



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

HEIRS OF ANIOLINA VDA. DE SEBUA, namely: IMMACULADA S. MAGSUMBOL, GLENN H. SEBUA, JOSEPH H. SEBUA, MARY ANN S. VILLANUEVA, MA. NEMA H. SEBUA and EXAN S. VIBAT,

G.R. No. 244422
Present:

Petitioners, GESMUNDO, CJ., Chairperson
HERNANDO,
ZALAMEDA,
ROSARIO, and
MARQUEZ, JJ.

- versus -

FELICIANA BRAVANTE,
Respondent.

Promulgated:

JUL 06 2022

X ----- X

DECISION

ZALAMEDA, J.:

Necessitous [individuals] are not, truly speaking, free [persons]; but, to answer a present emergency, will submit to any terms that the crafty may impose upon them.¹

¹ This quote first appeared in *Cuyugan v. Santos*, 34 Phil. 100, 111 (1916). By quoting from the landmark decision in *Vernon v. Bethell*, (1762) 28 ER 838, 2 Eden 110, Philippine courts reaffirm protection to debtors.

The Case

Petitioners Heirs of Aniolina H. Sebua (petitioners), filed a Petition for Review² under Rule 45 of the Rules of Court assailing the Decision³ dated 22 January 2019 of the Court of Appeals (CA) – Cagayan de Oro City in CA-G.R. CV No. 03974-MIN.

The CA Decision partly granted respondent Feliciana Bravante's (respondent) appeal and dismissed petitioners' complaint for lack of cause of action. Contrary to the Decision⁴ dated 16 October 2014 of the Regional Trial Court (RTC), Surallah, South Cotabato, Branch 26 in Civil Case No. 989, the CA found that both parties failed to establish their respective causes of action and left things as they were. The RTC had ruled that the parties entered into an equitable mortgage and thus allowed petitioner to redeem Cadastral Lot No. 1525-E, with an area of 16,000 square meters and located at *Barangay* Malaya, Banga, South Cotabato (subject property), from respondent.

Antecedents

The CA summarized the factual antecedents as follows:

This case stemmed from a *Complaint* for Redemption, Recovery of Possession, Damages and Attorney's Fees with Prayer for Temporary Restraining Order and/or Preliminary Injunction [dated 6 August 2009] filed before the [RTC] by [petitioners] against [respondent] Feliciana Bravante. This case was docketed as Civil Case No. 989.

In [the] said Complaint, [petitioners] alleged that she and her husband Exequiel Sebua (Exequiel)⁵ were owners of a parcel of land identified as Cadastral Lot No. 1525-E, situated at *Barangay* Malaya, Banga, South Cotabato, which has an area of, more or less, sixteen thousand (16,000) square meters [(subject property)]. For years, Exequiel cultivated the subject parcel of land despite the fact that he resided in Crossing Tupi, South Cotabo [sic].

Sometime in 1985, Exequiel mortgaged the subject land to [respondent's] husband Julian Bravante (Julian) for granting him, without

² *Rollo*, pp. 8-39.

³ *Id.* at 40-50; penned by Associate Justice Loida S. Posadas-Kahulugan and concurred in by Associate Justices Edgardo A. Camello and Tita Marilyn Payoyo-Villordon of the Twenty-First (21st) Division, Court of Appeals, Cagayan de Oro City.

⁴ *Id.* at 198-210; penned by Presiding Judge Roberto L. Ayco.

⁵ Also referred to as Exequiel, Esequiel in other parts of the *rollo*.

interest, a loan in the amount of thirty thousand pesos ([P]30,000.00). Exequeil and Julian agreed, among others, that Julian was to cultivate the land and to keep the income arising therefrom until Julian [sic] was able to redeem the subject land.

Later, sometime in 1995, Exequeil visited Julian in Barangay Malaya Banga, South Cotabato to pay the loan and to redeem the subject land. However, Julian requested that he be allowed to continue cultivating the land. Being a good friend, Exequeil granted Julian's request. Again, sometime in 2003, Exequeil attempted to redeem the land but he learned that Julian already died a year earlier. Subsequently, on 29 November 2003, Exequeil died as well.

After Exequeil's death, [petitioners'] children signified, in several instances, their intention to redeem the subject land from [respondent]. To their surprise, [respondent] was already claiming ownership over the property. [Petitioners] referred the matter for conciliation before the Office of the Barangay Captain of Malaya, Banga, South Cotabato, but efforts to settle the dispute failed.

