

## SECOND DIVISION

[ G.R. No. 138210, June 06, 2002 ]

**SPOUSES SINFRONIO PUERTO AND ESPERANZA PUERTO,  
PETITIONERS, VS. HON. COURT OF APPEALS, HON. BR. 83 OF  
THE REGIONAL TRIAL COURT OF QUEZON CITY AND SPS.  
INOCENCIO AND ELEUTERIA CORTES, RESPONDENTS.**

### DECISION

**QUISUMBING, J.:**

This is a petition for review on certiorari seeking the reversal of the amended decision<sup>[1]</sup> dated February 4, 1999, of the Court of Appeals in CA-G.R. CV No. 32197, as well as its resolution<sup>[2]</sup> dated April 5, 1999 denying the motion for reconsideration. The appellate court affirmed the decision<sup>[3]</sup> dated January 18, 1991, of the Regional Trial Court of Quezon City, Branch 83, dismissing the amended complaint of petitioners (plaintiffs below) in Civil Case No. Q-21883.

From the conflicting versions of the parties, the Court of Appeals found the following facts which are culled from and duly supported by the records.

Petitioners spouses Sinfronio and Esperanza Puerto were the former registered owners of a house and lot located at 89 Kapiligan, Araneta Subdivision, Quezon City, subject of the present controversy. They bought this property from one Mrs. Luna but did not have the title immediately transferred to their names until they mortgaged the same to private respondents spouses Inocencio and Eleuteria Cortes.<sup>[4]</sup> It appears that on May 8, 1972, petitioners executed, in favor of private respondents, a Deed of Real Estate Mortgage<sup>[5]</sup> covering the said house and lot. This deed provides, among others, that petitioner spouses, obtained from private respondents a loan in the amount of P200,000, payable within one year from the date of the execution thereof. Ostensibly, the mortgage contract did not provide for any stipulated interest. It however provided that should petitioners fail to pay the principal loan, private respondents were authorized to immediately foreclose the mortgaged property, judicially or extrajudicially, under the provisions of Act No. 3135. Furthermore, private respondents would be appointed receiver in case of foreclosure.

According to petitioner Esperanza Puerto, the Deed of Mortgage did not reflect the true intent of the parties, as in fact, the consideration of the mortgage was only P150,000. She claims that the one year interest was added to the P150,000, the additional P50,000 as advance payment, hence, the amount of P200,000 was stated in the deed. She further testified that the P150,000 constituted the advance of P8,000, with the corresponding receipt; another P2,000, without any receipt, received by petitioner Esperanza on May 8, 1972, for payment of taxes and to register the deed of sale when the property was first bought by petitioners from Mrs.

Luna, and to register the mortgage in favor of private respondents; a Monte de Piedad cashier's check in the amount of P70,000 received by Esperanza on May 10, 1972;<sup>[6]</sup> and several pieces of jewelry valued at P70,000 she received on May 9, 1972. She added that for the last transaction, she made out a receipt to the effect that she received the amount of P30,000 in cash and pieces of diamond jewelry worth P170,000.<sup>[7]</sup> All the receipts presented by Esperanza were written and duly signed by her.

Esperanza testified that she reached a verbal agreement with private respondents on the following:<sup>[8]</sup>

1. that petitioners would not pay an interest for one year from date of mortgage until maturity because of the prepaid interest of P50,000;
2. that after the maturity of the loan, private respondents would still allow the petitioners to redeem the property even after foreclosure as long as the latter would return the amount of P200,000 in lump sum;
3. that in the event that petitioners could not return the loan in lump sum, they would pay P4,000 monthly interest; and
4. that petitioners would cooperate with the private respondents to conceal the usurious character of the loan by not demanding receipts for payments of interest.

Private respondent Eleuteria Cortes, on the other hand, testified that sometime in 1972, petitioners asked them for a loan of P200,000 and gave the house and lot as security. According to Eleuteria, she loaned Esperanza the money because of their long friendship. She claims that the mortgage deed as well as all the receipts presented by Esperanza reflect all their agreements.<sup>[9]</sup>

When the loan matured on May 8, 1973, petitioners failed to pay the P200,000. On August 3, 1973, private respondents made a formal demand for petitioners to pay the loan under threat of foreclosure of the mortgaged property. As petitioners failed to pay, private respondents foreclosed the property, which was sold at a public auction on October 4, 1973. Private respondents were the highest bidders.

