

THIRD DIVISION

[G.R. NO. 159048, October 11, 2005]

**BENNY GO, PETITIONER, VS. ELIODORO BACARON,
RESPONDENT.**

D E C I S I O N

PANGANIBAN, J.:

The present Contract, which purports to be an absolute deed of sale, should be deemed an equitable mortgage for the following reasons: (1) the consideration has been proven to be unusually inadequate; (2) the supposed vendor has remained in possession of the property even after the execution of the instrument; and (3) the alleged seller has continued to pay the real estate taxes on the property.

The Case

Before us is a Petition for Review^[1] under Rule 45 of the Rules of Court, seeking to set aside the October 17, 2002 Decision^[2] and the May 20, 2003 Resolution^[3] of the Court of Appeals (CA) in CA-GR CV No. 67218. The assailed Decision disposed as follows:

"WHEREFORE, premises considered, the Decision dated February 24, 2000 of the Regional Trial Court of Davao City, Branch 12, in Civil Case No. 25,101-97 is hereby REVERSED and SET ASIDE and a new one is hereby rendered ordering the reformation of the subject instrument, such that the same must be considered a mortgage contract and not a transfer of right. Costs against [petitioner]."^[4]

The assailed Resolution denied Reconsideration.

The Facts

The antecedents are narrated by the CA as follows:

"As evidenced by the *Transfer of Rights* dated October 1, 1993, Eliodoro Bacaron conveyed a 15.3955-hectare parcel of land located in Langub, Talomo, Davao City, in favor of Benny Go for P20,000.00.

"About a year thereafter, Bacaron, seeking to recover his property, went to Go to pay his alleged P20,000.00 "loan" but the latter refused to receive the same and to return his property saying that the transaction between the two of them was a sale and not a mortgage as claimed by Bacaron.

"Consequently, on March 5, 1997, Eliodoro Bacaron, as plaintiff [herein respondent], filed a *Complaint* for Reformation of Instrument with

Damages and prayer for the issuance of a writ of preliminary injunction, with the Regional Trial Court of Davao City, Branch 12, against the [petitioner] Benny Go, which case was docketed as Civil Case No. 25,101-97.

"In his *Complaint*, [respondent] alleged that in the middle part of 1993, he suffered business reversals which prompted him, being in urgent need of funds, to borrow P20,000.00 from the [petitioner]. He however averred that prior to extending said loan to him, the [petitioner] required him to execute a document purporting to be a *Transfer of Rights* but was told that the same would only be a formality as he could redeem the unregistered land the moment he pays the loan. Admitting that he signed the instrument despite knowing that the same did not express the true intention of the parties' agreement, i.e., that the transaction was a mere equitable mortgage, the [respondent] explained that he did so only because he was in a very tight financial situation and because he was assured by the [petitioner] that he could redeem his property. To support this claim, [respondent] stressed the fact that the consideration in the instrument was merely P20,000.00, which is grossly inadequate as the selling price of a 15-hectare land considering that, at that time, the market value of land in Davao City amounts to P100,000.00 per hectare. [Respondent] narrated that a year thereafter, or in a middle part of 1994, he was able to raise the P20,000.00 and went to the [petitioner] to pay his loan but the latter refused to accept his payment, insisting that the transaction entered into by the parties was not an equitable mortgage, as the [respondent] insists, but a real transfer of right over the property. Because of said refusal, [respondent] continued, he was compelled to refer the matter to his lawyer in order to request the [petitioner] to accept his payment otherwise he would file the necessary action in court. Despite said formal demand by the [respondent], however, [petitioner] allegedly continued to refuse to recognize the "equitable mortgage", prompting [respondent] to consign the P20,000.00 with the Clerk of Court of the RTC of Davao City, Branch 12. He thus insisted that it is [petitioner] who is "dead wrong" in not recognizing the equitable mortgage since, aside from the fact that the consideration was unusually inadequate, [respondent] allegedly remained in possession of the property.

"[Respondent] thus prayed for an award for moral damages, in view of the [petitioner's] evident bad faith in refusing to recognize the equitable mortgage, and for attorney's fees as [petitioner's] alleged stubbornness compelled him to engage the services of counsel. He likewise sought an award for exemplary damages to deter others from committing similar acts and at the same time asked the court to issue a writ of preliminary injunction and/or temporary restraining order to prevent [petitioner] from dispossessing [respondent] of the subject property or from disposing of the same in favor of third parties as these acts would certainly work injustice for and cause irreparable damage to the [respondent]. The prayer for the issuance of a restraining order was however denied by the court in an *Order*.

"[Petitioner] filed his *Answer* on May 5, 1997, denying [respondent's]

claim that the transaction was only an equitable mortgage and not an actual transfer of right. He asserted that the truth of the matter was that when [respondent] suffered business reverses, his accounts with the [petitioner], as evidenced by postdated checks, cash vouchers and promissory notes, remained unpaid and his total indebtedness, exclusive of interests, amounted to P985,423.70. [Petitioner] further averred that, in order to avoid the filing of cases against him, [respondent] offered to pay his indebtedness through *dacion en pago*, giving the land in question as full payment thereof. In addition, he stressed that considering that the property is still untitled and the [respondent] bought the same from one Meliton Bacarro for only P50,000.00, it is most unreasonable for him to agree to accept said land in exchange for over a million pesos of indebtedness. He claimed though that he was only forced to do so when [respondent] told him that if he did not accept the offer, other creditors would grab the same.

