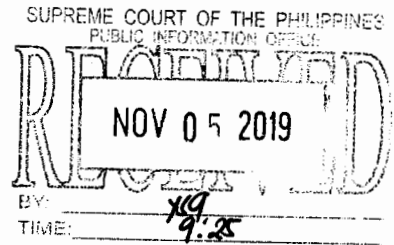




Republic of the Philippines
Supreme Court
Manila



FIRST DIVISION

NOTICE

Sirs/Mesdames:

Please take notice that the Court, First Division, issued a Resolution dated **October 9, 2019** which reads as follows:

“G.R. No. 197503 (Spouses Onofre G. Basa and Rosa de Leon v. Natividad P. Vda. de Leon, Felipe de Leon, Benison de Leon, Belinda de Leon and Rio de Leon)

This is an appeal by *certiorari* seeking to reverse the January 27, 2011 Decision¹ and the June 15, 2011 Resolution² of the Court of Appeals (CA) in CA-G.R. CV No. 91267. The CA affirmed the February 26, 2008 Decision³ of the Regional Trial Court of Camiling, Tarlac, Branch 68 (RTC) in Civil Case No. 05-53, which granted respondents’ Complaint for Annulment of Deeds of Sale, Reformation of Instrument/Quieting of Title and Recovery of Possession and declared the Deed of Sale with Assumption of Mortgage as an equitable mortgage and not a contract of sale.

Antecedents

The late Juan de Leon (*Juan*) was the owner of a parcel of land consisting of nineteen (19) hectares located in Barangay Sula, San Jose, Tarlac (*subject property*). Before his death, he obtained a loan from Rural Bank of Zaragoza (*the bank*) which was secured by a Real Estate Mortgage over the subject property. Juan was unable to pay his loan obligation with the bank. Consequently, on December 18, 1984, Juan and his wife, respondent Natividad P. Vda. de Leon (*Natividad*), entered into a Deed of Sale with Assumption of Mortgage⁴ with

¹ *Rollo*, pp. 18-29; penned by Associate Justice Isaias Dicdican with Associate Justices Stephen C. Cruz and Jane Aurora C. Lantion, concurring.

² *Id.* at 38-39.

³ Records, pp. 242-250; penned by Presiding Judge Jose S. Vallo.

⁴ *Id.* at 9.

petitioners Onofre G. Basa (*Onofre*) and Rosa de Leon (*Spouses Basa*).⁵

The parties, however, have different interpretations of the instrument. Spouses Basa insisted that the subject property was validly transferred and conveyed in their favor while respondents claimed that the true intention of the parties in executing the said instrument was for Spouses Basa to pay the loan obligation of Juan with the bank and take possession of the subject property as the new mortgagee thereof.⁶ Apparently, another Deed of Sale,⁷ dated January 14, 1973, was previously executed, transferring a five (5)-hectare portion of the subject property to Spouses Basa.⁸

Respondents filed a complaint seeking to nullify the aforementioned Deed of Sale and the Deed of Absolute Sale with Assumption of Mortgage and to declare the latter deed as a mortgage and not a Deed of Sale.⁹

In their Complaint, respondents claimed that they inherited the subject property when Juan died on January 22, 1997. They alleged that the subject property was mortgaged by Juan in favor of the bank to secure a loan in the amount of ₱28,339.50. Juan was unable to pay his loan so he pleaded with Spouses Basa to assume the obligation. Allegedly, under their agreement, Spouses Basa would take possession of the subject property until Juan would be able to repay them. Respondents insisted that the true intent and agreement of the parties was for Spouses Basa to pay Juan's loan obligation with the bank. Spouses Basa even assured them that they would not take advantage of the provisions of the fictitious/simulated Deed of Sale.¹⁰

For their part, Spouses Basa claimed that Juan convinced them to purchase the subject property to prevent it from being foreclosed by the bank. Juan executed the Deed of Absolute Sale in order to transfer the subject property to Spouses Basa without qualification and/or right of redemption. Consequently, Spouses Basa paid the entire amount of the loan with the bank and was issued a Cancellation and Discharge of Mortgage. However, Juan did not transfer the title of the subject property in their names; thus, they decided to process the transfer on their own.¹¹

⁵ *Rollo*, pp. 19-20.

⁶ *Id.* at 20.

⁷ Records, Annex "D" of the Complaint dated September 12, 2005.

⁸ *Rollo*, p. 20

⁹ *Id.*

¹⁰ *Id.* at 20-21.

¹¹ *Id.* at 21-22.