In her *Answer with Compulsory Counterclaim*, [respondent] denied [petitioner's] and her husband's ownership over the land subject of this case. She averred that sometime in 1980, [petitioner] and her husband Exequeil mortgaged the subject land to a certain Recto Debuque (Recto).

Subsequently, sometime in 1982, Recto demanded from the [petitioner] and Exequeil the payment of their loan in the amount of five thousand pesos ([P]5,000.00). Since they could not produce the amount, [petitioner] and Exequeil approached [respondent] and her husband to borrow seven thousand pesos ([P]7,000.00) which was to be secured by the subject lot. As requested, [respondent] and her husband lent [petitioner] and Exequeil [P]7,000.00 by giving the [P]5,000.00 redemption price to Recto and the remaining [P]2,000.00 to [petitioners] and Exequeil. As an additional condition to the loan, [respondent] and her husband were allowed to actually possess and cultivate the subject land. Also, [petitioners] and Exequeil agreed that they will return the amount loaned to [respondent] and her husband upon their ([respondent] and her husband) demand.

However, upon demand, [petitioners] and Exequeil failed to return the amount loaned. Instead, they made additional loans from [respondent] and her husband, as follows: (1) [P]3,000.00 on 08 February 1983; (2) [P]1,350.00 on 16 October 1983; (3) [P]3,550.00 on 06 November 1983; (4) [P]1,000.00 on 21 April 1984; (5) [P]500.00 on 13 September 1984; (6) [P]3,000.00 on 04 March 1985; and (7) [P]600.00 on 17 March 1985.

On 23 March 1985, [petitioners] and Exequeil's loan reached [P]22,202.00. Since the amount of their loan had already exceeded the consideration of their mortgage contract, [petitioner] and Exequeil agreed to waive their rights to the subject land, in [respondent] and her husband's favor, for the total consideration of [P]30,000.00. Consequently, [respondent] and her husband gave [petitioners] and Exequeil the following amounts: [P]500.00 on 09 June 1985; (2) [P]298.00 on 16 June

1985; (3) [P]2,000.00 on 18 June 1985; and (4) [P]3,500.00 on 16 September 1985.

Finally, on 03 October 1985, [respondent] and her husband paid [petitioner] and Exequiel [P]1,500.00, representing the final installment payment for the subject land making them ([respondent] and her husband) the lawful owners of the subject land.⁶ (Citations omitted)

The case was referred to the Philippine Mediation Center but the parties failed to reach a settlement. Hence, the Complaint was filed before the RTC.⁷

Ruling of the RTC

On 16 October 2014, the RTC rendered its Decision in favor of petitioners. In its finding of facts, the RTC determined that the parties initially entered into an oral loan of money. Petitioners and her husband offered subject property as a guaranty for the payment of the money they borrowed from respondent and her husband. The RTC also found that the produce from the land was applied by respondent and her husband as payment for the interest of the loan. The RTC thus characterized the transaction as an equitable mortgage governed by Article 1602(6) of the Civil Code, which states, “that the contract shall be presumed to be an equitable mortgage 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.”⁸

The financial status of petitioners at the time of the signing of the “acknowledgment”, as well as the repeated attempts to recover the land, supported the RTC’s assessment of the transaction as an equitable mortgage.⁹ The dispositive portion of the Decision reads:

WHEREFORE, premises all considered, judgment is hereby rendered in favor of [petitioner] and against [respondent] as follows:

“1. The [petitioner] is hereby allowed to redeem the mortgage by returning or paying back the [respondent], the amount of P30,000.00 representing the total consideration of the mortgage;

2. The [respondent] after the above amount of P30,000.00 shall have been returned or paid back her, to surrender the possession and

⁶ *Rollo*, pp. 40-43.

⁷ *Id.* at 198.

⁸ *Id.* at 201-209.

⁹ *Id.*

cultivation of Lot No. 1525-E, containing an area of sixteen thousand (16,000) square meters, more or less, situated at Barangay Malaya, Banga, South Cotabato unto the [petitioner];

3. *The [respondent] pay and retribute unto the [petitioner] reasonable actual expenses in the amount of P20,000.00 and attorney's fees in the amount of P10,000.00."*

The other claims of the [petitioner] as well as the counterclaims of the [respondent] are hereby denied for lack of merit.

