Supreme Court E-Library

FIRST DIVISION

[G.R. No. 64143. February 28, 1986]

PREMIER INSURANCE & SURETY CORPORATION, *petitioner, vs.* **HON. INTERMEDIATE APPELLATE COURT and MAURO M. CASTRO,** *respondents.*

SYLLABUS

1. **REMEDIAL LAW; EVIDENCE; PAROL EVIDENCE; GENERALLY NOT ADMISSIBLE FOR THE PURPOSE OF VARYING THE TERMS OF THE CONTRACT; EXCEPTION.—** While it is a general rule that parol evidence is not admissible for the purpose of varying the terms of a contract, when an issue is squarely presented that a contract does not express the true intention of the parties, courts will, when a proper foundation is laid therefore, hear evidence for the purpose of ascertaining the true intention of the parties. Once the intent is clear, then it shall prevail over what on its face the document appears to be. (*Labasan v. Lacuesta*, 86 SCRA 16, 22). The court does not reform the instrument, It remains as it was written. However, the court receives evidence to find out how the parties really bound themselves. The second exception to the parol evidence rule enables the court to ascertain the intent of the parties.

2. **ID.; ID.; FACTUAL FINDINGS OF THE COURT OF APPEALS, DEEMED CONCLUSIVE; EXCEPTION.—** The trial court has decided that the Almendras title is the valid title and not that of Sarmiento. Since the petitioner cannot recover what it paid either from Sarmiento or from the Assurance Fund, the only issue is whether it should be allowed to recover from Sarmiento's lawyer and attorney-in-fact or whether, under the circumstances, it should shoulder the loss itself. The petitioner has failed to sustain its contention that the respondent court committed clearly reversible errors in drawing erroneous conclusions from established facts. We apply the established rule that the findings of facts of the appellate court are deemed conclusive unless it is shown that there is no substantial evidence to support them (*Amigo v. Teves*, 96 Phil. 252; *Alsua-Betts v. Court of Appeals*, 92 SCRA 332). There is no such showing.

Supreme Court E-Library

DECISION

GUTIERREZ, JR., *J.*:

This is a petition to review an amended decision of the Court of Appeals, now Intermediate Appellate Court, insofar as it declared the private respondent not jointly and severally liable with Benjamin R. Sarmiento to the petitioner under an agreement and statement of warranties executed in connection with the sale of a parcel of land.

The property purchased by the petitioner is a 17,121 square meter lot in Ibayo, Parañaque covered by Transfer Certificate of Title No. 254170 in the name of Benjamin R. Sarmiento. The lot was declared for taxation purposes and covered by a certificate of payment of real property taxes. There was also a subdivision plan and a vicinity map of the property. Respondent Castro handled the sale for the registered owner.

When the petitioner's board of directors resolved to buy the property for P22.00 a square meter, it imposed a condition that the location and vicinity plans would be verified by a reputable surveyor and the legal papers pertaining to the property should be verified to be genuine, true, and correct.

The petitioner's board of directors authorized its treasurer, Mr. Manuel Chua to act for the corporation in negotiating and consummating the sale, The petitioner also engaged the services of Honorato R. Sta. Maria, a geodetic engineer and surveyor, for the purpose of verifying the ownership and title of the land and identifying and relocating the property.

While the corporation's engineer-surveyor was conducting his verification, respondent Castro submitted to it a deed of absolute sale executed by Benjamin Sarmiento conveying to the petitioner the subject parcel of land. Manuel Chua signed the deed in behalf of the petitioner but it was agreed that the purchase price would be paid only upon receipt of the full report of Geodetic Engineer Sta. Maria.

Supreme Court E-Library

The sale was registered and a transfer certificate of title issued in the name of the petitioner. When the transfer certificate of title and the other papers were delivered to the petitioner, respondent Castro stated in writing that it was understood that the surveyor's report would be submitted in a day's time. He also asked for an acknowledgment that, notwithstanding the sale and transfer, his client had not yet been paid the agreed consideration for the sale.