On May 7, 1975, even after title to the property was transferred to private respondents, petitioners were allowed to stay on the property until they could find a new residence. However, after repeated extensions to stay, petitioners did not transfer. They then entered into a lease contract where petitioners would pay the respondents, as new owners, P3,000 by way of rentals, effective January 1, 1975. On September 16, 1976, when petitioners failed and refused to pay monthly rentals beginning February 1976, private respondents filed an ejectment case against them in the City Court of Quezon City.<sup>[10]</sup>

Petitioners, for their part, alleged that when they failed to pay the loan, private respondents demanded a monthly interest of P4,000. When they failed to pay said interest for four months, private respondents foreclosed the mortgage. On October 5, 1974, after the expiration of the redemption period, private respondents acquired

full title to the property and were issued Transfer Certificate of Title No. 207527. Petitioners claim that from October 1973 until December 1975, they continued to pay the monthly interest of P4,000, but without receipts because of their verbal agreement to conceal the usurious nature of the transaction. Sometime in January 1976, according to petitioners, they appealed to private respondents to reduce the interest rate to P3,000 per month. Private respondents agreed on the condition that they sign a lease contract, whereby private respondents would appear as lessors and petitioners as lessees, and P3,000 interest would be denominated as "rent".

On January 1, 1976, petitioner Esperanza and private respondent Eleuteria executed a contract of lease. Petitioners paid the "rent" on the first month but could not pay for the succeeding months allegedly because of the usurious demands of private respondents.

On August 20, 1976, petitioners filed an action against private respondents for the declaration of nullity of the Deed of Real Estate Mortgage, before the Court of First Instance of Rizal, Branch XVII. The complaint was amended on February 23, 1978 to include additional causes of action.<sup>[11]</sup>

The trial court dismissed the complaint as follows:

WHEREFORE, premises considered, judgment is hereby rendered:

1. Dismissing the complaint;
2. As to defendants' counterclaim, ordering plaintiffs to pay defendants the sum of P3,000.00 per month beginning February, 1976 until plaintiffs vacate the property;
3. And to pay the costs.

SO ORDERED.<sup>[12]</sup>

On appeal, the appellate court reversed the decision of the trial court, to wit:

WHEREFORE, the decision appealed from is hereby SET ASIDE and a NEW ONE ENTERED:

1. Declaring the mortgage contract of the parties null and void;
2. Declaring the foreclosure of said property of no force and effect;
3. Ordering the plaintiff-appellants to pay the defendants-appellees P150,000.00 with the legal rate of interest thereon from the time of demand until fully paid; and
4. Ordering the cancellation of the Transfer Certificate of Title in defendants-appellees' name.<sup>[13]</sup>

However, private respondents filed motion for reconsideration that was granted by the appellate court. In its amended decision dated February 4, 1999, the Court of Appeals rendered judgment as follows:

WHEREFORE, appellees' motion for reconsideration is hereby GRANTED. The decision herein promulgated on September 30, 1998 is hereby RECONSIDERED and SET ASIDE. The Decision dated January 18, 1991 in Civil Case No. Q-21883 is hereby AFFIRMED.

SO ORDERED.<sup>[14]</sup>

Thereafter, petitioners filed a motion for reconsideration of the aforesated amended decision. On April 5, 1999, the Court of Appeals rendered its resolution denying petitioners' motion for reconsideration and their motion to set for oral argument, for lack of merit.<sup>[15]</sup>

Hence, the present petition, wherein petitioners aver the following "grounds" for review:

I. THE HONORABLE RESPONDENT COURT OF APPEALS HAVE CLEARLY OVERLOOKED AND FAILED TO CONSIDER THE SIGNIFICANT FACTS AND CIRCUMSTANCES OF THIS CASE WHICH IF PROPERLY CONSIDERED SHOULD HAVE DRAWN A DIFFERENT CONCLUSION WHICH WILL AFFECT THE RESULT OF THIS CASE.

