

THIRD DIVISION

[G.R. No. 125766, October 19, 1998]

**FELICIDAD L. ORONCE AND ROSITA L. FLAMINIANO,
PETITIONERS, VS. HON. COURT OF APPEALS AND PRICILIANO B.
GONZALES DEVELOPMENT CORPORATION, RESPONDENTS.**

D E C I S I O N

ROMERO, J.:

The issue of whether or not a Metropolitan or Municipal Trial Court may resolve the issue of ownership of the property involved in an unlawful detainer case has been discussed by this Court in a number of cases, the more recent of which is that of *Hilario v. Court of Appeals*.^[1] Jurisprudence on the matter has in fact been reflected in the 1997 Rules of Civil Procedure under Rule 70, to wit:

"SEC. 16. *Resolving defense of ownership.* - When the defendant raises the defense of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession. (4a)"

These developments in the law notwithstanding, there remains some misconceptions on the issue of jurisdiction of inferior courts in ejectment cases where ownership is raised as a defense that the Court deems proper to clarify in this petition.

Private respondent Priciliano B. Gonzales Development Corporation was the registered owner of a parcel of land with an area of 2,000 square meters. The land with improvements, covered by Transfer Certificate of Title No. RT-54556 (383917), is situated at No. 52 Gilmore Street, New Manila, Quezon City.

In June 1988, private respondent obtained a four million peso - (P4,000,000.00) loan from the China Banking Corporation. To guarantee payment of the loan, private respondent mortgaged the Gilmore property and all its improvements to said bank. Due to irregular payment of amortization, interests and penalties on the loan accumulated through the years.

On April 13, 1992, private respondent, through its president, Antonio B. Gonzales, signed and executed a Deed of Sale with Assumption of Mortgage covering the Gilmore property and its improvements, in favor of petitioners Rosita Flaminiano and Felicidad L. Oronce.^[2] The deed, which states that the sale was in consideration of the sum of P5,400,000.00,^[3] provided *inter alia* that

"x x x the VENDOR (PBGDC) also guarantees the right of the VENDEES (petitioners) to the possession of the property subject of this contract without the need of judicial action; and possession of said premises shall be delivered to the VENDEES by the VENDOR at the expiration of one (1)

year from the date of the signing and execution of this Deed of Sale with Assumption of Mortgage."

On the other hand, petitioners bound themselves to pay private respondent's indebtedness with China Banking Corporation.

In fulfillment of the terms and conditions embodied in the Deed of Sale with Assumption of Mortgage, petitioners paid private respondent's indebtedness with the bank. However, private respondent reneged on its obligation to deliver possession of the premises to petitioners upon the expiration of the one-year period from April 13, 1992. Almost six months later since the execution of the instrument or on October 2, 1992, petitioners caused the registration of the Deed of Sale with Assumption of Mortgage with the Register of Deeds. Simultaneously, they obtained a new title, TCT No. 67990, consistent with the fact that they are the new owners of the property.^[4] Sometime in July 1993, they paid the real estate taxes on the property for which they were issued Tax Declarations Nos. C-061-02815 and C-061-02816.^[5]

On November 12, 1993, petitioners sent private respondent a demand letter asking it to vacate the premises. Said letter, just like three other consecutive notices sent through the Quezon City post office, was unclaimed. Hence, on April 11, 1994, petitioners filed before the Metropolitan Trial Court of Quezon City, a complaint for unlawful detainer against private respondent. The complaint, docketed as Civil Case No. 8638 was raffled to Branch 41. Petitioners alleged that by virtue of the Deed of Sale with Assumption of Mortgage, they acquired from private respondent the Gilmore property and its improvements, for which reason they were issued TCT No. 67990. However, they added, in violation of the terms of that document, specifically Sec. 3 (c) thereof, private respondent refused to surrender possession of the premises. Consequently, they demanded that private respondent vacate the premises through notices sent by registered mail that were, however, returned to them unclaimed.

In its answer to the complaint, private respondent raised the issue of ownership over the property. It impugned petitioners' right to eject, alleging that petitioners had no cause of action against it because it was merely a mortgagee of the property. It argued that when the parties executed the Deed of Sale with Assumption of Mortgage, its real intention was to forge an equitable mortgage and not a sale. It pointed out three circumstances indicative of an equitable mortgage, namely: inadequacy of the purchase price, continued possession by private respondent of the premises, and petitioners' retention of a portion of the purchase price.