The RTC Ruling

In its February 26, 2008 Decision,¹² the RTC ruled in favor of respondents and held that the Deed of Absolute Sale with Assumption of Mortgage was not what it appeared to be on its face but was actually a contract of equitable mortgage made to save the subject property from foreclosure.¹³

Aggrieved, Spouses Basa appealed before the CA.

The CA Ruling

In its January 27, 2011 Decision,¹⁴ the CA affirmed the ruling of the RTC that the parties did not enter into a contract of sale but actually agreed to an equitable mortgage. Several circumstances showing the existence of an equitable mortgage were present. First, the price for the transaction is grossly inadequate as consideration for the sale.¹⁵ Second, respondents were able to establish that the real intention of the parties was for Spouses Basa to pay the indebtedness of Juan with the bank and, in return, they would have possession of the subject property until Juan or his successors-in-interest have paid the loan.¹⁶

Spouses Basa's Motion for Reconsideration was denied by the CA in its June 15, 2011 Resolution.¹⁷

Hence, they filed the instant petition, anchored on the following grounds:

- I. THAT THE COURT *A QUO* AS WELL AS THE HONORABLE COURT OF APPEALS, WITH DUE RESPECT, ERRED IN THE APPLICATION OF ARTICLE 1602 OF THE NEW CIVIL CODE;
- II. THAT THE COURT *A QUO* AS WELL AS THE HONORABLE COURT OF APPEALS, WITH DUE RESPECT, ERRED IN ITS INTERPRETATION THAT THE TRUE INTENTION OF THE PARTIES IS THAT OF [AN] EQUITABLE MORTGAGE;
- III. THAT THE COURT *A QUO* AS WELL AS THE HONORABLE COURT OF APPEALS, WITH DUE

¹² Supra note 3.

¹³ Records, p. 248.

¹⁴ Supra note 1.

¹⁵ *Rollo*, p. 26.

¹⁶ *Id.*

¹⁷ Supra note 2.

RESPECT, ERRED IN ITS CONCLUSION THAT THE PRICE FOR THE TRANSACTION, AS A SALE, IS GROSSLY INADEQUATE.¹⁸

The pivotal issue in this case is whether or not the transaction entered into by the parties was an equitable mortgage.

Petitioners insist that the Deed of Sale with Assumption of Mortgage is a contract of sale because it was stipulated that Juan would sell, transfer, and convey unto Onofre the subject property. Moreover, it was never the intention of Juan to redeem the subject property because he just let time pass away without redeeming the same.¹⁹ Petitioners also claim that the price for the transaction is not grossly inadequate because aside from the amount of ₱6,000.00 stipulated in the said deed, petitioners also paid the loan obligation of Juan amounting to ₱109,854.27.²⁰

In their Comment,²¹ respondents argue that petitioners raise a question of fact which is beyond the ambit of a Petition for Review on *Certiorari*.²² They contend that both the RTC and the CA found that the contract entered into by the parties was an equitable mortgage. They also argue that the consideration was grossly inadequate considering that the subject property covers nineteen (19) hectares of land.²³

The Court's Ruling

At the outset, it must be pointed out that the determination of whether the Deed of Absolute Sale with Assumption of Mortgage is actually an equitable mortgage is a question of fact because it requires the Court to review the evidence on record.²⁴ A question of fact exists when the doubt or difference centers on the truth or falsity of the alleged facts. A question of law, on the other hand, exists if the doubt centers on what the law is on a certain state of facts. Questions of fact are not reviewable and cannot be passed upon by this Court in the exercise of its power to review. This being so, the findings of fact of the CA are final and conclusive and the Court will not review them on appeal.²⁵

¹⁸ *Rollo*, p. 11.

¹⁹ *Id.* at 12.

²⁰ *Id.* at 13.

²¹ *Id.* at 83-93.

²² *Id.* at 83.

²³ *Id.* at 91.

²⁴ See *Claravall v. Lim*, 669 Phil. 570, 579-580 (2011).

²⁵ See *Westmont Investment Corporation v. Francia, Jr.*, 678 Phil. 180, 190-191 (2011).

This rule, however, admits certain exceptions, such as when (1) the conclusion is grounded on speculations, surmises or conjectures; (2) the inference is manifestly mistaken, absurd or impossible; (3) there is grave abuse of discretion; (4) the judgment is based on a misapprehension of facts; (5) the findings of fact are conflicting; (6) there is no citation of specific evidence on which the factual findings are based; (7) the findings of absence of facts are contradicted by the presence of evidence on record; (8) the findings of the CA are contrary to those of the trial court; (9) the CA manifestly overlooked certain relevant and undisputed facts that, if properly considered, would justify a different conclusion; (10) the findings of the CA are beyond the issues of the case; and (11) such findings are contrary to the admissions of both parties.²⁶ In the present case, petitioners failed to substantiate their claim that the case falls under any of these.

