

SECOND DIVISION

[G.R. No. 155716, October 02, 2009]

**ROCKVILLE EXCEL INTERNATIONAL EXIM CORPORATION,
PETITIONER, VS. SPOUSES OLIGARIO CULLA AND BERNARDITA
MIRANDA, RESPONDENTS.**

D E C I S I O N

BRION, J.:

Whether a Deed of Absolute Sale is really an absolute sale of real property or an equitable mortgage is the main issue now before us. Petitioner Rockville Excel International Exim Corporation (*Rockville*) prays in this petition^[1] that we reverse the October 9, 2002 decision^[2] of the Court of Appeals (CA) in CA G.R. SP No. 66070, denying its appeal and affirming the decision of the Regional Trial Court (RTC), Batangas City, Branch 2 in Civil Case No. 4789, which dismissed their complaint for specific performance against the respondents Spouses Oligario (*Oligario*) and Bernardita Culla.

BACKGROUND FACTS

The spouses Oligario and Bernardita (*Sps. Culla*) are the registered owners of a parcel of land covered by Transfer Certificate of Title (TCT) No. 5416. They mortgaged this property to PS Bank to secure a loan of P1,400,000.00.

Sometime in 1993, the Office of the Clerk of Court and the Ex-Officio Sheriff issued a Sheriff's Notice of Sale for the extrajudicial foreclosure of the property. To prevent the foreclosure, Oligario approached Rockville - represented by its president and chairman, Diana Young - for financial assistance. Rockville accommodated Oligario's request and extended him a loan of P1,400,000.00. This amount was increased by P600,000.00 for the cash advances Oligario requested, for a total loan amount of P2,000,000.00.

According to Rockville, when Oligario failed to pay the P2,000,000.00 loan after repeated demands and promises to pay, the Sps. Culla agreed to pay their indebtedness by selling to Rockville another property the spouses owned in Brgy. Calicanto, Batangas City (*property*). The property has an area of approximately 7,074 square meters and is covered by TCT No. T-19538. Since a survey of the surrounding properties revealed that the property is worth more than the Sps. Culla's P2,000,000.00 loan, the parties agreed to fix the purchase price at P3,500,000.00.

As narrated by Rockville, it accepted the offer for a *dacion en pago*; on June 25, 1994, Rockville and Oligario executed a Deed of Absolute Sale over the property. While the property was a conjugal property of the Sps. Culla, only Oligario signed

the Deed of Absolute Sale. Rockville asserted that, by agreement with the Sps. Culla, Rockville would pay the additional P1,500,000.00 after Bernardita affixes her signature to the Deed of Absolute Sale.

Rockville claimed that it had always been ready and willing to comply with its obligation to deliver the P1,500,000.00. In fact, Rockville initially deposited this whole amount with May Bank of Malaysia, with notice to Oligario, which amount was subsequently transferred to Rockville's law firm. However, when Bernardita continued to refuse to sign the Deed of Absolute Sale, Rockville caused the annotation of an adverse claim on TCT No. T-19538 in order to protect its interest in the property. Furthermore, Rockville tried to transfer the title of the property in its name but the Registry of Deeds refused to carry out the transfer, given the absence of Bernardita's signature in the Deed of Absolute Sale.

On February 4, 1997, Rockville filed a complaint for Specific Performance and Damages before the Regional Trial Court (RTC) of Batangas City, Branch 2 against the Sps. Culla, praying that the lower court order Bernardita to sign the Deed of Absolute Sale or, in the alternative, to authorize the sale even without Bernardita's signature.

In their Answer, the Sps. Culla alleged that the purported Deed of Absolute Sale failed to reflect their true intentions, as the deed was meant only to guarantee the debt to Diana Young, not to Rockville. Contrary to Rockville's contention, the agreement was that the P1,500,000.00 had to be paid before Bernardita would sign the Deed of Absolute Sale. When neither Rockville nor Diana Young paid the P1,500,000.00, the Sps. Culla volunteered to repay the P2,000,000.00 and opted to rescind the sale.

On October 26, 1999, the RTC decided the case in the respondents' favor,^[3] dismissing Rockville's complaint after finding that the transaction between the parties was in reality an equitable mortgage, not an absolute sale. The dispositive portion of the RTC decision states:

WHEREFORE, in view of all the foregoing, the complaint filed by the plaintiff, Rockville Excel International Exim Corporation against defendants Oligario Culla and Bernardita Miranda is hereby DISMISSED. The Absolute Deed of Sale executed between the said plaintiff and defendants on June 25, 1994 is hereby declared as an equitable mortgage and, defendants are hereby entitled to redeem the mortgaged property upon full payment of their mortgaged debt to the plaintiff in the total amount of two million pesos (P2,000,000.00) with legal rate of interest from June 25, 1994, the time the loan matured, until it is fully satisfied. With costs against the plaintiff.

