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FIRST DIVISION

[G.R. No. L-25931. October 30, 1978]

ROBERTO LABASAN, AVELINO LABASAN, JOSEFINA LABASAN, and MARCELA COLOMA, *petitioners, vs.* **ADELA LACUESTA, DOMINGA LACUESTA and NORBERTO LACUESTA,** *respondents.*

SYLLABUS

1. CIVIL LAW; CONTRACTS; INTERPRETATION; RULE IN CASE OF AMBIGUITY. — It is a basic fundamental rule in the interpretation of a contract that if the terms thereof are clear and leave no doubt upon intention of the contracting parties the literal meaning of the stipulation shall control, but when the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former.

2. ID.; ID.; ID.; INTENTIONS OF THE PARTIES PREVAIL OVER LITERAL SIGNIFICATIONS OF THE CONTRACT. — Where an ambiguity is caused by the conflicting terminologies in the document, inquiry into the reasons behind the transaction and other circumstances accompanying it becomes necessary so as to determine the true intent of the parties. Once the intent becomes clear then it shall be made to prevail over what on its face the document appears to be. Such case is to be resolved on the basis of the circumstances attending the transaction.

3. ID.; ID.; ID.; CIRCUMSTANCE SHOWING THAT TRANSACTION IS ONE OF THE EQUITABLE MORTGAGE AND NOT *PACTO DE RETRO* SALE. — Although the contract between the parties upon its face is one of the sale with right to repurchase, nevertheless, the transaction shall be considered not a sale but a loan secured by an equitable mortgage, where it appears that the reason behind the execution of the contract was that the supposed vendor was in "urgent necessity for money"; that the price of the land was grossly inadequate; that the supposed vendor remained in possession of the land, took charge of its cultivation and all tenancy matters; that the supposed vendee never declared the property in his name for taxation purposes nor did he pay the taxes thereon since the execution of the

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document ; and that he failed to take any steps for 32 years since the contract was executed to consolidate his alleged ownership over the land.

4. ID.; ID.; ID.; DOUBTS IN ONEROUS CONTRACTS RESOLVED IN FAVOR OF GREATEST RECIPROCITY OF INTEREST.— In case of any doubt concerning the surrounding circumstances in the execution of a contract, the least transmission of rights and interests shall prevail if the contract is gratuitous, and, if onerous the doubt is to be settled in favor of the greatest reciprocity of interests. Thus, in an action to recover a parcel of land where the plaintiff alleged that he merely mortgaged the land to secure payment of ₱175.00, and which land the defendant refused to return to the ground that the latter allegedly bought the property, the transaction over the property was considered a loan because "such a contract involves a smaller transmission of rights and interests, and the debtor does not surrender all rights to his property but simply confers upon the creditor the right to collect what is owing from the value as security, there existing between the parties a greater reciprocity of rights and obligations." (*Olina vs. Medina*, 13, Phil. 379)

APPEARANCES OF COUNSEL

Tipon & Fernandez for petitioners.
Andres B. Plan for respondents.

D E C I S I O N

MUÑOZ PALMA, *J.*:

Is the contract entered into between spouses Clemente and Hermenigilda Lacuesta on one hand and spouses Gelacio and Marcela Labasan on the other a *pacto de retro* sale or an equitable mortgage? This is the lone question involved in this litigation.

Sometime in 1927, spouses Lacuesta were the owners of an unregistered, irrigated riceland located in the municipality of Badoc, province of Ilocos Norte, and declared for taxation purposes under Tax Declaration No. 026181 in the name of

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Hermenigilda Lacuesta.[1] On April 20, 1927, the spouses executed in favor of spouses Labasan a document written in the Ilocano dialect the English translation of which marked as Exhibit "1-A" follows:

"We, the spouses, Clemente Lacuesta and Hermenigilda Lacuesta, both of legal age, are residents of barrio Salapasap No. 16, Badoc, Ilocos Norte. We declare the truth that in view of our urgent necessity for money, we thought of selling one parcel of land owned by us situated in Sitio Mabusay No. 18 within the jurisdiction of said municipality, to the spouses Gelacio Labasan and Marcela Coloma, residents of barrio Puzol, of the municipality of Pinili, Ilocos Norte, for the amount of TWO HUNDRED TWENTY-FIVE (₱225.00) pesos, Philippine Currency, which we have already received in lump sum.