II. CONTRARY TO THE DECISIONS AND PRONOUNCEMENTS OF THIS HONORABLE SUPREME COURT.

III. TAINTED WITH GRAVE ABUSE OF DISCRETION.<sup>[16]</sup>

Principally, the issue for our resolution now is whether the contract between the parties, which is a loan secured by the deed of real estate mortgage, violated the Usury Law (P.D. 116). In the affirmative, we must also inquire into its effect upon the real estate mortgage that secured the loan and its subsequent foreclosure.

At the time of the questioned transaction, Act No. 2655, as amended by P.D. 116, known as the Usury Law, was in full force and effect. It is elementary that the laws in force at the time the contract was made generally govern the effectivity of its provision. Usury may be defined as contracting for or receiving something in excess of the amount allowed by law for the forbearance of money, goods or things in action.<sup>[17]</sup> The Usury Law prescribed that the legal rate of interest for the loan or forbearance of any money, goods or credits, where such loan or renewal or forbearance is secured in whole or in part by a mortgage upon real estate the title to which is duly registered, in the absence of express contract as to such rate of interest, shall be 12% per annum.<sup>[18]</sup> Any amount of interest paid or stipulated to be paid in excess of that fixed by law is considered usurious, therefore unlawful.

Petitioners contend that the Court of Appeals committed reversible error in upholding the lower court and declaring that the loan was not usurious, based on the following circumstances:

a) The fact that Mrs. Puerto herself was a jeweler of long standing and the fact that she admitted that she had a hand in the valuation of the pieces of jewelry loaned her have created doubts on the Court's mind as regards the allegation of a usurious transaction x x x;

- b) The mortgage contract itself executed by the parties did not provide for any interest on the principal loan of P200,000.00 x x x;
- c) Mrs. Puerto continued to do business with appellees even after the alleged usurious mortgage transaction x x x;
- d) Mrs Puerto even asked for another loan from appellees in the amount of P150,000.00 xxx.<sup>[19]</sup>

Petitioners further argue that the appellate court erred in not considering the fact that the subject property was purchased by the Puertos for only P150,000. Petitioners add that if the agreement was for a mortgage loan of P200,000 without interest, as claimed by respondents, how then could the property have been mortgaged at a higher price when the standard money lending practice was to grant a loan of only up to 80 percent of the value of the property mortgaged?<sup>[20]</sup> According to petitioners, the appellate court should have considered that a creditor would not grant a loan the amount of which is much higher than the value of the property securing the loan. It should not have relied on Esperanza's knowledge of jewelry valuation to conclude that the transaction was not usurious. Such conclusion, according to them was an error in law that justifies a review of the amended decision.<sup>[21]</sup>

Private respondents, for their part, insist that petitioners (the Puertos) borrowed P200,000 as a loan secured by the mortgage of their house and lot. Further, they claim that it was petitioners who prepared the deed of real estate mortgage, the receipt covering the amount of P30,000 in cash, and the receipt for the P170,000 worth of jewelry, written entirely in the handwriting of Esperanza. They also point out that petitioners did not present any proof of their claim that the terms of the loan was usurious. At any rate, according to private respondents, the instant petition raises questions of facts not reviewable in a petition under Rule 45 of the Rules of Court.<sup>[22]</sup>

We have held in several cases that the rule that a petition raising a purely question of fact is dismissible, is not absolute. The rule admits of exceptions, one of which is when the Court of Appeals manifestly overlooked certain relevant facts or circumstances of sufficient weight or significance, which if considered, would justify a different conclusion.<sup>[23]</sup> In our view, the instant case falls under this exception.

In its amended decision, the appellate court mainly based the re-evaluation of the evidence on record upon the finding that Esperanza admitted to having a hand in the valuation of the jewelry, which formed part of the total amount of the loan. It said that "the fact that Mrs. Puerto herself was a jeweler of long standing and the fact that she admitted that she had a hand in the valuation of the pieces of jewelry loaned her have created doubts on the court's mind as regards her allegation of a usurious transaction."<sup>[24]</sup> However, we note that this premise is not accurate.

Eleuteria, in her direct examination, testified,

- Q: Now, who fixed the value of the jewelr[y] to be at P170,000.00?
- A: At first I want it higher but Mrs. Puerto bargained because