ajoco on September 16, 1963, and Benedicto Francia on January 13, 1964).

Alejandro Reyes (Alejandro), the son of Jose, Sr., first partially paid to the Spouses

Francia the amount of P265.00 for the obligation of Leoncia, his uncles and his father. Alejandro later paid the balance of P235.00. Thus, on August 11, 1970, the heirs of Spouses Francia executed a deed entitled *Pagsasa-ayos ng Pag-aari at Pagsasalin*,^[5] whereby they transferred and conveyed to Alejandro all their rights and interests in the property for P500.00.

On August 21, 1970, Alejandro executed a *Kasulatan ng Pagmeme-ari*,^[6] wherein he declared that he had acquired all the rights and interests of the heirs of the Spouses Francia, including the ownership of the property, after the vendors had failed to repurchase within the given period. On the basis of the *Kasulatan ng Pagmeme-ari*, Tax Declaration No. 3703 covering the property^[7] was canceled by Tax Declaration No. 8715,^[8] effective 1971, issued to Alejandro. From then on, he had paid the realty taxes for the property.

Nevertheless, on October 17, 1970, Alejandro, his grandmother (Leoncia), and his father (Jose, Sr.) executed a *Magkakalakip na Salaysay*,^[9] by which Alejandro acknowledged the right of Leoncia, Jose, Jr., and Jose, Sr. to repurchase the property at any time for the same amount of P500.00.

On October 22, 1970, Leoncia died intestate.^[10] She was survived by Jose, Sr., Teofilo, Jose, Jr. and the heirs of Potenciana. Even after Leonica's death, Teofilo and Jose, Jr., with their respective families, continued to reside in the property.

Subsequently, Tax Declaration 1228,^[11] under the name of Alejandro, was issued effective 1980. All of Leoncia's sons eventually died intestate, survived by their respective heirs, namely:

Name of Decedent	Surviving Heirs
Teofilo	Romeo Reyes, Leonardo Reyes, and Leonora C. Reyes
Jose, Jr.	Rodrigo Reyes, Nenita Reyes-dela Cruz, Rodolfo Reyes, Oscar Reyes, Gamaliel Reyes, Magdalena Reyes (petitioners herein), Efren Reyes and Amado Reyes dela Cruz
Jose, Sr.	Alejandro Reyes (respondents' predecessor) ^[12]

On September 2, 1993, Alejandro also died intestate.^[13] Surviving him were his wife, Amanda Reyes, and their children, namely: Consolacion Reyes, Eugenia Reyes-Elvambuena, Luciana Reyes-Mendoza, Pedrito S. Reyes, Merlinda Reyes-Famodulan, Eduardo Reyes and June S. Reyes (respondents herein).

In 1994, respondent Amanda Reyes asked the heirs of Teofilo and Jose, Jr., to vacate the property because she and her children already needed it. After the petitioners refused to comply, she filed a complaint against the petitioners in the *barangay*, seeking their eviction from the property. When no amicable settlement was reached, the Barangay Lupon issued a *certification to file action* to the respondents on September 26, 1994.^[14]

In the interim, petitioner Nenita R. de la Cruz and her brother Romeo Reyes also constructed their respective houses on the property.^[15]

RTC Proceedings and Ruling

On September 28, 1994, the respondents initiated this suit for quieting of title and reconveyance in the RTC.^[16] The complaint, docketed as Civil Case No. 817-M-94 and entitled *Amanda Reyes, et al. v. Heirs of Jose Reyes, Jr., et al.*, was later amended.^[17] They alleged that their predecessor Alejandro had acquired ownership of the property by virtue of the deed *Pagsasa-ayos ng Pag-aari at Pagsasalin* executed on August 11, 1970 by the heirs of the Spouses Francia; that on the basis of such deed of assignment, Alejandro had consolidated his ownership of the property *via* his *Kasulatan ng Pagmeme-ari*; and that under the *Magkasanib na Salaysay*, Alejandro had granted to Leoncia, his father Jose, Sr., and his uncles, Teofilo and Jose, Jr. the right to repurchase the property, but they had failed to do so.

The respondents prayed for judgment in their favor, as follows:

WHEREFORE, it is respectfully prayed that judgment be rendered:

1. Quieting the title to the property by declaring the plaintiffs (*respondents herein*) as the rightful and lawful owners thereof;
2. Ordering the defendants (*petitioners herein*) to vacate subject premises and reconvey and or surrender possession thereof to the plaintiffs;
3. Ordering the defendants to recognize the right of the plaintiffs as the lawful owners of subject property;
4. Ordering the defendants to pay plaintiffs the following:
 - a. Moral damages in the amount of P50,000.00;
 - b. Exemplary damages in the amount of P20,000.00;
 - c. Attorney's fees of P20,000.00, acceptance fee of P10,000.00 and P500.00 per recorded Court appearance of counsel;
 - d. The costs of this suit.

Plaintiffs further pray for such other relief which the Honorable Court may deem just and equitable under the premises.^[18]

In their answer,^[19] the petitioners averred that the *Kasulatan ng Biling Mabibiling Muli* was an equitable mortgage, not a *pacto de retro* sale; that the mortgagors had retained ownership of the property; that the heirs of the Spouses Francia could not

have validly sold the property to Alejandro through the *Pagsasaayos ng Pag-aari at Pagsasalin*; that Alejandro's right was only to seek reimbursement of the P500.00 he had paid from the co-owners, namely: Leoncia, Teofilo, Jose, Jr. and Jose, Sr. and the heirs of Potenciana; and that Alejandro could not have also validly consolidated ownership through the *Kasulatan ng Pagmeme-ari*, because a consolidation of ownership could only be effected *via* a court order.

