

SECOND DIVISION

[G.R. No. 170282, December 18, 2008]

ALEXANDER AND JEAN J. BACUNGAN, PETITIONERS, VS. COURT OF APPEALS AND SPS. NAPOLEON AND VICTORIA VELO, RESPONDENTS.

DECISION

TINGA, J.:

This is a petition for review on certiorari^[1] under Rule 45 of the 1997 Rules of Civil Procedure, assailing the decision^[2] and resolution^[3] of the Court of Appeals (CA) in CA-G.R. CV No. 64370. The Decision dated 21 March 2005 reversed and set aside the judgment^[4] of dismissal by the Regional Trial Court (RTC), Branch 53, Pangasinan in the action for reconveyance filed by respondents against petitioners, while the resolution denied petitioners' motion for reconsideration of the CA decision.

The following factual antecedents are matters of record.

Respondents Napoleon and Victoria Velo instituted an action for reconveyance with damages against petitioners Alexander and Jean Jimeno Bacungan before the RTC of Rosales, Pangasinan. In the complaint,^[5] docketed as Civil Case No. 1085-R, respondents alleged that they were the registered owners of 18 parcels of land situated in Rosales, Pangasinan and embraced in Transfer Certificate of Title (TCT) Nos. 34998, 36022, 35158, 36017, 18128, 26761, 36020, 28387, 35585, 25739, 36023, 40059, 40055, 40060, 40057, 40056, 36967 and 35268.^[6]

Respondents claimed that sometime in February of 1993, they had experienced business reversals and financial difficulties and had sought assistance from petitioners in securing a loan. Petitioners allegedly proposed that they would obtain the loan from the bank provided that respondents secure the transfer of the titles to petitioners that would be used as security for the loan. Respondents agreed, executed the corresponding deeds of sale and caused the cancellation and issuance of new TCTs over the properties in favor of petitioners. However, respondents claimed that after petitioners had obtained the new titles, they never applied for a loan with the bank but had secretly negotiated for the sale of the properties to third parties.^[7]

In their answer,^[8] petitioners asserted that respondents offered to sell to them 23 parcels of land, 18 of which were used as collateral for the loan respondents had obtained from Traders Royal Bank. Petitioners claimed to have bought 22 parcels of land and executed the corresponding deeds of sale on 26 February 1993 and 10 March 1993. They also allegedly paid in full respondents' obligation with said bank but only 18 certificates of title released by the bank were delivered to petitioners.

Petitioners further maintained that out of their gratuitousness, they returned one of the deeds of sale to respondents and considered the sale as cancelled. Petitioners averred that the amounts they paid to respondents, as well as their payments to the bank, were more than enough as consideration of the 23 contracts.^[9]

After trial on the merits, the RTC rendered a decision on 20 April 1999, dismissing the complaint for lack of merit. The RTC gave evidentiary weight on the notarized deeds of sale, the presumed validity and due execution of which, according to the RTC, were not overcome by the uncorroborated testimony of respondent Victoria Velo. The RTC held that in any case, respondents admitted to have voluntarily consented to the simulation of the contracts, thus, the principle of *in pari delicto* must prevail and both parties were at fault and should be left at where the law finds them.

Respondents elevated the matter to the CA via a petition for review, arguing that the contracts between respondents and petitioners were simulated.

On 21 March 2005, the CA rendered the assailed decision, reversing the RTC's judgment. The dispositive portion of the CA's decision reads:

WHEREFORE, the assailed decision dated 20 April 1999 of the Regional Trial Court of Rosales, Pangasinan is SET ASIDE. Judgment is hereby rendered:

1. Declaring the Deeds of Sale covering parcels of land under TCT Nos. 34998, 36022, 35158, 36017, 18128, 26761, 36020, 28381, 35585, 25739, 36023, 40059, 40055, 40060, 40057, 40056, 36967 and 35268 as simulated; and
2. Ordering the defendants-appellees to reconvey the aforesaid properties to the plaintiffs-appellants.

SO ORDERED.^[10]

In reversing the RTC decision, the CA held that by their contemporaneous and subsequent acts, the deeds of sale were simulated as the parties did not intend to be bound by them at all. Among the indicators pointed out by the appellate court in support of its conclusion were the gross inadequacy of prices, respondents' failure to receive any part of the purchase price stated in the deeds of sale, the offer by petitioners to return some of the certificates of title and petitioner Alexander Bacungan's admission that the sale was simulated.^[11]

Petitioners filed a motion for reconsideration,^[12] raising the CA's failure to consider the amounts tendered by petitioners for the redemption of the properties as well as the amounts advanced by petitioners as payments of the properties. On 7 November 2005, the CA issued the assailed resolution, denying petitioners' motion for reconsideration.

Hence, the instant petition, raising the following arguments: (1) the deeds of sale embody the real agreement of the parties and are not nullified by the gross inadequacy of the prices; (2) the contracts of sale cannot be simulated because prior to their execution, petitioner extended a loan to respondents which was used to redeem the mortgaged properties; and (3) respondents admitted that the only

agreement was the contracts of sale; thus, the appellate court erred in interpreting the acts of the parties before and after their execution.^[13]

The petition is partly meritorious.

Respondents and petitioners advance contrasting claims. Petitioners would have this Court uphold the validity of the deeds of sale while respondents seek their nullification. Neither is claiming that they had agreed other terms and conditions not embodied in the deeds of sale or that the deeds of sale do not embody their real agreement. However, after a perusal of the records of the case, the Court finds that the resolution of the controversy cannot be limited only to determining whether the deeds of sale were void. Such issue may still be considered and resolved by the Court in the interest of substantial justice, if it finds that to do so is necessary to arrive at a just decision, or when an issue is closely related to an issue raised in the trial court and the Court of Appeals and is necessary for a just and complete resolution of the case.^[14]

After a careful examination of the records of the case, the Court finds that the deeds of absolute sale do not embody the real intention of the parties. The records reveal that respondents had earlier executed several real estate mortgages over the properties to secure the payment of the total amount of P350,000.00.^[15] Respondents defaulted on the payments, prompting the bank to foreclose the properties. However, as illustrated in the testimony of respondent Victoria Velo, respondents and petitioners devised a plan in which they agreed that in exchange for the apparent transfer of ownership of the parcels of land to petitioners, the latter would provide for the funds for the redemption of the properties from the bank in addition to the loan that petitioners would obtain from the bank. Thus, respondents were able to redeem the properties for the amount of P369,000.00 that was advanced by way of mortgage to them by petitioners.^[16] The amount approximates the total loans in the amount of P350,000.00 secured by the properties subject of the real estate mortgages executed by respondents.^[17]

Thereafter, respondents executed several deeds of sale purporting to transfer the 18 parcels of lands for a total consideration of P232,000.00. The parties further agreed that upon the transfer of the properties in the name of petitioners, the latter would obtain another loan from the bank using the properties as collateral. Petitioners were supposed to remit the loan proceeds to respondents after deducting the amount of P369,000.00 lent by petitioners to respondents and, thereafter, allow respondents to buy back the properties. However, because petitioners had failed to secure a loan from the bank after the transfer of the titles in their names, respondents instituted the present action to nullify the deeds of sale on the ground that the sale was simulated.

This kind of arrangement, where the ownership of the land is supposedly transferred to the buyer who provides for the funds to redeem the property from the bank but nonetheless allows the seller to later on buy back the properties, is in the nature of an equitable mortgage governed by Articles 1602 and 1604 of the Civil Code, which provide:

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