It has been held that the findings of the RTC, especially when affirmed by the CA, are conclusive on this Court when supported by the evidence on record.²⁷ This Court will not assess and evaluate all over again the evidence, testimonial and documentary, adduced by the parties to an appeal, particularly where the findings of both the trial court and the appellate court on the matter coincide, as in the instant case.²⁸

Be that as it may, the petition must still be denied for lack of merit.

The Deed of Absolute Sale with Assumption of Mortgage between the parties is actually an equitable mortgage and not a contract of sale

An equitable mortgage is 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.²⁹ Its essential requisites are: (1) that the parties entered into a contract denominated as a contract of sale; and (2) that their intention was to secure an existing debt by way of a mortgage.³⁰

²⁶ *Cabigting v. San Miguel Foods, Inc.*, 620 Phil. 14, 22 (2009).

²⁷ See *Viron Transportation Co., Inc. v. Delos-Santos*, 399 Phil. 243, 250 (2000).

²⁸ *Id.*

²⁹ *Spouses Sy v. De Vera-Navarro*, G.R. No. 239088, April 3, 2019.

³⁰ *Id.*

Article 1602 of the Civil Code states that a contract shall be presumed to be an equitable mortgage, in any of the following cases:

- (1) When the price of a sale with a right of repurchase is unusually inadequate;
- (2) When the vendor remains in possession as lessee or otherwise;
- (3) When upon or after the expiration of the right to repurchase another instrument extending the period of redemption or granting a new period is executed;
- (4) When the purchaser retains for himself a part of the purchase price;
- (5) When the vendor binds himself to pay the taxes on the thing sold;
- (6) In any other case where it may be fairly inferred that the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation.

Based on the records of the case, this Court finds that there is no reason to depart from the conclusion of the RTC and the CA that the Deed of Absolute Sale with Assumption of Mortgage entered into by the parties is, in fact, an equitable mortgage.

Jurisprudence consistently shows that the presence of even one of the circumstances enumerated in Article 1602 is sufficient to convert a purported contract of sale into an equitable mortgage.³¹

In the instant case, the presence of at least two badges of an equitable mortgage creates a strong presumption that the real transaction between the parties was an equitable mortgage.

1. *The price of the sale is grossly inadequate.*

Petitioners insist that the purchase price is not grossly inadequate because aside from the contract price of ₱6,000.00, petitioners also paid the loan of Juan amounting to ₱109,854.27. As such, petitioners paid the total amount of ₱115,854.27 for the subject property.

This Court does not agree.

There is nothing in the Deed of Absolute Sale with Assumption of Mortgage that states that the purchase price is not only ₱6,000.00

³¹ Id., citing *Vda. de Delfin v. Dellota*, 566 Phil. 389, 394 (2008).

but also the amount of the loan of Juan. Petitioners failed to discharge their burden to prove that Juan agreed to sell the subject property partly in payment of said amount. The case of *Spouses Salonga v. Spouses Concepcion*³² is enlightening:

A plain reading of the two (2) deeds of absolute sale shows that the seven lots were sold to the respondents for only ₱2,078,000.00. **There is no provision in said deeds stating that the petitioners sold their property in partial payment of their outstanding account to the respondents (₱3,198,886.47), and partly for an additional ₱2,078,000.00** If it is true, as claimed by the respondents, that the petitioners sold the seven parcels of land to them not only for ₱2,078,000.00 as appearing in said deeds, but also for the outstanding account of ₱3,198,886.47, the same should have been specifically and positively stated in the said deeds. No such provision appears in the two deeds. There is likewise no provision in the said deeds that, by the execution thereof, the petitioners' outstanding account to the respondents in the amount of ₱3,198,886.47 was extinguished and paid. The absence of any provision in the two deeds of absolute sale that the seven parcels of land were sold by the petitioners to the respondents in partial payment of their outstanding account, and partly for ₱2,078,000.00, and any declaration therein that the said outstanding account was thereby extinguished negates the respondents' contention.³³ (emphasis supplied)

Also, this Court agrees with the RTC that even if the purchase price is ₱115,854.27, as petitioners insist, the amount is still grossly inadequate as consideration for the 19 hectares tract of land. As the RTC declared:

Moreover, the purchase price in the amount of ₱6,000.00 mentioned in the questioned deed is unusually inadequate for the nineteen [19] hectares tract of land. Even if this Court will take into consideration the total amount of payments made by the defendants with the mortgagee Bank which is no less than ₱109,854.27 [outstanding balance of the late Juan [d]e Leon as of September 26, 1989 per letter of the authorized deputy of the mortgagee bank and attached to the records of this case], still, it is unusually inadequate for the said huge tract of land. x x x³⁴

2. *The real intention of the parties may be inferred from the circumstances*

³² 507 Phil. 287 (2005).