SO ORDERED.¹⁰

Respondent's Motion for Reconsideration was denied in the RTC's Order¹¹ dated 23 March 2015.

Ruling of the CA

The CA agreed with respondent that petitioners failed to prove her claim because the testimony of her sole witness, that of her son Joseph H. Sebu, was based on hearsay. However, in similar manner, the CA found that respondent was not able to clearly establish that petitioners waived their rights over the subject property in favor of respondent and her husband.¹²

Since both parties failed to establish their respective causes of action, the CA left things as they are. The CA also no longer delved into the issues of liability for damages and attorney's fees.¹³ The dispositive portion of the CA's Decision reads:

WHEREFORE, foregoing premises considered, the appeal is **PARTLY GRANTED**. [Petitioner's] Complaint is hereby **DISMISSED** for lack of cause of action. Accordingly, the *Decision* dated 16 October 2014 of the [RTC] is **REVERSED and SET ASIDE**. All other claims in the instant appeal are **DENIED** for lack of merit.

SO ORDERED.¹⁴

Issues

Petitioner comes before this Court and raises the following arguments:

¹⁰ Id. at 209-210.

¹¹ Id. at 211-214.

¹² Id. at 45-49.

¹³ Id.

¹⁴ Id. at 49.

A. The [CA] committed a reversible error in not giving any probative value to the testimony of Mr. Joseph H. Sebu.

B. The [CA] committed a reversible error in not finding that there are various circumstances in the case at bar that give rise to the presumption that the transaction is one of equitable mortgage.

C. The [CA] committed a reversible error in not holding that the [Respondent] failed to adduce evidence that will rebut the legal presumption that the subject transaction was an equitable mortgage.¹⁵

Ruling of the Court

The Court finds merit in the Petition.

An equitable mortgage is one which, although lacking in some formality, form, 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. The essential requisites of an equitable mortgage are: (1) the parties enter into what appears to be a contract of sale; (2) but their intention is to secure an existing debt by way of mortgage.¹⁶ The provision also applies even to a contract purporting to be an absolute sale, as in this case, if indeed the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation.¹⁷

Even though there is no single conclusive test to determine whether a deed of sale is really a simple loan accommodation, Article 1602, in relation to Article 1604 of the Civil Code enumerates instances when a contract is presumed to be an equitable mortgage.¹⁸

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;
- (2) When the vendor remains in possession as lessee or

¹⁵ Id. at 12-13.

¹⁶ *Vda. de Delfin v. Dellota*, 566 Phil. 389, 393 (2008); Citations omitted.

¹⁷ *Spouses Reyes v. Court of Appeals*, 393 Phil. 479, 487-488 (2000).

¹⁸ *Repuela v. Estate of Spouses Larawan*, 802 Phil. 821, 832 (2016).

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 extended;

(4) When the purchaser retains for himself [or herself] a part of the purchase price;

(5) When the vendor binds himself [or herself] 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.

In any of the foregoing cases, any money, fruits, or other benefit to be received by the vendee as rent or otherwise shall be considered as interest which shall be subject to the usury laws.

ART. 1604. The provisions of Article 1502 shall also apply to a contract purporting to be an absolute sale.

The presence of even one of the circumstances in Article 1602 is sufficient to declare a contract as an equitable mortgage. The explicit provision of Article 1602 that any of those enumerated circumstances would suffice to construe a contract of sale to be one of equitable mortgage is in consonance with the rule that the law favors the least transmission of property rights. To stress, the existence of any one of the conditions under Article 1602, not a concurrence, or an overwhelming number of such circumstances, suffices to give rise to the presumption that the contract is an equitable mortgage.¹⁹

The RTC justified its ruling that the transaction was one of an equitable mortgage by inference. Indeed, in determining the nature of a contract, courts are not bound by the title nor by the name given by the parties. 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 their conduct, words, actions, and deeds prior to, during, and immediately after executing the agreement. As such, documentary and parol evidence may be submitted and admitted to prove such intention.²⁰

From the parties' submissions, as well as the lower court's disposals, there is no contest that petitioner and her husband were in dire need of

¹⁹ *Aguirre v. Court of Appeals*, 380 Phil. 736, 742 (2000).