"By way of affirmative defenses, the [petitioner] pointed out that [respondent] has no cause of action against him as the [respondent] failed to comply with the essential requisites for an action for reformation of instrument. He moreover alleged that the [respondent] is in estoppel because, by his own admission, he signed the document knowing that the same did not express the true intention of the parties. Further, [petitioner] claimed that there was a valid transfer of the property herein since the consideration is not only the actual amount written in the instrument but it also includes the outstanding obligation of [respondent] to the [petitioner] amounting to almost P1 million.

"As counterclaim, [petitioner] averred that, because of this baseless complaint, he suffered mental anguish, wounded feelings and besmirched reputation, entitling him to moral damages amounting to P20,000.00, and that in order to deter others from doing similar acts, exemplary damages amounting to P20,000.00 should likewise be awarded in his favor. [Petitioner] also prayed for attorney's fees and litigation expenses claiming that, because he was constrained to litigate, he was forced to hire the services of counsel.

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"Trial ensued and thereafter the trial court rendered its **Decision** dated February 24, 2000 dismissing the complaint while finding the [petitioner's] counterclaim meritorious. In making said ruling, the lower court, citing Article 1350 (should be 1359) of the New Civil Code, found that [respondent] failed to establish the existence of all the requisites for an action for reformation by clear, convincing and competent evidence. Considering [respondent's] own testimony that he read the document and fully understood the same, signing it without making any complaints to his lawyer, the trial court held that the evidence on record shows that the subject instrument had been freely and voluntarily entered into by the parties and that the same expresses the true intention of the parties. The court further noted that the [respondent's] wife even signed the document and that the same had been duly acknowledged by the parties before a notary public as their "true act and voluntary deed."

"The trial court likewise observed that, contrary to [respondent's] claim that the transaction was a mere mortgage of the property, the terms of the instrument are clear and unequivocal that the property subject of the document was "sold, transferred, ceded and conveyed" to the [petitioner] "by way of absolute sale," and hence, no extrinsic aids are necessary to ascertain the intention of the parties as the same is determinable from the document itself. Moreover, said court emphasized that considering the fact that [respondent] is an educated person, having studied in an exclusive school like Ateneo de Davao, and an experienced businessman, he is presumed to have acted with due care and to have signed the instrument with full knowledge of its contents and import. [Respondent's] claim that he merely borrowed money from the [petitioner] and mortgaged the property subject of litigation to guarantee said loan was thus found to be specious by the court, which found that the [respondent] was actually indebted to the [petitioner] for almost a million pesos and that the true consideration of the sale was in fact said outstanding obligation.

"With respect to [respondent's] alleged possession of the property and payment of real estate taxes, both of which were relied upon by the [respondent] to boost his assertion that the transaction was merely an equitable mortgage, the trial court said that his claim of possession is belied by the fact that the actual occupants of the property recognize that the [petitioner] owns the same and in fact said occupants prevented [respondent's] wife from entering the premises. The court, noting that the [petitioner] also paid the realty taxes, was also of the opinion that [respondent] merely made such payments in order to lay the basis of his allegation that the contract was a mere equitable mortgage.

"Accordingly, the court held that [respondent] is also not entitled to his other claims and that his unfounded action caused [petitioner] to an award for moral damages, in addition to the expenses he incurred in defending his cause, i.e. services of a lawyer and transportation and other expenses, which justifies an award for the reimbursement of his expenses and attorney's fees.'^[5]

Ruling of the Court of Appeals

Granting respondent's appeal, the appellate court ruled that the Contract entered into by the parties should be deemed an equitable mortgage, because the consideration for the sale was grossly inadequate. By continuing to harvest the crops and supervise his workers, respondent remained in control of the property. True, upon the institution of this case, petitioner paid the required real estate taxes that were still in arrears. Respondent, however paid the taxes for 1995, 1996 and 1997 -- the years between the dates when the alleged absolute sale was entered into on October 1, 1993, and when this case was instituted on March 5, 1997.^[6]

Granting respondent's prayer for reformation of the Contract, the CA ruled that the instrument failed to reflect the true intention of the parties because of petitioner's inequitable conduct.^[7]

Hence, this Petition.^[8]

The Issues

Petitioner raises the following issues for this Court's consideration:

"I.

Whether o[r] not the Court of Appeals erred in ruling that there was inadequate consideration.

"II.

Whether o[r] not the Court of Appeals erred in ruling that the respondent remained in possession of the land in question.

"III.

Whether or not the Court of Appeals erred in ruling that the taxes were not paid by the petitioner.

"IV.

Whether or not the Court of Appeals erred in ruling that reformation is proper."^[9]

Simply put, these are the issues to be resolved: (1) whether the agreement entered into by the parties was one for equitable mortgage or for absolute sale; and (2) whether the grant of the relief of contract reformation was proper.

The Court's Ruling

The Petition has no merit.

First Issue: **Equitable Mortgage**

An equitable mortgage has been defined "as one which although lacking in some formality, or form or words, or other requisites demanded by a statute, nevertheless reveals the intention of the parties to charge real property as security for a debt, and contains nothing impossible or contrary to law."^[10]

The instances in which a contract of sale is presumed to be an equitable mortgage are enumerated in Article 1602 of the Civil Code as follows:

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

(1) When the price of a sale with right to repurchase is unusually inadequate;