SO ORDERED.

THE CA DECISION

Rockville appealed to the CA. In the assailed October 9, 2002 decision, the CA concluded that the purported contract of sale between Rockville and the Sps. Culla

was in reality an equitable mortgage based on the following factual circumstances: (a) the glaring inadequacy in the consideration for the sale and the actual market value of the property; (b) the fact that the Sps. Culla remained in possession of the property even after the execution of the Deed of Absolute Sale; (c) the fact that Rockville never paid the Sps. Culla the agreed P1,500,000.00 balance in the purchase price; and (d) Rockville's continuous grant of extensions to the Sps. Culla to pay their loan despite the execution of the deed of sale.

THE PETITION

The present petition - filed after the CA denied Rockville's motion for reconsideration - asks us to resolve whether the parties' agreement is an absolute sale or an equitable mortgage of real property.

Rockville submits that the CA erred in finding that the contract of sale with the Sps. Culla was an equitable mortgage, insisting that the transaction was a *dacion en pago*. Rockville points out that the Sps. Culla themselves admitted that they agreed to sell the property as payment for the P2,000,000.00 loan and for the additional payment of P1,500,000.00 Rockville was to pay. Rockville further argues that even without Bernardita's signature on the Deed of Absolute Sale, the document is still binding as Oligario represented the spouses in the transaction. Since Bernardita benefited from the transaction, with the P1,400,000.00 of the purchase price having been used to redeem the mortgaged conjugal property, Rockville posits that Bernardita impliedly and effectively ratified the sale.

The Sps. Culla, on the other hand, maintain the contrary view and insist that the RTC and the CA were correct in holding that the sale was in fact an equitable mortgage.

THE COURT'S RULING

We find the petitioner's arguments to be legally flawed, and therefore deny the petition for lack of merit.

No dacion en pago

Dacion en pago is the delivery and transmission of ownership of a thing by the debtor to the creditor as an accepted equivalent of the performance of an existing obligation. **It is a special mode of payment where the debtor offers another thing to the creditor who accepts it as equivalent to the payment of an outstanding debt.**^[4] For *dacion en pago* to exist, the following elements must concur: (a) existence of a money obligation; (b) the alienation to the creditor of a property by the debtor with the consent of the former; and (c) satisfaction of the money obligation of the debtor.^[5]

Rockville mainly contends that the Sps. Culla sold their property to pay their due and demandable P2,000,000.00 debt; the transaction is therefore a *dacion en pago*. It also repeatedly emphasized that Bernardita admitted in her testimony that she would have signed the Deed of Absolute Sale if Rockville had paid the P1,500,000.00.

Rockville's arguments would have been telling and convincing were it not for the undisputed fact that even after the execution of the Deed of Absolute Sale, Rockville still granted Oligario time to repay his P2,000,000.00 indebtedness. In fact, as Diana Young admitted in her testimony, Rockville gave Oligario the chance to pay off the loan on the same day that the deed was executed. As Diana Young stated:

Q. Why, he was asking for the extension of P2 million pesos that he barrowed (sic) from you to be paid by him?

A. He asked me for the extension of time to pay.

Q. **After the execution of the deed of sale (Exhibit "C")?**

A. On the very day. Yes, after the lapse of the six (6) months to pay back the property.

Q. So what appears was a document of sale Exhibit "C" was executed signed by the defendant, Oligario Culla, signed by you and then notarized by a Notary Public.

A. Yes, sir.

Q. **On same occasion he asked from you that he be given an extension of six (6) months within which to pay the loan of P2 million pesos?**

A. Yes, sir.^[6]

If the parties had truly intended a *dacion en pago* transaction to extinguish the Sps. Culla's P2,000,000.00 loan and Oligario had sold the property in payment for this debt, it made no sense for him to continue to ask for extensions of the time to pay the loan. More importantly, Rockville would not have granted the requested extensions to Oligario if payment through a *dacion en pago* had taken place. That Rockville granted the extensions simply belied its contention that they had intended a *dacion en pago*.

On several occasions, we have decreed that in determining the nature of a contract, courts are not bound by the title or name given by the parties. The decisive factor in evaluating an 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.^[7] Thus, to ascertain the intention of the parties, their contemporaneous and subsequent acts should be considered. Once the intention of the parties is duly ascertained, that intent is deemed as integral to the contract as its originally expressed unequivocal terms.^[8]

Thus, we agree with the factual findings of the RTC and the CA that no agreement of sale was perfected between Rockville and the Sps. Culla. On the contrary, what they denominated as a Deed of Absolute Sale was in fact an equitable mortgage.

Definition of equitable mortgage