²⁰ *Zamora v. Court of Appeals*, 328 Phil. 1106, 1115 (1996), citing Tolentino, V Civil Code of the Philippines 157, 1992 ed.

money. They repeatedly took out loans from respondent and her husband. They signed respondent's memoranda of the loans to satisfy their extreme financial needs. In 1983, respondent's recording of the transaction stated: "to acknowledge receipt of P7,000 x x x which is to be returned upon demand."²¹ By 1984, respondent started writing instead, "[r]eceived x x x as partial payment for the land."²² However, respondent's own evidence did not specifically mention the subject property. She also admitted its self-serving nature: the memoranda were presented to petitioner or her husband for them to just sign.

Respondent took pains to convince the lower courts that the sale price was not grossly inadequate. She presented the 1982 Deed of Sale of an adjacent lot to show similarity in price. In light of Exequiel's repeated attempts to pay off the loan and regain possession of the subject property, respondent's claim of ownership must fail. She cannot use petitioner's failure to pay the loan due to her own machinations to claim ownership to the subject property.

As a mortgagee, respondent's consolidation of ownership over the subject property due to petitioner and her husband's failure to pay the obligation is considered as *pactum commissorium*. The mortgagee's default does not operate to automatically vest on the mortgagee the ownership of the encumbered property. This Court has repeatedly declared such arrangements as contrary to morals and public policy and thus, void. If a mortgagee in equity desires to obtain title to a mortgaged property, the mortgagee's proper remedy is to cause the foreclosure of the mortgage in equity and buy it at a foreclosure sale.²³ This, respondent did not do.

All told, We see no reason to deviate from the RTC's ruling that the transaction of the parties in this case is an equitable mortgage. We delete, however, the award of attorney's fees as the parties were impelled by an honest belief that their respective actions were justified.²⁴

Respondent should return the subject property to petitioner upon payment of the loan within ninety (90) days from finality of this Decision.²⁵ The amount of ₱30,000.00 as consideration for the mortgage should be returned by petitioner to respondent. The rate of interest of 12% *per annum* on petitioner's obligation shall apply from the date of the filing of the

²¹ *Rollo*, p. 42.

²² *Id.*

²³ *Dacquel v. Spouses Sotelo*, G.R. No. 203946, 04 August 2021.

²⁴ *Id.*

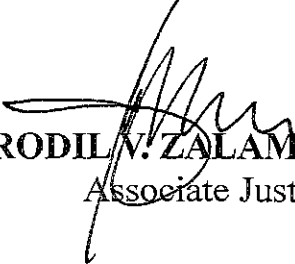
²⁵ *Muñoz v. Ramirez*, 643 Phil. 267, 282 (2010).



complaint on 06 August 2009 until 30 June 2013. From 01 July 2013 until finality of this Decision, the legal rate of 6% *per annum* shall be applied to the unpaid obligation.²⁶

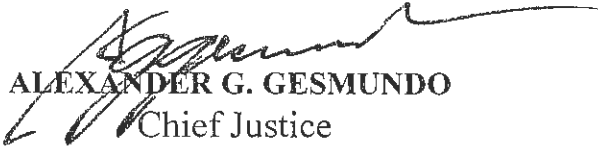
WHEREFORE, the present petition is **GRANTED**. The Decision of the Court of Appeals – Cagayan de Oro City in CA-G.R. CV No. 03974-MIN is **REVERSED** and **SET ASIDE**. The Decision of Branch 26, Regional Trial Court of Surallah, South Cotabato in Civil Case No. 989 is **REINSTATED** and **AFFIRMED** with **MODIFICATION** that petitioners Heirs of Aniolina H. Sebua, are liable for interest at the rate of 12% *per annum* computed from 06 August 2009 until 30 June 2013. From 1 July 2013 until finality of this Decision, the interest rate of 6% *per annum* shall be imposed to the unpaid obligation. In case of default on the part of petitioners to settle their obligations within ninety (90) days from finality of this Decision, the property shall be sold at public auction and the proceeds applied to the mortgage debt.


SO ORDERED.


RODIL N. ZALAMEDA
Associate Justice

²⁶ See *Nacar v. Gallery Frames*, 716 Phil. 267, 282-283 (2013).

WE CONCUR:


ALEXANDER G. GESMUNDO
Chief Justice


RAMON PAUL L. HERNANDO
Associate Justice



RICARDO R. ROSARIO
Associate Justice


JOSE MIDAS P. MARQUEZ
Associate Justice

CERTIFICATION

Pursuant to the Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ALEXANDER G. GESMUNDO
Chief Justice

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LIBRADA C. BUENA
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