

## SECOND DIVISION

**[ G.R. No. 144227, February 15, 2002 ]**

**GEORGINA HILADO, PETITIONER, VS. HEIRS OF RAFAEL  
MEDALLA, RESPONDENTS.**

### **D E C I S I O N**

**MENDOZA, J.:**

This is a petition for review of the decision<sup>[1]</sup> of the Court of Appeals (1) declaring the deed of sale, dated April 24, 1979, between petitioner Georgina Hilado and Rafael Medalla, predecessor-in-interest of respondents, as an equitable mortgage; (2) declaring the mortgage obligation of Medalla to be fully paid; (3) ordering petitioner to execute, in favor of respondents, a deed of reconveyance over the portion of the lot subject of the abovementioned sale still retained by her; and (4) setting aside the award of attorney's fees to petitioner.

The facts are as follows:

Gorgonio Macainan was, in his lifetime, the owner of several properties in Bacolod City, among which were Lot No. 1031 in Pahanocoy, covered by TCT No. T-47473, with an area of 31.9035 hectares, and a lot on Lopez Jaena Street with an area of 5,362 square meters. After Gorgonio's death in 1966, his estate was divided among his heirs, including his children by his first wife, namely, Anita, Rosita, and Berbonia. As Berbonia had predeceased Gorgonio, her children, namely, Rafael, Lourdes, and Teresita, surnamed Medalla, succeeded to her inheritance. Respondents are the heirs of Rafael Medalla. Rafael Medalla's share consisted of five hectares in Lot No. 1031 and 1,197 square meters in the Lopez Jaena property.

On April 24, 1979, Rafael Medalla executed a document, entitled "Deed of Absolute Sale" (Exh. 4 - Medalla), purporting to sell his share in "Lot No. 1030 and Lot No. 1031" to petitioner for P50,000.00. The Deed reads in pertinent parts:

KNOW ALL MEN BY THESE PRESENTS:

This AGREEMENT, made and entered this 24th day of April, 1979, executed at Bacolod City, Philippines, by and between:

RAFAEL M. MEDALLA, Filipino, of legal age, widower and with residence at Bacolod City, Philippines, now and herein-after called as the VENDOR,

- a n d -

GEORGINA H. HILADO, Filipino, of legal age, single and a resident of Silay City, Philippines, hereinafter called as the VENDEE.

W I T N E S S E T H:

WHEREAS, in a Final Project of Partition dated December 5, 1977, duly signed by all the heirs of Intestate Estate of late Gorgonio Macainan, under Special Proceeding No. 8043 of Court of First Instance of Negros Occidental, both RAFAEL M. MEDALLA and TERESITA M. MAGALONA were adjudicated shares in Lot 1031 and 1030 as well as in Lot No. 789 and 790 of Bacolod Cadastre, otherwise known as "Badyang."

WHEREAS, for their convenience, both RAFAEL M. MEDALLA and TERESITA M. MEDALLA agreed to consolidate their shares in one location which agreement was embodied in a public document otherwise known as "DEED OF EXCHANGE";

WHEREAS, in the above-mentioned DEED OF EXCHANGE, VENDOR consolidated his rights and properties all in Lot No. 1031-1030 in the Bacolod Cadastre;

WHEREAS, for and in consideration of the sum of FIFTY THOUSAND PESOS (P50,000.00), Philippine Currency, receipt of which is hereby acknowledged and confessed, VENDOR transfers, sells, and conveys by way of absolute sale unto the VENDEE, her heirs, assigns and successors-in-interest his rights and interest in Lot 1031 and 1030 as adjudged in the project of partition mentioned above and the rights and interests acquired by virtue of a "Deed of Exchange" mentioned above, the same being free from any and all liens and encumbrances;

WHEREAS, the parties agree that all expenses relative to the Transfer of Title and other expenses like taxes, fees, to effect the transfer shall be borne by the VENDOR.<sup>[2]</sup>

On December 29, 1981, Rafael executed another "Deed of Absolute Sale" (Exh. 6 - Medalla) in favor of petitioner over his share in the Lopez Jaena property in the amount of P25,000.00, the pertinent parts of which stated:

WHEREAS, in the Final Project of Partition dated December 5, 1977 of the Intestate Estate of late Gorgonio Macainan Special Proceedings No. 8043 of the Court of First Instance of Negros Occidental and duly approved by the court dated November 3, 1981, VENDOR was adjudicated shares equal with the rest of the heirs to the following properties, to wit:

5,362 square meters in the Lopez Jaena area, measured along the whole length of Luzuriaga Street and 2,380 hectares in the Alijis area,. . .;

WHEREAS, in order to confine their rights and interests in a single area, a "Deed of Exchange" dated December 4, 1981 was executed by both Rafael M. Medalla and Teresita M. Magalona, one of the heirs, whereby the parties' rights and interests over the Lopez Jaena area were consolidated over the VENDEE Rafael M. Medalla;

WHEREAS, for and in consideration of TWENTY FIVE THOUSAND PESOS (P25,000.00) Philippine Currency receipt of which is hereby

acknowledged and confessed, VENDOR hereby conveys, cedes and transfers his rights and interest over the said properties in favor [of] the VENDEE, her heirs, assigns, and successors-in-interest the above properties by way of absolute sale free from all liens and encumbrances[.]<sup>[3]</sup>

Over the next two years, petitioner and Medalla executed three more contracts concerning Lot No. 1031 and the Lopez Jaena property, to wit: (1) "Memorandum of Agreement," dated November 2, 1983 (Exh. 7 -Medalla), by virtue of which Rafael sold to petitioner "a parcel of land located at corner Lopez Jaena and Luzuriaga Sts. . . . containing an area of 1,197 square meters" for the amount of P200,000.00, payable in three installments;<sup>[4]</sup> (2) "Deed of Resale," dated April 30, 1984 (Exh. 8 - Medalla), whereby petitioner resold to Rafael, for P20,000.00, two of the five hectares in Lot "Nos. 1030 and 1031" subject of the Deed of Absolute Sale dated April 24, 1979 (Exh. 4 - Medalla);<sup>[5]</sup> and (3) "Agreement," dated May 10, 1984 (Exh. 10 - Medalla), whereby the parties declared that Lot No. 1030 had been inadvertently included in the "Deed of Absolute Sale," dated April 24, 1979, and in the "Deed of Resale" of April 30, 1984, when the fact was that the subject of the aforementioned agreements was Lot No. 1031.<sup>[6]</sup>

In May 1984, Anita Macainan, sister of Rafael's mother, Berbonia, tried to redeem the property in question from petitioner, but, as she failed to do so, she brought suit on August 24, 1984 against Rafael Medalla and petitioner for legal redemption in the Regional Trial Court, Branch 43, Bacolod City. Rafael Medalla filed a cross-claim against petitioner, alleging that the deed of sale of April 24, 1979 was in fact an equitable mortgage to secure a loan for P50,000.00 which he had received from petitioner. Rafael alleged -

3. - That . . . since the execution of the [April 24, 1979] . . . [Deed] of Absolute Sale, cross-claimant [Rafael Medalla] has been in continuous possession and enjoyment thereof, up to the present;
4. - That cross-claimant obtained another loan of P25,000.00 from the cross-defendant giving as security therefor a parcel of land situated at Lopez-Jaena Street, Bacolod City, Philippines, and, as in the case of the mortgage of his rights and interests in Lot Nos. 1030 and 1031 of Bacolod Cadastre, to secure the loan of P50,000.00, was required to execute a Deed of Sale in favor of the cross-defendant [Georgina Hilado];
5. - That it was agreed between the cross-claimant and cross-defendant that should the former find a buyer for the mortgaged Lopez-Jaena property, the latter will execute the corresponding deed of sale, deducting from the proceeds of said sale the mortgage obligation of cross-claimant in her favor;
6. -That after the cross-claimant found a buyer for his Lopez-Jaena property for the sum of P225,000.00, cross-defendant [Hilado] was informed accordingly, but the latter being interested in the property refused to execute the corresponding deed of sale as had been agreed and instead insisted that she buy the property for the sum

of P200,000.00;

