

SECOND DIVISION

[G.R. No. 172771, January 31, 2008]

SPS. ESTER SANTIAGO & DOMINGO CRISTOBAL, IMELDA SANTIAGO & JHONY TAI AND JOSE SANTIAGO & EVELYN DAMIN AND ELIZABETH SANTIAGO, Petitioners, vs. AIDA G. DIZON, Respondent.

DECISION

CARPIO MORALES, J.:

Aida G. Dizon (respondent) mortgaged to Monte de Piedad Mortgage and Savings Bank (Monte de Piedad) a 168.6-square meter parcel of land, which was registered in her name under Transfer Certificate of Title No. 132499, including the two-storey apartment (the property) built thereon, to secure a P265,000 loan.

Respondent failed to settle the loan, drawing Monte de Piedad to foreclose the mortgage, consolidate its ownership of the property, and register it in its name. Monte de Piedad nevertheless gave respondent until May 28, 1987 to purchase back the property for P550,000.

On May 28, 1987, petitioner Elizabeth Santiago (Elizabeth), on behalf of respondent, paid P550,000 for the property. Monte de Piedad thereupon executed a deed of sale in favor of respondent who, the following day or on May 29, 1987, in turn executed a deed of sale in favor of Elizabeth and her herein co-petitioners.

Also on May 29, 1987, respondent and petitioners executed an agreement giving respondent "the option to buy back the property within three (3) months from the date of this agreement at the price of P900,000.00,"^[1] failing which respondent should "vacate the premises occupied by her, and turn over possession thereof to [petitioners] including the lessees of the building."^[2]

Respondent thus continued to stay in the property. Three months having elapsed without respondent repurchasing the property, petitioners registered with the Registry of Deeds of Manila the Deed of Sale executed by Monte de Piedad in favor of respondent, as well as the Deed of Sale of the property executed by respondent in favor of petitioners who were issued a title thereover.

Respondent failed to vacate the property. Petitioner Elizabeth thus filed an ejectment case against her before the Manila Metropolitan Trial Court (MeTC), Branch 21 of which decided in petitioner Elizabeth's favor. On appeal, Branch 27 of the Regional Trial Court (RTC) of Manila reversed the MeTC decision. The Court of Appeals affirmed the RTC decision.

On petitioners' Motion for Reconsideration, the appellate court reversed the RTC decision and reinstated the MeTC decision (in favor of petitioner Elizabeth).

Respondent thus filed a Petition for Review before this Court which affirmed the appellate court's reinstatement of the MeTC decision.^[3] This Court held, however, that the ejectment case did not bar a subsequent action to settle the issue of ownership.^[4]

Respondent subsequently filed before the RTC of Manila a verified Complaint,^[5] docketed as Civil Case No. 96-81354, against petitioners and Hon. Godofredo CA. Fandialan in his capacity as Presiding Judge of Branch 21 of MeTC of Manila, for reformation of the deed of sale in favor of petitioners, alleging, *inter alia*, that

[the] actual agreement between the parties is that of a loan and mortgage x x x and x x x [the] subject document denominated as a deed of sale was actually an equitable mortgage considering the inadequacy of the price at P550,000.00 in the deed of sale dated May 29, 1987 for such prime property within the university and commercial belt in Manila; the fact that the "sale" was with a right of repurchase at P900,000.00; that plaintiff continued to exercise rights of ownership after the "sale" such as the payment of realty taxes and collection of rentals from tenants; and the fact that the P550,000.00 was in fact a loan by private defendants to plaintiff which was paid to Monte de Piedad to buy back the property for plaintiff.^[6] (Emphasis and underscoring supplied)

In their Answer, petitioners maintained that their transaction with respondent was a *bona fide* sale.

Branch 6 of the Manila RTC, applying Articles 1602^[7] and 1603^[8] of the Civil Code, decided in favor of respondent by Decision of March 22, 2002,^[9] it holding that the transaction between respondent and petitioners was an equitable mortgage in light of the following considerations:

1. Exhibits "A" and "B" were signed and executed by the parties on the same day, May 29, 1987. The purchase price of the subject property was P550,000.00 in the Deed of Absolute Sale (Exhibit "A") while in the Agreement (Exhibit "B") defendants agreed to give to give plaintiff the option to buy back the subject property within the period of three (3) months from the date of the Agreement at P900,000.00. There was a tremendous increase of P350,000.00 in the repurchase price of the subject property within a period of three (3) months. It has been held that a stipulation in the contract sharply escalating the repurchase price enhances the presumption that the transaction is an equitable mortgage. Its purpose is to secure the return of the money invested with substantial profit or interest, a common characteristic of loans.
2. The fact that the repurchase price of the subject property as stated in the Agreement dated May 29, 1987, was P900,000.00, clearly indicates that the purchase price of the subject property at P550,000.00 was inadequate as stated in the Contract of Absolute Sale.

3. Plaintiff remained in possession of the subject property in question after the execution of the Absolute Deed of Sale. Plaintiff continued to exercise the rights and obligations of owner-lessor after the execution of the Absolute Deed of Sale when she paid the realty taxes and collected rentals from the other tenants of the apartment building which were turned over to the defendants.
4. Where vendor (herein plaintiff) was given the right to possess the subject property pending the redemption period of three (3) months, equitable mortgage exists.
5. Having just repurchased the subject property from the Bank at the price of P550,000.00, it would have been utterly senseless for the plaintiff to sell the same property to the defendants at the same price of P550,000.00, without profit (Exhibit "A"). However, by the terms of the Agreement Exhibit "B", plaintiff would have to repurchase the same property from the defendants at an increased price of P900,000.00. Thus, from the afore-said documents, there is no other possible and logical conclusion that Exhibits "A" and "B", taken together, [are] an equitable mortgage because they were executed as security for the loan of P550,000.00 extended by defendants to plaintiff, for the latter to buy back the subject property from the Bank.

x x x x^[10]

By Decision^[11] of February 8, 2006, the Court of Appeals affirmed the RTC decision.

Hence, the present Petition for Review on Certiorari^[12] faulting the Court of Appeals in affirming

- I. the findings and conclusions of the Regional Trial Court of Manila (Branch 06) despite the fact [that] there was no equitable mortgage.
- II. the findings and conclusions of the Regional Trial Court of Manila (Branch 06) even when these conclusions run contrary to the prevailing law and jurisprudence.^[13]

The petition is impressed with merit.

The presumption of equitable mortgage created in Article 1602 of the Civil Code is not conclusive. It may be rebutted by competent and satisfactory proof of the contrary.^[14] In the case at bar, ample evidence supports petitioners' claim that the transaction between them and respondent was one of sale with option to repurchase.

While after the sale of the property respondent remained therein, her stay was not in the concept of an owner.^[15] Through her, petitioners were the ones who received rentals paid by lessees with whom she had contracted before the sale of the property to petitioners. After the 3-month option to buy back the property expired without respondent exercising it, petitioner Elizabeth was the one who directly dealt