

SECOND DIVISION

[G.R. No. 147321, January 21, 2004]

**SPOUSES CRISPIN AUSTRIA AND LEONISA HILARIO,
PETITIONERS, VS. SPOUSES DANILO GONZALES, JR., AND
VERONICA GONZALES, RESPONDENTS.**

DECISION

QUISUMBING, J.:

For review on certiorari is the Court of Appeals' decision^[1] dated February 23, 1999, in CA-G.R. CV No. 49581, which reversed the decision^[2] of the Regional Trial Court (RTC) of Malolos, Bulacan, Branch 12, in Civil Case No. 552-M-91. The RTC ruled that the disputed contract purporting to be a deed of sale was an equitable mortgage, and granted petitioners the right to redeem the subject property. Also assailed is the appellate court's Resolution^[3] dated February 28, 2001, denying petitioners' motion for reconsideration.

The facts as culled from the records are as follows:

On September 4, 1991, petitioners Crispin Austria and Leonisa Hilario filed a civil action for Declaration of Nullity of Document and Reconveyance before the RTC of Malolos, Bulacan, against herein respondents Danilo Gonzales, Jr., and Veronica Gonzales. In their Complaint, docketed as Civil Case No. 552-M-91, petitioners alleged that they are the owners and possessors of three (3) parcels of land, with areas of 1,000, 1,000 and 1,363 square meters, more or less, and covered by the following Transfer Certificates of Title (TCT) Nos. T-210989, T-210990 and T-82297, respectively, all in the name of petitioner Leonisa Hilario.

Said parcels became the subject of two (2) Deeds of Absolute Sale, one dated July 21, 1979, priced at P50,000 and the other dated October 23, 1981 priced at P240,000. Both deeds were executed by petitioner Leonisa Hilario in favor of respondents. But petitioners claimed that the transactions entered between petitioners and respondents were not actually sales, but merely loans in the amount of P260,000. According to petitioners, they used this amount to redeem some mortgaged properties from the Rural Bank of Pandi, Bulacan. To secure the loan, however, respondents required petitioners to furnish them with ten (10) TCTs. Three of these certificates covered the petitioners' properties subject of the present case, while the other seven belonged to their relatives. Petitioners admitted that their debts to respondent spouses remained unpaid due to business reverses.

According to petitioners, respondents thereafter registered the disputed properties in their own names through the use of fraud, misrepresentation and falsification, using the fictitious contracts of sale. Petitioners alleged that they came to know of said acts of respondents only when they were served with a notice dated May 22, 1991, from respondents' counsel to vacate said lots. Thus, petitioners sought the

reconveyance of the three parcels from respondents, with moral damages and attorney's fees.

For their part, respondents insisted in their Answer that on October 1981, petitioner Leonisa Hilario sold to them the three lots in question. Respondent Veronica Gonzales agreed to buy the same out of pity for petitioners, whose several properties had earlier been foreclosed by the bank. The transaction was embodied in a Deed of Absolute Sale and notarized before Notary Public Protacio Cortez, Jr. The original amount in the Deed of Absolute Sale was P240,000. However, before the properties were registered, petitioner Leonisa Hilario in a letter dated July 20, 1983, requested for the execution of another Deed of Absolute Sale indicating a price of P50,000, purportedly to lessen the taxes and fees that they will be paying as the vendors. The letter, which was in the vernacular is reproduced in full below, thus:

Ika-ng Hulyo, 1983

Gng. Veronica R. Gonzalez
Baliwag, Bulacan

Mahal na Gng. Gonzales;

Nangyari kami ay lumiham sa inyo tungkol sa Kasulatan ng Bilihan na aming isinagawa sa inyong pangalan na tumutukoy sa lupang nasasa (sic) Bunsuran Pandi, Bulacan at nasa ilalim ng TCT Nos. T-82297, T-210989, T-210990 ng Register of Deeds of Bulacan na lalong magpapakikilala bilang Doc. No. 284; page no. 57; Book No. V; Series of 1981 ni Notary Public P. Cortez, Jr. ng Bulakan na ang gastos sa kaukulang capital gains tax, registration fees at ibang gastos pa na may kinalaman sa pagpapalipat sa pangalan ninyo ay kami ang mananagot na magbabayad.

Dahilan po dito ay nais po sana naming hilingin sa inyo na sana ay makapagsagawa kami ng isa pang kasulatan ng bilihan na tumutukoy din sa mga binanggit na lupa at babaan ang halaga nito at ang petsa nito ay maging bata or maaga **para kami ay huwag namang masyadong magastusan** at kami ay nananagot sa pagsasagawa ng bilingang ito.

Salamat po at umaasa kami sa inyong pagdinig sa aming kahilingang ito.

Sumasainyo,

Sgd.

Gng. Leonisa H. Austria^[4]

According to respondents, a new Deed of Absolute Sale indicating a selling price of P50,000 for the 3 lots was executed and notarized before Notary Public Jose Ramos. Shortly afterwards, according to respondents, the titles of said lots were transferred to them.