The initial report of Engineer Sta. Maria was apparently satisfactory to Mr. Manuel Chua because four (4) checks in the amount of P150,000.00 were given to respondent Castro for delivery to Benjamin Sarmiento as part payment of the purchase price for the land.

Shortly after turning over the checks, however, the petitioner ordered their payment stopped. Sarmiento also had some problems encashing the petitioner's crossed checks. To enable the payment of the purchase price, respondent Castro not only presented a special power of attorney from Sarmiento but also executed the "Agreement and Statement of Warranties" which is now disputed in this petition for review.

The agreement and statement reads:

"NOW THEREFORE, for and in consideration of the premises, I hereby warrant to the Premier Insurance and Surety Corp. that Benjamin R. Sarmiento was until his sale of the above-mentioned property to the Premier Insurance & Surety Corp., the true and absolute owner of the said property, and that the same was, at the time of said sale, free from all liens and encumbrances, and that said Benjamin R. Sarmiento had the legal right to execute the above mentioned Deed of Absolute Sale;

"That I hereby hold myself jointly and severally liable with said Benjamin R. Sarmiento in whatever liability he might have in connection with the Vendor's warranties in the above-mentioned Deed of Absolute Sale;

"That, after first being duly sworn, 1 also certify that the said Benjamin R. Sarmiento whom I have known for more than four years, is a person of juridical capacity and with legal capacity to act and that he is of legal age and single."

Supreme Court E-Library

Upon the execution of the above warranty, the petitioner paid the entire consideration of P376,662.00, giving the checks to respondent Castro for delivery to Sarmiento.

Later on, when the petitioner tried to sell the piece of land to Solid Realty and Financing Corporation, it discovered that there were actually two torrens titles to the same property. One title, that of Benjamin R. Sarmiento, had been acquired from a certain Teresita Lorenzo who executed an absolute deed of sale in his favor on June 11, 1969. Teresita Lorenzo in turn secured her Original Certificate of Title through a Miscellaneous Sales Patent dated June 24, 1967 from the Bureau of Lands.

The other title in the names of Caridad Almendras and Alejandro D. Almendras came from a certain Justina Lorenzo who sold the lot to them on February 10, 1970. The original title of Justina Lorenzo was issued pursuant to a judgment dated January 9, 1967 and a decree dated October 8, 1968 rendered by the Court of First Instance of Rizal in LRC Case No. T-70.

The trial court sustained the Almendras' title as the valid title and declared the Sarmiento's title null and void, It also absolved the Register of Deeds of Rizal and the Assurance Fund of the National Treasury from any liability. Benjamin Sarmiento and respondent Castro were declared jointly and solidarily liable for the P376,662.00 consideration for the sale, P3,850.00 expenses incurred during the sale, 12 percent interest per annum from August 14, 1969, P20,000.00 attorney's fees, and costs. As earlier stated, the Court of Appeals in its amended decision absolved respondent Castro from any liability arising from his agreement and statement of warranties. It is with regards to this amended decision that the petitioner raises the following assignments of errors:

I

THE RESPONDENT COURT, IN CONCLUDING THAT THE AGREEMENT AND STATEMENT OF WARRANTIES DID NOT EXPRESS THE TRUE INTENT OF THE PARTIES, FAILED TO REALIZE THAT IT GRANTED A REFORMATION OF AGREEMENT WITHOUT THE RESPONDENT CASTRO

Supreme Court E-Library

SATISFYING THE WELL-SETTLED STRINGENT REQUIREMENTS FOR REFORMATION OF INSTRUMENTS.

II

THE RESPONDENT COURT, IN REVERSING ITS ORIGINAL DECISION, ERRED IN CONCLUDING THAT THE AGREEMENT AND STATEMENT OF WARRANTIES DID NOT EXPRESS THE TRUE INTENT AND AGREEMENT OF PARTIES, THAT IT WAS SIMULATED, NOT INTENDED TO BE ENFORCED, AND WAS ONLY A FORMALITY.