7. - That on November 2, 1983, a document denominated "Memorandum of Agreement" was executed between the cross-claimant and cross defendant [Hilado], wherein the Lopez-Jaena property of the former was sold to the latter for the sum of P200,000.00. A xerox copy of the said "Memorandum of Agreement" is hereto attached, marked as Annex "A" and made an integral part hereof;
8. - That from the consideration of P200,000.00 of the Lopez-Jaena property which the cross-claimant sold to the cross-defendant – [Hilado], the sum of P110,000.00 was deducted therefrom by the cross-defendant and applied to the payment of the loan obligation of cross-claimant of P50,000.00 which was secured by a mortgage on his rights and interests to five (5) hectares in Lot Nos. 1030 and 1031 of Bacolod Cadastre, plus an interest of P60,000.00 for [the] period of only ten months, and the balance in the amount of P90,000.00 was paid in cash to the former by the latter;
9. - That the cross-claimant personally demanded from the cross-defendant [Hilado] the release of the mortgage constituted over his rights and interests in five hectares of Lot Nos. 1030 and 1031 of Bacolod Cadastre, since the principal obligation secured thereby had already been fully paid plus an interest of P60,000.00, but cross-defendant, with evident bad faith, refused to release the entire five (5) hectares and, instead, executed in favor of the cross-claimant a "Deed of Resale" covering two hectares only, thus retaining for herself, the other three hectares. A xerox copy of the "Deed of Resale" dated May 3, 1984, is hereto attached, marked as Annex "B" and made an integral part hereof;
10. - That subsequently, cross-claimant found out that his rights and interests of five hectares was confined to Lot No. 1031 of Bacolod Cadastre and that he had no interest whatsoever in Lot No. 1030 so that after informing the cross-defendant about the error, a document denominated "Agreement" was executed between the parties rectifying the error. A xerox copy of the said "Agreement" dated May 10, 1984, is hereto attached, marked as Annex "C" and made an integral part hereof;
11. - That time and again, cross-claimant demanded upon the cross-defendant for the release of the three hectares in Lot No. 1031, Bacolod Cadastre, as the principal obligation, together with the interest, had been fully paid, but said demands fell upon deaf ears;
12. - That because of the continued refusal, with evident bad faith and without any justifiable cause, of the cross-defendant to effect a release or to reconvey to cross-claimant the three (3) hectares in Lot No. 1031 of Bacolod Cadastre, given as security for the loan contracted, notwithstanding that the same had already been paid together with the interest charged, although there was no

stipulation as to how much interest was to be paid, cross-claimant suffered mental anguish, moral shock, serious anxiety, wounded feelings and similar injury for which the cross-defendant should be held liable in the amount of P50,000.00;<sup>[7]</sup>

In her answer to the complaint, petitioner alleged that Lot No. 1031 was Rafael Medalla's share in the estate of Gorgonio Macainan. As for the cross-claim against her, she denied that the agreement between her and Medalla was a loan agreement but, as denominated, a Deed of Sale, reflecting their true agreement. Petitioner therefore filed counter-claims against Anita Macainan and Rafael Medalla for damages and attorney's fees.<sup>[8]</sup>

In its decision of March 27, 1991, the trial court dismissed Anita Macainan's complaint, Rafael Medalla's cross-claim, and petitioner's counter-claims and ordered Anita Macainan and Rafael Medalla to solidarily pay petitioner the amount of P10,000.00 as attorney's fees. It ruled that Anita Macainan could no longer redeem the remaining three hectares of Rafael Medalla's share not only because at the time of the sale Lot No. 1031 had already been partitioned and occupied by Gorgonio's heirs but also because Macainan neither tendered payment to petitioner nor consigned the amount in court. With regard to Rafael Medalla's cross-claim against petitioner, the trial court held:

On the second issue, the Court would rule that the transaction entered into by defendant cross [-] claimant [Rafael] Medalla with defendant cross[-]defendant [Georgina] Hilado was one of deed of sale. It has to be observed that at the time the deed of absolute sale was executed by defendant Medalla, he was already in his third year law proper. As such, he had full knowledge of the consequences when he affixed his signature in the aforesaid document. The Court is well convinced that indeed, the intention of defendant-cross claimant Medalla was really to sell his share . . . [in] Lot No. 1031 to defendant cross[-]defendant Hilado. All the formalities required for a valid and enforceable contract have been fully satisfied and the consideration in the amount of P<sup>[5]</sup>0,000.00 is a fair and reasonable value considering that the aforementioned property is basically an agricultural land. There was no countervailing evidence presented by defendant cross-claimant Medalla to prove that there was fraud or bad faith on the part of defendant cross-defendant Hilado in the execution of the contract. Hence, the deed of absolute sale dated April 24, 1979 covering the [five]-hectare of Lot No. 1031 in favor of defendant cross-defendant Hilado still stands.<sup>[9]</sup>

Rafael Medalla appealed to the Court of Appeals which, on October 15, 1996, rendered judgment reversing the trial court. It held:

Judging from the issues and allegations advanced by both parties, the main issue in this case boils down . . . to whether the Deed of Absolute Sale (Exh. "3" [also Exh. 4 - Medalla]) executed by both appellant Medalla and appellee Hilado is in fact an equitable mortgage.

. . . .

A perusal of the records would reveal that appellee Hilado offered in