After respondents wrote petitioners on June 20, 1983, asking them to vacate the disputed properties, petitioners sent respondents on July 28, 1983, an

UNDERTAKING^[5] promising to vacate and surrender possession of the properties on or about December 15, 1983, without further extension. But then petitioners failed to vacate as promised on said date. Their failure to vacate and turn over the purchased lots prompted respondents to send a final demand letter asking petitioners to vacate the premises but petitioners still refused. As a result, said respondents were forced to file an ejectment suit docketed as Civil Case No. 2473 before the Municipal Trial Court of Pandi, Bulacan,^[6] against petitioners. That suit was decided by the municipal court in respondents' favor. Hence the petitioners elevated their case to the Regional Trial Court of Malolos.

On August 11, 1995, after trial on the merits, the RTC of Malolos decided Civil Case No. 552-M-91 against respondents and in favor of herein petitioners. It decreed as follows:

WHEREFORE, conformably with all the foregoing, judgment is hereby rendered declaring the subject deeds of absolute sale (Exhs. "1" and "3") a loan transaction between the parties herein and, therefore, an equitable mortgage. Plaintiffs are declared entitled to redeem their mortgaged properties which shall be effected upon the payment of their mortgage debt to defendants in the total amount of P260,000.00 with legal rate of interest from October 23, 1981, the date of delivery of said loan amount to plaintiffs, until it is fully paid.

Further, defendants are hereby ordered to pay P20,000.00 for attorney's fee (sic) of plaintiffs and the costs of suit.

SO ORDERED.^[7]

In finding for petitioners, the trial court described petitioners as the classic example of persons who are willing to enter into any kind of arrangement with another due to a desperate need of money. The trial court noted that petitioners had to sign all those documents, including the undertaking dated July 28, 1983, simply because their hands were forced by the need to avail of their last remaining chance to redeem their mortgaged properties from the foreclosing bank.

Citing *Uy v. Court of Appeals*,^[8] the RTC opined that "necessitous men are not, truly speaking, free men; but to answer a present emergency, will submit to any terms that the crafty may impose upon them."

Applying Article 1604^[9] of the Civil Code in relation to Article 1602,^[10] the RTC observed that: (a) petitioners as the vendor remained in physical possession of the lots even after the execution of the deed of sale; (b) petitioners paid the realty taxes for the years 1982 and 1983; and (c) the purchase price of P50,000.00 was unusually inadequate by any standard for realties totaling more than 3,000 square meters in area, with house built thereon and other improvements.

Respondents seasonably appealed the decision in Civil Case No. 552-M-91 to the Court of Appeals. It reversed the trial court's decision, to wit:

WHEREFORE, the decision dated August 11, 1995 of the Regional Trial Court of Malolos, Bulacan (Branch 12) is hereby SET ASIDE, and a new one rendered DISMISSING the complaint.

Costs against the plaintiffs-appellees.

SO ORDERED.^[11]

Further, in holding that the contract between the parties was an absolute sale, rather than equitable mortgage, the Court of Appeals made the following observations in its decision on the ejectment suit: (1) petitioner Crispin Austria could not present the document to prove that their transaction with respondents was a loan; (2) Austria could not even testify as to the terms of such loan, *i.e.*, he did not even know when the loan fell due; (3) petitioners had not paid any single centavo for such loan over a period of 13 years; (4) when confronted with the deed of sale during the trial, Austria could only claim that he could not remember if the signatures appearing thereon were his or his wife's; (5) petitioners did execute the Undertaking promising to vacate the disputed premises on or before December 14, 1983; and (6) petitioners did not deny writing the letter dated July 20, 1983 wherein they asked respondents to execute a second antedated deed of sale with a reduced selling price indicated therein.^[12]

Hence, the instant petition.

Before this Court, petitioners aver that the Court of Appeals erred in:

I

HOLDING THAT THE CONTRACT BETWEEN PETITIONERS AND RESPONDENTS OVER THE TEN (10) TRANSFER CERTIFICATE(S) OF TITLE, AND ALL IMPROVEMENTS EERECTED THEREON (sic) SUBJECT THREE (3) PARCELS OF LAND COVERED BY THREE (3) TRANSFER CERTIFICATE(S) OF TITLES INCLUDED WERE SALE AND NOT A MORTGAGE LOAN (sic).

II

DISREGARDING THE FACTS AND EVIDENCES PRESENTED WHICH CLEARLY SUPPORT THE REGIONAL TRIAL COURT'S FINDINGS IN FAVOR OF THE PETITIONERS.

- a. FROM HER OWN LIPS, RESPONDENT VERONICA GONZALES ADMITTED HAVING ACQUIRED THE FIVE (5) PROPERTIES OF PABLO HILARIO, JR., ONE (1) PROPERTY OF PABLO HILARIO, SR., AND ONE (1) PROPERTY OF MANSUETO DIE LA CRUZ;
- b. UNDER THE FACTUAL CIRCUMSTANCES OBTAINING IN THE INSTANT CASE AND EXISTING JURISPRUDENCE, THE CONTRACT BETWEEN PETITIONERS AND RESPONDENTS WAS, AT THE VERY LEAST, AN EQUITABLE MORTGAGE.

The pertinent issue for our resolution is whether the transaction in this case involves an absolute sale or equitable mortgage of real property.

Petitioners contend that the Court of Appeals erred in failing to consider the following circumstances: (a) they remained in possession of the premises until