III

THE RESPONDENT COURT, IN REVERSING ITS ORIGINAL DECISION, ERRED IN HOLDING THAT PETITIONER CANNOT ENFORCE THE STIPULATIONS IN THE AGREEMENT AND STATEMENT OF WARRANTIES BECAUSE RESPONDENT SIGNED THE SAME IN HIS PERSONAL CAPACITY AND NOT AS AGENT OF BENJAMIN SARMIENTO AND THERE WAS NO AUTHORITY GIVEN HIM ON THIS MATTER.

IV

THE RESPONDENT COURT, IN REVERSING ITS ORIGINAL POSITION, ERRED IN CONCLUDING THAT THERE WAS NO CLOUD OF DOUBT DURING THE WHOLE PERIOD OF SALE AS REGARDS TO PARTNERSHIP AND TITLE OF BENJAMIN SARMIENTO, AS SUCH CONCLUSION WAS BASED ON MISAPPREHENSION OF THE EVIDENCE ON RECORD.

The petitioner contends that the appellate court in ruling that the "Agreement and Statement of Warranties", Exhibit "L" was a mere formality which did not express the true intent of the parties was, in effect, granting a reformation of the instrument without legal basis. It states that there is no basis for reformation.

According to the petitioner, Exhibit "L" is explicit and clear, leaving no room for different interpretation, that it was drawn in clear and simple language, and that it could not have possibly misled respondent Castro, a lawyer with vast experience and superior knowledge in this line of business. It states that the private respondent with his experience and knowledge would not have involved himself in a liability to pay the full price of

Supreme Court E-Library

the land without having received its equivalent value.

Crucial to the resolution of this petition are two factual issues resolved by the respondent court against the petitioner - (1) whether or not Benjamin Sarmiento is a fictitious person whom the petitioner's officers never met personally, and (2) whether or not the petitioner ordered the stop payments on the four (4) checks representing the initial payments because of doubts about the validity of Sarmiento's title.

We affirm the factual findings of the respondent court. The testimony of the respondent on these issues is not only credible but is also unrebutted by the petitioner. It states:

"Q Mr. Witness, what you have testified the last time, is that (you testified that) after the execution of the deed of sale, plaintiff Premier Insurance and Surety Corporation paid Sarmiento several post dated checks and four (4) of which are in the amount of P150,000.00) One Hundred Fifty Thousand Pesos, now represented and covered by the receipt marked as Exhibit J namely: ABC Check No. 1507 Metropolitan No. 374697, and PPC 1146821, Check No. 736140, do you know whether or not Mr. Sarmiento was able to encash these four checks which are stated in your receipt of August 7, 1969, Exhibit J?

"A I know that Mr. Sarmiento had not been able to encash one of the two checks which I cannot remember that the checks as evidenced by my receipt were crossed check for deposit, sir.

"Q Did you deliver to Mr. Sarmiento the four (4) checks that were received by you under this receipt Exhibit J?

"A Yes, sir I delivered.

"Q When you delivered these checks you said that these checks were crossed checks. What did Mr. Sarmiento do with said checks?

"A Mr. Sarmiento wanted to encash those checks because he needed very badly to bring the money to Pangasinan and he requested me to help him to encash the crossed checks marking on the checks to cancel the crossed markings, so that he can cash the checks, sir.

Supreme Court E-Library

"Q Why, did you accede to his request that you had the checks, the crossed-checks, the markings on the crossed-checks be cancelled and encash the same?

"A Yes, sir I told him to bring the check to the Premier Insurance & Surety Corporation and have the crossed-checks markings be removed.

"Q Were you able to have these checks, the cross markings, cancelled at the Premier Insurance & Surety Corporation, Mr. Witness?

"A I accompanied Mr. Sarmiento and we both saw Mr. Manuel Chua of the Premier Insurance, rather we both saw Mr. Manuel Chua the Treasurer of plaintiff corporation and he agreed to cancel the crossed markings on the checks, sir.

"Q Now, Mr. Manuel said — Now, Mr. Manuel Chua said when he testified before this Honorable Court that the Premier Insurance & Surety Corporation, the plaintiff corporation in this case, that it had actually stopped the payment of these four (4) checks because you were not able to present Mr. Sarmiento to him, is that correct, Mr. Witness?