³³ Id. at 306.

³⁴ Records, p. 248.

*surrounding the
purported sale.*

In *Spouses Reyes v. CA*,³⁵ this Court ruled that utmost consideration must be given to the intention of the parties in light of the relative situation of each and the circumstances surrounding the execution of the contract, thus:

In determining whether a deed absolute in form is a mortgage, the court is not limited to the written memorials of the transaction. **The decisive factor in evaluating such agreement is the intention of the parties, as shown not necessarily by the terminology used in the contract but by all the surrounding circumstances**, such as the relative situation of the parties at that time, the attitude acts, conduct, declarations of the parties, the negotiations between them leading to the deed, and generally, all pertinent facts having a tendency to fix and determine the real nature of their design and understanding. x x x³⁶ (emphasis supplied)

In the instant case, it is undisputed that Juan and Natividad were exhausting all means to save the subject property from being foreclosed by the bank. At first, they asked help from Natividad's elder brother. After he refused, they convinced Spouses Basa to assume their obligation. As agreed upon, Spouses Basa would take possession of the subject property until Juan is able to repay them.³⁷ Thus, they executed the Deed of Sale with Assumption of Mortgage. Their true intention, however, was for Spouses Basa to be the new mortgagees of the subject property upon cancellation and discharge of the mortgage by the bank.

Considering the foregoing, there is no doubt that the real transaction between the parties is an equitable mortgage and not a sale. Indeed, it is contrary to human experience that a person would easily part with his property after incurring a debt. Rather, he would first look for means to settle his obligation and the selling of his property would be his last resort.³⁸ Significantly, the Court has previously ruled that when in doubt, courts are generally inclined to construe a transaction purporting to be a sale as an equitable mortgage, which involves a lesser transmission of rights and interests over the property in controversy.³⁹

³⁵ 393 Phil. 479 (2000).

³⁶ Id. at 489.

³⁷ *Rollo*, p. 20.

³⁸ *Spouses Felipe Solitarios and Julia Torda v. Spouses Jaque*, 746 Phil. 852, 876 (2014), citing *Sps. Raymundo v. Sps. Bandong*, 553 Phil. 480, 493 (2007).

³⁹ *Legaspi v. Spouses Ong*, 498 Phil. 167, 182 (2005).

Legal Interest

In *Muñoz, Jr. v. Ramirez*,⁴⁰ this Court stated that where it was established that the reciprocal obligations of the parties were under an equitable mortgage, reconveyance of the property should be ordered to the rightful owner therein upon the payment of the loan obligation within ninety (90) days from the finality of that decision.⁴¹

In the instant case, the RTC ordered respondents to pay their loan with legal interest from the date of execution of the contract of equitable mortgage until full payment within three (3) years from the finality of the Decision.

In determining the legal interest applicable in this case, Circular No. 799, series of 2013, issued by the Office of the Governor of the Bangko Sentral ng Pilipinas on June 21, 2013, which was the basis of the Court in *Nacar v. Gallery Frames*,⁴² provides that effective July 1, 2013, the rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of an express contract as to such rate of interest, shall be six percent (6%) per annum.⁴³

Applying the foregoing, the rate of interest of twelve percent (12%) per annum on the obligation of respondents shall apply from the date of the execution of the contract on December 18, 1984 until June 30, 2013 only. From July 1, 2013 until fully paid, the legal rate of interest of 6% per annum shall be applied to their unpaid obligation.

WHEREFORE, the petition is **DENIED**. The January 27, 2011 Decision and the June 15, 2011 Resolution of the Court of Appeals in CA-G.R. CV No. 91267 are hereby **AFFIRMED with MODIFICATION** in that petitioners are obligated to reconvey to respondents the subject property upon payment by respondents of the mortgaged debt with legal interest of twelve percent (12%) per annum from December 18, 1984 until June 30, 2013 only, after which date and until fully paid, the mortgage indebtedness shall earn interest at six percent (6%) per annum. Such payment shall be made within ninety (90) days from the finality of this Decision.

⁴⁰ 643 Phil. 267 (2010).

⁴¹ Id. at 282, as cited in *Repuela v. Estate of Spouses Larawan*, 802 Phil. 821, 838 (2016).

⁴² 716 Phil. 267 (2013).

⁴³ Id. at 282.

SO ORDERED.” *Zalameda, J., designated as additional member per Special Order No. 2712 dated September 27, 2019.*

Very truly yours,


LIBRADA C. BUENA
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