"The sale of this parcel of land owned by us to the said spouses can be reconveyed provided ten years shall not have elapsed and we have the same amount of the money which we had taken from them, as agreed upon by us.

"This parcel of land has a circumference of 240 square meters, yielding two 'uyones' and three 'baares' of palay. Bounded on the north by Fernando Lacuesta and Vicente Coloma; on the east by Matias Coloma, on the south by Valeriana Lacuesta and on the west by Fernando Lacuesta.

"We further agreed that during the period of their ownership of this parcel of land, I will be responsible for all tenancy matters over this land.

"For this reason this receipt is made as security to the spouses for all matters pertaining thereto. But in case there shall arise adverse claims with respect to the ownership of the vendees over this parcel of land I and my wife shall answer the same as well as defray all expenses of litigation and if we shall be adjudged otherwise, and, if the vendees of this parcel of land shall be deprived of their ownership, we shall give another parcel of land with the same yield and area so that our sacred agreement shall not be beclouded with bad faith.

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[1] Exhibits "A" and "B", per CFI decision, pp. 17-18, Record on Appeal. See also p. 2, Record on Appeal.

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"In witness to the truth of what we have done, we sign our names for those who know how to write and affix the cross for those who do not know how to write, together with the signatures of the witnesses.

"Done this 20th of April, 1927." (pp. 8-10, Petitioner's brief)

On April 23, 1948 spouses Lacuesta filed with the Court of First Instance of Ilocos Norte a complaint against spouses Labasan, seeking the reconveyance of the parcel of land subject of the above quoted document. During the pendency of the case, the Lacuestas died and were substituted by their children, all surnamed Lacuesta. In the meantime, defendant Gelacio Labasan also died and was substituted by his children.

In the complaint, it was alleged that spouses Lacuesta secured a loan of ₱225.00 from Gelacio Labasan and as security for the payment of that loan, they offered their riceland; sometime in 1943, they tendered payment of the loan but Labasan refused to accept it; after "liberation" they offered again to pay their loan and demanded the return of their land but they were once more refused because defendants claimed that they were the owners of the property.[1-A]

In the answer to the complaint only one special defense was raised - that the Lacuesta conveyed by means of a written document the land with right to repurchase the same within the period of ten years, but because of plaintiff's failure to exercise that right within the stipulated period, the vendees *a retro* have become the absolute owners of the land and the latter in fact donated the property to their son Roberto Labasan who is now the owner of the property.[2]

On the basis of the evidence adduced by the parties the trial court presided then by Judge Wenceslao M. Ortega rendered on May 11, 1959 a decision declaring that the document executed by the Lacuestas was a *pacto de retro* sale and that the latter

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[1-A] pp. 1-4. Record on Appeal.

[2] pp. 6-7, *ibid.*

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lost their right to redeem the land for not having taken any step within the agreed period of ten years.[3]

The plaintiffs elevated the case to the Court of Appeals on the sole issue of the nature of the document marked Exhibit "1-A".

The Court of Appeals, in its decision of February 18, 1966, set aside the judgment of the trial court and declared the contract an equitable mortgage and ordered the defendants Labasan to reconvey the land to the Lacuestas without the latter paying the loan of ₱225.00 inasmuch as the same was deemed paid from the fruits of the property which the Labasans had been receiving for the past thirty-two years.[4]

We affirm the decision of the appellate court under well-settled principles embodied in the law and existing jurisprudence.

1. It is a basic fundamental rule in the interpretation of a contract that if the terms thereof are clear and leave no doubt upon the intention of the contracting parties the literal meaning of the stipulation shall control,[5] but when the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former.[6]

Examining Exhibit "1-A" in this case, it is evident that the terms of the document are not clear and explicit on the real

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[3] pp. 15-21, *ibid.*

[4] The decision was penned by then Justice Nicasio Yatco, concurred in by Justice Francisco R. Capistrano who later became a Justice of the Supreme Court, and Justice Antonio Cañizares.