During the preliminary conference on the case, the parties agreed to stipulate on the following: (a) the existence and due execution of the Deed of Sale with Assumption of Mortgage, and (b) the issue of whether or not the premises *in litis* are being unlawfully detained by private respondent.^[6]

On March 24, 1995, the MTC^[7] decided the case in favor of petitioners. It ruled that petitioners are the owners of the Gilmore property on account of the following pieces of evidence: (a) TCT No. 67990; (b) petitioners' payment to the China Banking Corporation of P8,500,000.00, the amount of the mortgage entered into between private respondent and said bank; (c) payment of real estate taxes for

1993, and (d) Tax Declaration No. 02816 in petitioners' names. The MTC further held that private respondent's possession of the premises was merely tolerated by petitioners and because it refused to vacate the premises despite demand to do so, then its possession of the same premises had become illegal. Thus, the MTC decreed as follows:

"WHEREFORE, premises considered, judgment is hereby rendered ordering defendant and all persons claiming rights under it to vacate the premises-in-litis located at No. 52 Gilmore St., New Manila, Quezon City, and to peacefully surrender possession thereof to the plaintiffs; to pay plaintiffs the sum of P20,000.00 a month as compensation for the unjust occupation of the same from April 11, 1994 (the date of filing of this case) until defendant fully vacates the said premises; to pay plaintiffs the amount of P20,000.00 as and for attorney's fees plus costs of suit.

Counterclaim is dismissed for lack of merit.

SO ORDERED."^[8]

On April 25, 1995, private respondent interposed an appeal to the Regional Trial Court, Branch 219, of Quezon City that docketed it as Civil Case No. Q-95-23697. Private respondent stressed in its appeal that it was not unlawfully withholding possession of the premises from petitioners because the latter's basis for evicting it was the Deed of Sale with Assumption of Mortgage that did not reflect the true intention of the parties to enter into an equitable mortgage. Clearly in pursuance of that allegation, private respondent filed a motion questioning the jurisdiction of the RTC to entertain its appeal. On the other hand, petitioners filed a motion for the immediate execution of the appealed decision. The RTC granted the motion on September 21, 1995 and the corresponding writ of execution was issued on September 25, 1995. The following day, the sheriff served upon private respondent the writ of execution and a notice to vacate the premises within five (5) days from receipt thereof.

Meanwhile, during the pendency of its appeal, private respondent filed an action for reformation of instrument with the RTC. It was docketed as Civil Case No. Q-95-24927 and assigned to Branch 227.

In a resolution dated December 7, 1995, RTC Branch 219 asserted jurisdiction over the appeal. It ruled that the issue of whether or not an action for reformation of a deed of sale and an unlawful detainer case can proceed independently of each other has been resolved by this Court in *Judith v. Abragan*.^[9] In said case, this Court held that the fact that defendants had previously filed a separate action for the reformation of a deed of absolute sale into one of pacto de retro sale or equitable mortgage in the same Court of First Instance is not a valid reason to frustrate the summary remedy of ejectment afforded by law to the plaintiff.

On December 12, 1995, private respondent filed in the Court of Appeals a petition for certiorari with prayer for a temporary restraining order and writ of preliminary injunction against petitioners and RTC Branch 219. It assailed the September 21, 1995 order granting the issuance of a writ of execution pending appeal, the writ of execution and the notice to vacate served upon private respondent (CA-G.R. SP-39227).

On December 13, 1995, RTC Branch 219^[10] rendered the decision affirming in toto that of the Metropolitan Trial Court. Stating that in ejectment proceedings, the only issue for resolution is who is entitled to physical or material possession of the premises involved, RTC Branch 219 held that:

"x x x the plaintiffs (petitioners herein) are vendees of the defendant (PBGDC) by virtue of a deed of sale where the extent of its right to continue holding possession was stipulated. In the agreement, the existence and due execution of which the defendant had admitted (Order, December 16, 1994, Rollo, p. 111), it was clearly stated that the defendant shall deliver the possession of the subject premises to the plaintiffs at the expiration of one (1) year from the execution thereof, April 12, 1992. The defendant failed to do so. From then on, it could be said that the defendant has been unlawfully withholding possession of the premises from the plaintiffs.

