

SECOND DIVISION

[G.R. No. 175118, July 21, 2008]

**SOLIDSTATE MULTI-PRODUCTS CORPORATION, PETITIONER,
VS. SPS. ERLINDA CATIENZA-VILLAVERDE AND VICTOR
VILLAVERDE, RESPONDENTS. D E C I S I O N**

TINGA, J,:

Petitioner Solidstate Multi-Products Corporation seeks the reversal of the Decision^[1] of the Court of Appeals dated 31 July 2006, in CA-G.R. CV No. 73733, which annulled the sale to petitioner of the parcel of land subject of this case, and of its Resolution^[2] dated 18 October 2006 which denied reconsideration.

The facts are as follows:

In February 1976, Julian Peñaranda (Peñaranda), respondent Erlinda Villaverde's uncle, sold to petitioner a 48,182-square meter parcel of land located in Molino, Bacoar, Cavite, covered by Transfer Certificate of Title (TCT) No. T-80889 of the Registry of Deeds of the Province of Cavite. Because the property was then being adversely claimed by a third party, the Intestate Estate of Antenor S. Virata (Estate of Virata), Peñaranda undertook to institute at his own expense whatever legal action that might become necessary and to answer for damages to petitioner should the ownership of the property be "proven to be that of any other person or claimant thru fault of the First Party."^[3]

The undertaking was reduced to writing in the form of an Agreement with Mortgage^[4] dated 8 July 1976, executed by Peñaranda, petitioner and respondents. In the same document, respondents agreed to mortgage a 30,302-sq m property owned by them and covered by TCT No. T-82596 in order to secure Peñaranda's faithful compliance with the undertaking. Respondents also signed an Agreement^[5] to shoulder 50% of the expenses that would be incurred in the suit between petitioner and the Estate of Virata.

Petitioner instituted a civil action against the Estate of Virata to remove the cloud on its title. The complaint, docketed as Civil Case No. RTC-BCV 82-85 of the Regional Trial Court of Bacoar, Cavite, Branch 19, was dismissed on 15 June 1985 on the ground of failure to state a cause of action.^[6] The dismissal was affirmed by the Court of Appeals on 13 July 1987, but was ultimately reversed by this Court on 6 May 1991 with the declaration that the parcel of land covered by TCT No. T-80889 was truly owned by petitioner.^[7]

On 13 February 1989, while the case was pending with this Court, the parties executed a Deed of Absolute Sale^[8] whereby respondents sold their property covered by TCT No. T-82596 to petitioner in consideration of the amount of P96,000.00--receipt of which respondents acknowledged to their full satisfaction--

and of the cancellation of the original mortgage obligation under the Agreement with Mortgage. It appears that respondents also received the amount of P105,000.00 from petitioner on account of the sale.

Respondents, seven years thence, filed a Complaint^[9] seeking the annulment of the Deed of Absolute Sale on the ground that their consent to the transaction was vitiated by mistake, undue influence and fraud. They alleged that petitioner had induced them to sell their land on the misinformation that the case filed against the Estate of Virata, which motivated them to sign the Agreement with Mortgage and later the Deed of Absolute Sale, had already been dismissed.

The trial court rendered judgment in favor of respondents, ruling that the latter's property covered by TCT No. T-82596 was made the subject of the Agreement with Mortgage and of the Deed of Absolute Sale only to guarantee the success of the quieting of title case against the Estate of Virata. Since the case was eventually won by petitioner the trial court concluded that the sale was absolutely simulated or fictitious, without consideration and, therefore, void under Article 1409 of the Civil Code. It then directed the nullification of the Deed of Absolute Sale, the return of TCT No. T-82596 to respondents, and the cancellation of the annotation on the dorsal portion of the title pertaining to the Agreement with Mortgage. It also awarded P100,000.00 to respondents as nominal damages.^[10]

The Court of Appeals affirmed the decision of the trial court with the modification that respondents return to petitioner the amount of P105,000.00 with interest at 6% from the finality of judgment until fully paid.