The petitioners interposed a counterclaim for the declaration of the transaction as an equitable mortgage, and of their property as owned in common by all the heirs of Leoncia, Teofilo, Jose, Jr. and Jose, Sr.

On May 21, 1996, the RTC ruled in favor of the respondents, declaring that Alejandro had acquired ownership of the property in 1965 by operation of law upon the failure of the petitioners' predecessors to repurchase the property; that the joint affidavit executed by Alejandro, Leoncia and Jose, Jr. and Jose, Sr., to extend the period of redemption was inefficacious, because there was no more period to extend due to the redemption period having long lapsed by the time of its execution; and that the action should be dismissed insofar as the heirs of Potenciana were concerned, considering that Potenciana, who had predeceased her parents, had no successional rights in the property.

Accordingly, the RTC decreed as follows:

WHEREFORE, on the basis of the evidence adduced and the law/jurisprudence applicable thereon, judgment is hereby rendered:

- a) sustaining the validity of the "*Kasulatan ng Biling Mabibiling Muli*" (Exh. B/Exh. 1) executed on July 9, 1955 by Leoncia Mag-isa and her sons Teofilo, Jose, Sr. and Jose, Jr., all surnamed Reyes, in favor of Spouses Benedicto Francia and Monica Ajoco as well as the "*Pagsasaayos ng Pag-aari at Pagsasalin*" (Settlement of Estate and Assignment) [Exh. C/Exh. 4] executed on August 11, 1970 by the heirs of spouses Benedicto Francia and Monica Ajoco in favor of the spouses Alejandro Reyes and Amanda Salonga;
- b) declaring the aforementioned "*Kasulatan Ng Biling Mabibili Muli*" (Exh. B/ Exh. 1) to be a contract of sale with right to repurchase and not an equitable mortgage;
- c) confirming the consolidation of ownership, by operation of law, of spouses Alejandro M. Reyes and Amanda Salonga over the residential lot mentioned and referred to in Exhibit B/Exhibit 1 and Exhibit C/Exhibit 4;
- d) allowing the registration with the Registry of Deeds for the Province of Bulacan of the "*Kasulatan ng Pagmeme-ari*" (Document of Ownership) [Exh. E/Exh. 5] executed by Alejandro M. Reyes on August 21, 1970 or of any appropriate deed of consolidation of ownership over the residential lot covered by Exhibit E/Exhibit 5 which the plaintiffs, as eventual owners by succession of the aforementioned property, may deem proper to execute;

e) ordering the defendants and all persons claiming rights under them to vacate the residential lot subject of the above-entitled case and to restore possession thereof unto the plaintiffs;

f) directing the defendants (except the heirs of Potenciana Reyes-Valenzuela) to pay unto the plaintiffs the amount of P20,000.00 as attorney's fees; and

g) dismissing the complaint in so far as the defendant heirs of Potenciana Reyes-Valenzuela are concerned as well as their counterclaim for damages and attorney's fees.

No pronouncement as to costs.

SO ORDERED. [20]

Aggrieved, the petitioners appealed to the CA.

CA Ruling

In the CA, the petitioners assailed the RTC's dispositions, except the dismissal of the complaint as against Potenciana's heirs.

In its decision dated July 31, 2002, the CA ruled that the transaction covered by the *Kasulatan ng Biling Mabibiling Muli* was not a *pacto de retro sale* but an equitable mortgage under Article 1602 of the *Civil Code*; that even after the deed's execution, Leoncia, Teofilo, Jose, Jr. and their families had remained in possession of the property and continued paying realty taxes for the property; that the purported vendees had not declared the property for taxation purposes under their own names; and that such circumstances proved that the parties envisaged an equitable mortgage in the *Kasulatan ng Biling Mabibiling Muli*.

The CA observed that the heirs of the Spouses Francia had themselves admitted in paragraph 5 of the *Pagsasa-ayos ng Pag-aari at Pagsasalin* that the property had been mortgaged to their predecessors-in-interest, viz:

Na, sa oras ng kamatayan ay nakaiwan sila ng isang lagay *na lupang nakasanla sa kanila* na makikilala sa kasulatang kalakip nito sa halagang LIMANG DAANG PISO (P500.00). Ngunit nuong nabubuhay pa ang magasawang Benedicto Francia at Monica Ajoco ay nakatanggap na ng halagang P265.00 kay Alejandro Reyes - Filipino, kasal kay Amanda Salonga, may sapat na gulang at naninirahan sa Pulilan, Bulacan. [21]

However, the CA held that the appellants' (petitioners herein) failure to file an action for the reformation of the *Kasulatan ng Biling Mabibiling Muli* to reflect the true intention of the parties within ten years from the deed's execution on July 9, 1955, pursuant to Article 1144 of the *Civil Code*, [22] already barred them from claiming that the transaction executed between Leoncia and her children, on one hand, and the Spouses Francia, on the other hand, was an equitable mortgage. The CA agreed