"A Precisely, I brought Mr. Sarmiento to Mr. Manuel Chua in connection with his request to cross the crossed-markings on the checks and Mr. Manuel Chua met Mr. Sarmiento and Mr. Chua agreed to remove the crossed markings, 'crossed checks', on those checks, sir.

"Q What then was the reason . . . Were the payment of those checks however, stopped, Mr. Witness?

"A Yes, the payments were stopped because notwithstanding that the cross markings were removed, Mr. Sarmiento was unable to encash the checks for the reason that Mr. Manuel Chua refused to sign on the dorsal side identifying the signature of Mr. Sarmiento. Subsequently, Mr. Sarmiento was informed of the stop payment order; that nevertheless and after sometime Mr. Sarmiento was informed that with respect to the check the two checks were stopped payment on the two checks was stopped by Premier Insurance & Surety Corporation.

"Q Did you eventually come to know the reason why at least two (2) of the four (4) checks were stopped payment?

Supreme Court E-Library

"A Mr. Sarmiento and I went to see Mr. Manuel Chua. Although he did not tell Mr. Sarmiento certain matters and Mr. Chua instead he confided to me that certain funds of the Premier Insurance & Surety Corporation were invested or placed in the money market of General Acceptance and Finance Corporation were not yet really cancelled but rather the checks bounced for insufficient funds."

Manuel Chua, therefore, transacted personally with Sarmiento and the initial checks were cancelled because of insufficiency of funds at that time. That the petitioner could not have doubted the title during the negotiations leading to the sale and during the payment of the consideration is shown by the report of the engineer-surveyor which it commissioned to investigate the purchased property. Respondent Castro stresses that he did not know Engineer Sta. Maria and that there is no intimation at all in the records that he had any knowledge about the verifications and reports submitted by Mr. Sta. Maria to the petitioner.

The Sta. Maria report states that "as far as authenticity of the titles are concerned, there is no question the present title of Benjamin R. Sarmiento is genuine.". The report apprised the petitioner of a possible risk of overlapping claims with third parties who may have claimed under voluntary registration. Mr. Sta. Maria described the risk as "minimal" because the risk was attributed only to government negligence in selling the lot to Teresita Lorenzo without ascertaining her actual occupation or introduction of improvements, which are requisites for miscellaneous sales patents.

The so-called doubts of the petitioner, if any, could not have referred to the Almendras' title because Engineer Sta. Maria looked into this matter and specifically reported it to the petitioner. Thus his report on verification of ownership (Exhibit "I") reads in part:

"A research in the Bureau of Lands, Land Registration Commission, Court of First Instance of Rizal, and the Court of Appeals of cases of conflicting claims and overlapping surveys in the vicinity of Barrio Ibayo, Municipality of Parañaque, Province of Rizal did not reveal any.

Supreme Court E-Library

"An alleged claim that Lot 3641 of which Lot 3641-A is a portion is in conflict with plan Psu-170496 (Caridad C. Almendras) was verified to be true in 1967. However, prior to the issuance of Original Certificate of Title No. 156, the conflict was resolved in favor of the government. As a result, on August 7, 1967, the original plan Psu-170496 was corrected giving way to the release of the portion applied under Miscellaneous Sales Patent. The Land Registration case covering the amendment of Psu-170496 (Caridad C. Almendras) is Land Registration Case No. N-2183, Land Registration Commission Rec. No. N-16585.

"Outside of the above-mentioned case, our researchers have not found any other possible risk of future litigation which may involve the lot in question."

It is clear from the records that the petitioner corporation took the necessary steps to have the property it was purchasing as well as all papers relative to the purchase verified before it paid the agreed consideration.

The private respondent contended in his defense that the special power of attorney constituted him an attorney-in-fact of Sarmiento only for purposes of collecting the purchase price of the property. Sarmiento was then in Pangasinan campaigning for the candidacy of Luis Garcia who was running for Congress.