[5] 1st paragraph, Article 1281 of the Old Civil Code, now Article 1370, New Civil Code. *Azarraga v. Rodriguez*, 9 Phil. 637; *Bilang v. Erlanger & Galinger*, 66 Phil. 627; *Ordoñez v. Villaroman*, 78 Phil. 116; *Lacson v. Court of Appeals, et al.*, 109 Phil. 462; *Kasilag v. Rodriguez*, 69 Phil. 217; *Cebu Portland Cement Co. v. Dumon*, 61 SCRA 218.

[6] 2nd paragraph, Article 1281 of the Old Civil Code, now Article 1370, New Civil Code. *Reyes v. Limjap*, 15 Phil. 420; *Acosta v. Llacuna, et al.*, 59 Phil. 540; *Aves v. Orilleneda*, 70 Phil. 262; *Borromeo v. Court of Appeals*, 47 SCRA 65.

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intent of the parties when they executed the aforesaid document. For instance, the words or clauses, *viz*: "urgent necessity for money," "selling the land," "ownership," I will be responsible for all tenancy matters," "This receipt is made as security," are sufficient to create a doubt as to what the document truly purports to be. Under those terms is the contract one of loan with security or a *pacto de retro* sale?

2. In view of the ambiguity caused by conflicting terminologies in the document, it becomes necessary to inquire into the reason behind the transaction and other circumstances accompanying it so as to determine the true intent of the parties. Once the intent becomes clear then it shall be made to prevail over what on its face the document appears to be. Each case is to be resolved on the basis of the circumstances attending the transaction.

"Article 1371, New Civil Code: In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered." (same as Art. 1282, Old Civil Code)

In the case at bar, the collective weight of the following considerations lead Us to agree with the findings and conclusion of the appellate court that Exhibit "1-A" is a mere loan with security and not a *pacto de retro* sale.

First, the reason behind the execution of Exhibit "1-A" was that the Lacuestas were in "urgent necessity for money" and had to secure a loan of ₱225.00 from Gelacio Labasan for which the riceland was given as "security." In *Jayme, et al. v. Salvador, et al.*, 1930, this Court upheld a judgment of the Court of First Instance of Iloilo which found the transaction between the parties to be a loan instead of a sale of real property notwithstanding the terminology used in the document, after taking into account the surrounding circumstances of the transaction. The Court through Justice Norberto Romualdez stated that while it was true that plaintiffs were aware of the contents of the contracts, the preponderance of the evidence showed however that they signed knowing that said contracts did not express their real intention, and if they did so

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notwithstanding this, it was *due to the urgent necessity of obtaining funds*.[7] "Necessitous men are not, truly speaking, free men; but to answer a present emergency, will submit to any terms that the crafty may impose upon them."[8]

Second, the amount of ₱225.00, even in 1927, was too inadequate for a purchase price of an irrigated riceland with an alleged "perimeter" of 240 meters and an "area of 1,269 square meters" yielding annually one "*uyon*" and five "*baares*" of palay,[9] the land being valued at the time for no less than ₱1,000.00.[9-A] In *Quinga v. Court of Appeals, et al.*, 1961, although the contract between the parties upon its face was one of sale, *nevertheless, this Court upheld* the findings of the Court of Appeals that the transaction was not a sale but a loan secured by an equitable mortgage under the prevailing circumstances of the case, such as, that the price of the land was grossly inadequate and the vendor remained in possession of the land and enjoyed the fruits.[10]

In fact, *Article 1602 paragraph 1* of the New Civil Code expressly provides that in case of doubt a contract purporting to be a sale with a right to repurchase shall be construed as an equitable mortgage when the price or consideration of the sale is *unusually inadequate*.

Third, although symbolically the possession of the property was transferred to Gelacio Labasan, it was Lacuesta, the supposed vendor, who continued to be in physical possession of the property, took charge of its cultivation, and all tenancy matters. The second paragraph of Article 1602 of the New

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[7] 55 Phil. 504, 510. See also *Marquez v. Valencia,* 77 Phil. 782.