In any case, this ruling on the matter of possession de facto is without prejudice to the action for reformation. This is because 'the judgment rendered in an action for forcible entry or detainer shall be effective with respect to the possession only and in no wise bind the title or effect the ownership of the land or building nor shall it be held conclusive of the facts therein found in a case between the same parties upon a different cause of action not involving possession' (Ang Ping v. Regional Trial Court, 154 SCRA 153; Section 7, Rule 70, Rules of Court)."^[11]

On that same date, December 13, 1995, the Court of Appeals issued a temporary restraining order enjoining RTC Branch 219 from enforcing the writ of execution and the notice to vacate the premises and on January 15, 1996, the same court granted private respondent's application for a writ of preliminary injunction enjoining the implementation of both the writ of execution pending appeal and the decision of RTC Branch 219.

Around six months later or on July 2, 1996, RTC Branch 227^[12] issued an order declaring private respondent non-suited for failure to appear at the pre-trial and, therefore, dismissing the action for reformation of instrument in Civil Case No. Q-95-24927. Private respondent, not having sought reconsideration of said order, the same court issued a resolution on August 15, 1996 directing the entry of judgment in the case.^[13] The Clerk of Court accordingly issued the final entry of judgment thereon.^[14]

In the meantime, on July 24, 1996, the Court of Appeals rendered the herein questioned Decision.^[15] It set aside the December 13, 1995 decision of RTC Branch 219 and declared as null and void for want of jurisdiction, the March 24, 1995 decision of the Metropolitan Trial Court of Quezon City, Branch 41. It made permanent the writ of preliminary injunction enjoining petitioners from implementing the decision of RTC Branch 219, the writ of execution and the notice to vacate. In so holding, the Court of Appeals said:

"It is quite evident that, upon the pleadings, the dispute between the parties extended beyond the ordinary issues in ejectment cases. The

resolution of the dispute hinged on the question of ownership and for that reason was not cognizable by the MTC. (See: General Insurance and Surety Corporation v. Castelo, 13 SCRA 652 [1965]).

Respondent judge was not unaware of the pendency of the action for reformation. However, despite such knowledge, he proceeded to discuss the merits of the appeal and rendered judgment in favor of respondents on the basis of the deed of sale with assumption of mortgage which was precisely the subject of the action for reformation pending before another branch of the court. Prudence dictated that respondent judge should have refused to be drawn into a discussion as to the merits of the respective contentions of the parties and deferred to the action of the court before whom the issue was directly raised for resolution."

On whether or not private respondent was in estoppel from questioning the jurisdiction of the MTC since it voluntarily submitted thereto the question of the validity of its title to the property, the Court of Appeals said:

"This is not so. As earlier pointed out, petitioner (private respondent here) had, in its answer to the complaint for unlawful detainer, promptly raised the issue of jurisdiction by alleging that what was entered into by the parties was just an equitable mortgage and not a sale. Assuming the truth of this allegation, it is fairly evident that respondents would not have had a cause of action for ejectment. In other words, petitioner, since the start of the case, presented a serious challenge to the MTC's jurisdiction but, unfortunately, the court ignored such challenge and proceeded to decide the case simply on the basis of possession.

'The operation of the principle of estoppel on the question of jurisdiction seemingly depends upon whether the lower court actually had jurisdiction or not, if it had no jurisdiction, but the case was tried and decided upon the theory that it had jurisdiction, the parties are not barred, on appeal, from assailing such jurisdiction, for the same must exist as a matter of law, and may not be conferred by consent of the parties or by estoppel (5 C.J.S., 861-863).' (La Naval Drug Corporation v. Court of Appeals, 236 SCRA 78 [1994]).

Contrary to respondents' pretense, the filing by petitioner of an action for the reformation of contract may not really be an afterthought. As we understand it, petitioner, to support its allegation that the contract was a mere equitable mortgage, cites the fact that the price was inadequate; it remained in possession of the premises; it has retained a part of the purchase price; and, in any case, the real intention of the parties was that the transaction shall secure the payment by petitioner of its loan, advertent to Article 1602 of the Civil Code. Under Article 1604 of the same code, it is provided that the presence of only one circumstance defined in Article 1602, such as those cited above, is sufficient for a contract of sale with right to repurchase to be presumed an equitable mortgage. Without in any way preempting the decision of the court in the action for reformation, it is our considered view that, under the factual milieu, the action was initiated for the proper determination of the rights of the parties under the contract, and not just an afterthought.