The private respondent states:

x x x x x x x x x

"x x x Defendant Castro could not have guaranteed the title of defendant Sarmiento since the property was covered by a torrens certificate of title which on its face did not disclose any liens or encumbrances on said property, and consequently any party dealing with said property has the right to assume that the registered owner had clean title to the property and the right to convey title thereto for such is the very foundation of our Torrens System. Any undertaking on the part of defendant Castro to further guarantee the title of the vendor of said property was superfluous and was furthermore null and void for lack of consideration. Actually the true intention of the parties to the Agreement and Statement of Warranties, Annex "D" to the Complaint, namely plaintiff and defendant Castro was that Castro was merely to guarantee that the payment of the purchase price was to Benjamin R. Sarmiento, the registered owner of the

Supreme Court E-Library

property, and that any payment made to him (Castro) as attorney-in-fact of Benjamin R. Sarmiento would discharge plaintiff from any further liability with respect to the purchase price of the property. The reason why Sarmiento had to appoint any attorney-in-fact to receive payment for him was that at that time he (Sarmiento) was residing in the province and since the actual date of payment was not certain because plaintiff wanted first to wait for the result of the relocation survey and investigation being undertaken by Engineer Sta. Maria, it would be very inconvenient for him (Sarmiento) to come from time to time to Manila to verify whether the payments are already ready. Defendant Castro and Manuel Chua, the duly authorized representative of plaintiff, has had several previous business and professional dealings in the past and as a matter of fact defendant Castro was the lawyer who handled Manuel Chua's naturalization case."

In trying to convince the appellate court of the above as the true meaning and intent of the agreement of warranty, the respondent pointed to his close personal relations with the petitioner's principal officers, its president Vicente Sayson, treasurer Manuel Chua, and legal counsel Dean Feliciano, Jover Ledesma. When Sayson was president of Filipinas Merchandising Corporation, which handled the importation of reparations goods from Japan, respondent Castro was vice president and legal counsel. The respondent was also the lawyer of Manuel Chua since 1954 and apart from the latter's naturalization case handled land transactions such as the acquisition by Chua of the Golden Gate Hotel.

The respondent pointed to indices of close relationship to sustain his version of the meaning of the disputed agreement:

"1. The Deed of Absolute Sale (Exhibit B) was executed on 1 August 1969. Even before payment of the purchase price, appellant acceded to the request of Chua that the sale be immediately registered in the name of plaintiff-appellee and, accordingly, appellant convinced Sarmiento to agree to the request and to cause such registration, as in fact it was so registered.

"2. Notwithstanding that the agreement on the sale document was for full payment of the purchase price in cash, appellant made representations for and in behalf of plaintiff-appellee to be allowed to make a partial payment of the purchase price. So that, even after

Supreme Court E-Library

the surveyor's reports (Exhibits L and L-1), plaintiff-appellee paid only P150,000 notwithstanding the commitment of its board of directors to pay in full after receiving the said surveyor's reports.

"3. Even after the execution of the 'Agreement and Statement of Warranties' on 14 August 1969, appellant made representations with Sarmiento, for and in behalf of plaintiff-appellee, to accept plaintiff-appellee's checks post-dated to 22 August, 4 September, 23 September, 11 October and 16 October 1969 in varying amounts (*Vide*, Exhibits M-4 to M-9, inclusive).

"Ordinarily business transactions of this nature would have required strict adherence to and enforcement of verbal and written agreements, especially as to the payment of the stipulated consideration. But, because of appellant's close relationships with the officers of plaintiff appellee, appellant prevailed upon Sarmiento to accommodate plaintiff-appellee's repeated departures from the strict compliance of its obligations even without the formalities of a written amendment to a duly executed sale agreement.

"The same close relationships impelled appellant to overlook the strict formalities in the preparation, and terminologies, of the disputed Agreement.

"In retrospect, he should not have allowed sentimentalities to rule his conduct or his decision, he should have insisted on a strict literal documentation of agreements, representations and assurances made by plaintiff-appellee's officers. But, it must be appreciated that at that time, when no one had any inkling that anything was amiss or would eventually go wrong — at least not in appellant's mind — it seemed out of step and totally incongruous with the spirit of mutual trust and friendship that pervaded the transaction for appellant to doubt the verbal assurances made and to require them to be placed in writing.