[8] *Villa v. Santiago,* 38 Phil. 157, 164 citing the *Lord Chancellor Vernon v. Bethell,* 2 Eden, 113.

[9] p. 2, Respondent's brief.

[9-A] See p. 17, Record on Appeal, at p. 59, *rollo*.

[10] 3 SCRA 666. See also *de la Paz, et al. v. Garcia, et al.,* 18 SCRA 779; *Gotamco Hermanos v. Shottwell*, 38 SCRA 107; *Lanuza v. de Leon,* 20 SCRA 369.

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Civil Code provides that when the vendor remains in possession as lessee or otherwise, the contract shall be construed as an equitable mortgage.

Fourth, Gelacio Labasan, the supposed vendee *a retro* never declared the property in his name for taxation purposes nor did he pay the taxes thereon since the execution of the document in 1927. Roberto Labasan, now one of the petitioners and who claims to have acquired the property from his father Gelacio by way of donation, declared the property in his name under Tax Declaration No. 55683-C-1 only sometime in 1944. (p. 13, Respondents' brief; see also CFI decision, p. 18, Record on Appeal) In *Santos v. Duata*, this Court, in affirming a decision of the Court of Appeals, considered the facts that the vendor remained in possession of the land and continued paying the taxes thereon significant circumstances which justified a judgment holding the transaction between the parties as an equitable mortgage and not a *pacto de retro* sale, thereby applying Article 1602 of the New Civil Code which the Court held to be a remedial measure which may be applied retroactively to cases arising prior to the effectivity of the New Civil Code.[11]

Fifth, as noted in the decision of the appellate court, the supposed vendees *a retro*, now the herein petitioners, failed to take any step since 1927 to consolidate their alleged ownership over the land. Under Article 1509 of the Old or Spanish Civil Code, if the vendor failed to redeem within the period agreed upon, the vendee's title became irrevocable by the mere registration of an affidavit of consolidation. Thus, under the old law, a judicial order was not necessary as is required now under Article 1607 of the New Civil Code. The failure of Gelacio Labasan or his heirs to carry out that act of consolidation strongly corroborates the claim of Lacuesta that there was no intent at all on the part of the parties to transfer ownership of the riceland in question.

3. Finally, We have the rule that in case of any doubt concerning the surrounding circumstances in the execution of

[11] 14 SCRA 1041.

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a contract, the least transmission of rights and interests shall prevail if the contract is gratuitous, and, if *onerous, the doubt is to be settled in favor of the greatest reciprocity of interest.*[12]

Thus, in the early case of *Olino v. Medina*, 1909, Olino filed a complaint against Medina to recover a parcel of riceland which he alleged to have mortgaged for ₱175.00 and which Medina refused to return on the ground that the latter allegedly bought the property. In deciding the conflict of allegations between the parties, this Court, through Justice Florentino Torres, considered the transaction over the property as a loan, reasoning that "*such a contract involves a smaller transmission of rights and interests*, and the debtor does not surrender all rights to his property but simply confers upon the creditor the right to collect what is owing from the value of the thing given as security, *there existing between the parties a greater reciprocity of rights and obligations.*"[13]

With the foregoing considerations, there is no further necessity for Us to dwell on the other reasons given by the Court of Appeals in rendering judgment in favor of private respondents, which reasons We believe are not decisive of the issue posed in this case.

PREMISES CONSIDERED, We find no reversible error in the petition under review and We affirm the same. With costs against petitioners.

SO ORDERED.

Teehankee (Chairman), Makasiar, Fernandez, and *Guerrero, JJ.*, concur.

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[12] Art. 1378. New Civil Code, same as Art. 1289. Old Civil Code.

[13] 13 Phil. 379, 382, 383, citing Article 1289, Old Civil Code; underline supplied. See also *Cuyugan v. Santos* (1916) 34 Phil. 100; *Macapinlac v. Gutierrez Repide*, 43 Phil. 770 (1922).