In this Petition for Review on Certiorari^[11] dated 6 November 2006, petitioner argues that the Deed of Absolute Sale is separate and distinct from the Agreement with Mortgage. According to petitioner, there is no basis for the appellate court's ruling that the stated consideration of P96,000.00 for the Agreement with Mortgage, which respondents did not actually receive, is the same consideration for the Deed of Absolute Sale. The appellate court allegedly merely speculated that there was no consideration for the sale just because the Deed of Absolute Sale alluded to the mortgage. Petitioner maintains that there is nothing in the deed which indicates that respondents agreed to sell the property because they failed to comply with their obligation under the Agreement with Mortgage or that the sale was due to the dismissal of the case for quieting of title.

Petitioner insists that respondents consent to the sale was not vitiated in any manner because the status of the quieting of title case could be easily verified with the exercise of reasonable diligence on their part. It also avers that the sale was supported by valuable consideration because respondents received P96,000.00 which they themselves acknowledged in the Deed of Absolute Sale, as well as an additional P105,000.00. Finally, petitioner argues that the complaint was filed more than four (4) years from the discovery of the alleged fraud or mistake and was thus filed out of time.

In their Comments^[12] dated 23 May 2006, respondents argue that the Agreement with Mortgage and the Deed of Absolute Sale were devised to indemnify petitioner should it lose its case against the Estate of Virata; hence, when petitioner's title was upheld by the court, both agreements lost the purpose for their existence.

Respondents thus aver that the appellate court's conclusion that the sale was without a valid consideration was correct. They likewise point out that since the case is one for the declaration of nullity of a contract, prescription should not apply.

Petitioner filed a Reply^[13] dated 14 August 2007, reiterating its arguments and adding that respondents assumed two (2) undertakings in the Agreement with Mortgage: *first*, to assume the litigation costs in the suit against the Estate of Virata and *second*, to indemnify petitioner in case it loses the case. Only the second undertaking was allegedly resolved by the Court of Appeals.

Petitioner points out that respondents also signed a separate agreement to shoulder 50% of the expenses incurred in the quieting of title case. It avers that it incurred litigation expenses in the amount of P3,000,000.00 for which respondents should answer. The considerations for the Deed of Absolute Sale are allegedly the amount of P96,000.00 stated therein, the cancellation of the original mortgage obligation under the Agreement with Mortgage, the amount of P105,000.00 received by respondents, and the payment of respondents' obligations under the said agreement.

A contract, as defined by the Civil Code, has the following requisites: (1) consent of the contracting parties; (2) object certain which is the subject matter of the contract; and (3) cause of the obligation which is established.^[14] Cause or consideration is the contested requisite in this case.

The Agreement with Mortgage, one of the key contracts in the present controversy, specifically mentions that the mortgage is without any consideration. Paragraph 8 thereof states:

8. The Mortgage herein agreed upon is without any consideration and the amount of NINETY SIX THOUSAND (P96,000.00) PESOS, Philippine Currency, mentioned in the next preceding paragraph was not paid to and received by the First Party and the Third Party;^[15]

That the parties specifically treated this contract, on the one hand, to be without consideration despite presumably knowing the legal consequence of such a characterization, *i.e.*, that a contract without consideration is void under Article 1352 of the Civil Code, is odd in light of petitioner's argument that the consideration for the mortgage was Peñaranda's undertakings (1) to institute at his own expense whatever legal action may be necessary to protect petitioner's title to the lot he had sold to the latter and (2) to answer for any damage which may be suffered by petitioner if ownership of the property is adjudged to another claimant.

On the other hand, the Deed of Absolute Sale makes specific reference to the mortgage obligation and states that the consideration for the sale, like the mortgage, is also P96,000.00 "and the cancellation of the original mortgage obligation of NINETY SIX THOUSAND PESOS (P96,000.00)."^[16] As previously stipulated by the parties, however, the amount of P96,000.00, which was supposedly the consideration for the mortgage, was never received by respondents.

The foregoing circumstances justify the appellate court's conclusion, to which we agree, that the parties executed the Agreement with Mortgage and the Deed of Absolute Sale solely to confront the possibility that the property sold by Peñaranda