"To hold appellant liable, therefore, to the strict, literal terms of the questioned Agreement would be to put undue reliance on the words employed by the parties therein to the total disregard of their true intention and agreement and it would thus be grossly unfair, iniquitous and unconscionable to enforce the same against appellant."

The petitioner cites Article 1359 of the Civil Code on reformation of instruments and the case of *Bank of the Philippine Islands v. Fidelity & Surety Co.* (51 Phil. 57) to show that there is no proof of the clearest and most satisfactory character

Supreme Court E-Library

of a mutual mistake as would justify a reformation of the Agreement. We agree with the private respondent that he was only introducing evidence on the true intent and meaning of the instrument as a matter of defense and that the exception to the parol evidence rule is more in point.

While it is a general rule that parol evidence is not admissible for the purpose of varying the terms of a contract, when an issue is squarely presented that a contract does not express the true intention of the parties, courts will, when a proper foundation is laid therefore, hear evidence for the purpose of ascertaining the true intention of the parties. Once the intent is clear, then it shall prevail over what on its face the document appears to be. (*Labasan v. Lacuesta*, 86 SCRA 16, 22). The court does not reform the instrument. It remains as it was written. However, the court receives evidence to find out how the parties really bound themselves. The second exception to the parol evidence rule enables the court to ascertain the intent of the parties.

Respondent Castro testified that it was petitioner's counsel, the late Dean Jover Ledesma who prepared the disputed Agreement, Exhibit "L" and states that the testimony of Manuel Chua on Exhibit "L" and on the warranty assumed by Castro should not be given any credence because Chua had no part in Ledesma's preparation of Exhibit "L" nor was Chua present during the conversation and understanding between Ledesma and Castro as to the purpose and object of the Agreement. In fact any ambiguity must be construed against the party who drafted the document. (*Coscolluela v. Valderama*, 2 SCRA 1095).

Respondent Castro tries to resuscitate the issue on the nullity of Sarmiento's title, to wit:

xxx xxx xxx

"x x x [T]he Original Certificate of Title 156 Exh. S) issued to Teresita Lorenzo, Sarmiento's vendor, on the basis of a Miscellaneous Sale Patent *predated* the registration of the land in question by Justina A. Lorenzo, the vendor of the Almendras spouses. Teresita's title, O.C.T. No. 156, was issued on June 24, 1967 yet, while that of Justina's O.C.T. No. 8318 was issued only on October 30, 1969 and transcribed in the Registration Book of the Registry of Rizal only on November

Supreme Court E-Library

5, 1969. Even the decree from which it sprung was issued by the Court of First Instance of Rizal in LRC Case No. N-70 only on October 8, 1968. Nowhere in the abovequoted portions of petitioner's brief is it contended, much less alleged as proven, that any irregularity or flaw attended the issuance of O.C.T. No. 156 to Teresita Lorenzo. To be sure, if there is anything questionable in the above narration in petitioner's brief, it is the unexplained registration of the land issue in favor of Justina A. Lorenzo when there was already an outstanding title in the name of Teresita Lorenzo duly issued more than two (2) years earlier and which has not been shown to have been invalidated by any duly constituted authority whether judicial or administrative." x x x.

This issue is no longer before us. The trial court has decided that the Almendras title is the valid title and not that of Sarmiento. Since the petitioner cannot recover what it paid either from Sarmiento or from the Assurance Fund, the only issue is whether it should be allowed to recover from Sarmiento's lawyer and attorney-in-fact or whether, under the circumstances, it should shoulder the loss itself.

The petitioner has failed to sustain its contention that the respondent court committed clearly reversible errors in drawing erroneous conclusions from established facts. We apply the established rule that the findings of facts of the appellate court are deemed conclusive unless it is shown that there is no substantial evidence to support them (*Amigo v. Teves*, 96 Phil. 252; *Alsua-Betts v. Court of Appeals*, 92 SCRA 332). There is no such showing.

WHEREFORE, the petition for review is DISMISSED for lack of merit. The judgment of the appellate court is AFFIRMED. No costs.

SO ORDERED.

Melencio-Herrera, Plana and *De la Fuente, JJ.*, concur.
Teehankee, J. (Chairman), concurs in the result.
Patajo, J., took no part.