



Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

NOTICE

Sirs/Mesdames:

Please take notice that the Court, Third Division, issued a Resolution dated September 7, 2020, which reads as follows:

“G.R. No. 227453 – (SOL T. HAYAG, *petitioner* v. OSCAR M. LAGUNA, *respondent*). – Subject to review under Rule 45 of the Rules of Court at the instance of petitioner Sol T. Hayag (Hayag) are the Decision¹ dated December 7, 2015 and the Resolution² dated August 16, 2016 in CA-G.R. CV No. 03483-MIN, whereby the Court of Appeals (CA) reversed the Regional Trial Court’s (RTC) Decision dated March 18, 2013 in Civil Case No. 32, 317-08.

The Antecedents

On March 11, 2008, Hayag and respondent Oscar M. Laguna (Laguna) executed a Deed of Absolute Sale, whereby Hayag bought 17 units of various wood working machineries and three forklifts from Laguna with a total purchase price of ₱3,000,000.00.³ On that very same date, Laguna with the conformity of Hayag signed an acknowledgment receipt with agreement.⁴ Therein, Laguna acknowledged the receipt of the sum of ₱1,930,000.00 as consideration for the sale of the machineries and equipment. Likewise, the parties had agreed that should the financial condition of Laguna improve, Hayag would resell the 20 machineries and equipment to Laguna within a period of six months for the same amount (₱1,930,000.00), with forbearance of money or interest thereon.⁵

On April 24, 2008, Hayag filed a complaint for replevin, damages and attorney’s fees against Laguna. Hayag claims that out of the 17 units of

¹ *Rollo*, pp. 17-26; penned by Associate Justice Oscar V. Badelles, with Associate Justices Romulo V. Borja and Pablito A. Perez, concurring.

² *Id.* at 27-29.

³ *Id.* at 30-31.

⁴ *Id.* at 42-43.

⁵ *Id.* at 42.

various wood working machineries and three forklifts, only five wood working machineries and two forklifts were delivered to him. Hayag went to Laguna's plant to pull-out the remaining machineries and equipment but the latter, through the security guard, stopped him from entering the premises. Hayag, thereafter, demanded for the delivery of the remaining machineries but Laguna did not give heed to the demand.⁶

In his answer, respondent alleged that the execution of the deed of absolute sale served as security for his loan from petitioner in the amount of ₱1,930,000.00. This is evidenced by the acknowledgment receipt with agreement executed by the parties simultaneously with the deed of absolute sale.⁷

After due hearing, the RTC granted petitioner's complaint for replevin and ordered respondent to deliver the remaining machineries and equipment in his custody. The RTC upheld the provisions of the deed of absolute sale and ruled that there was a consummated contract of sale whereby respondent agreed to part with the machineries and equipment in consideration of the purchase price duly paid by petitioner.⁸

Aggrieved, respondent Laguna appealed the trial court's Decision to the CA.

On appeal, the CA reversed and set aside the trial court's Decision. The appellate court gave probative value to the acknowledgment receipt duly signed by the parties and concluded that Laguna was indebted to Hayag in the sum of ₱1,930,000.00; and as security therefor, the parties agreed to execute the deed of absolute sale with the condition that in case respondent's financial status improves, the machineries may be resold to respondent within six months with interest.⁹ Simply, the CA ruled that the deed of absolute sale is in fact an equitable mortgage.¹⁰ It, thus, granted the appeal and disposed the case in this wise:

WHEREFORE, premises considered, the appeal is GRANTED. The Decision dated dated [sic] 18 March 2013 rendered by the Regional Trial Court of Davao City, Branch 16, in *Civil Case No. 32, 317-08* is REVERSED and SET ASIDE and a new one is rendered dismissing the complaint for Replevin.

Plaintiff-appellee Sol Hayag is ORDERED at his own expense, to return all the machinery and equipment subject of the deed to the defendant-appellant Oscar Laguna, in the condition as they were before. Should this

⁶ Id. at 45.

⁷ Id.

⁸ Id. at 45-46.

⁹ Id. at 47-49.

¹⁰ Id. at 50.

be no longer possible, the plaintiff-appellee is ORDERED to pay defendant-appellant its current market value.

SO ORDERED.¹¹

Hence, the instant petition for review interposing the following issues:

Issues

I.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A GRAVE ERROR TO TREAT THE DEED OF ABSOLUTE SALE AND THE ACKNOWLEDGMENT RECEIPT WITH AGREEMENT TO BE AN EQUITABLE MORTGAGE RATHER THAN A STRAIGHT SALE;

II.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A GRAVE ERROR IN DECLARING THAT THE REPLEVIN GRANTED BY THE LOWER COURT WAS TANTAMOUNT TO EFFECTING A VOID CONTRACT OF PACTUM COMMISSORIUM; AND

III.

WHETHER OR NOT RESPONDENT IS HELD LIABLE TO PAY HIS INDEBTEDNESS IN THE AMOUNT OF PHP1,930,000.00 PLUS INTERESTS THEREOF IF ASSUMING THAT THE SALE WAS ACTUALLY AN EQUITABLE MORTGAGE.¹²

The Court's Ruling

The petition is bereft of merit.

An equitable mortgage has been defined as one which although lacking in some formality, or form or words, or other requisites demanded by a statute, nevertheless reveals the intention of the parties to charge real property as security for a debt, there being no impossibility nor anything contrary to law in this intent.¹³ For the presumption of an equitable mortgage to arise, two requisites must concur: (1) "that the parties entered into a contract denominated as a sale"; and (2) the intention was to secure an existing debt by way of mortgage. Consequently, the non-payment of the debt when due gives the mortgagee the right to foreclose the mortgage, sell the property and

¹¹ Id. at 25.

¹² Id. at 7.

¹³ *Sps. Gallent v. Velasquez*, 784 Phil. 44, 65-66 (2016).

apply the proceeds of the sale for the satisfaction of the loan obligation.¹⁴

Article 1602 of the Civil Code states that a contract shall be presumed to be an equitable mortgage, in any of the following cases:

- (1) When the price of a sale with right to repurchase is unusually inadequate;
- (2) When the vendor remains in possession as lessee or otherwise;
- (3) When upon or after the expiration of the right to repurchase another instrument extending the period of redemption or granting a new period is executed;
- (4) When the purchaser retains for himself a part of the purchase price;
- (5) When the vendor binds himself to pay the taxes on the thing sold;
- (6) In any other case where it may be fairly inferred that the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation.

In any of the foregoing cases, any money, fruits, or other benefit to be received by the vendee as rent or otherwise shall be considered as interest which shall be subject to the usury laws.

Article 1604 of the Civil Code, in turn, provides that the above-mentioned badges of an equitable mortgage apply to a contract purporting to be an absolute sale, such as in the instant case.

At this juncture, our case law consistently shows that any of the circumstances laid out in Article 1602 of the Civil Code, not the concurrence nor an overwhelming number of the enumerated circumstances, is sufficient to support the conclusion that a contract of sale is in fact an equitable mortgage.¹⁵ It is further established that when doubt exists as to the true nature of the parties' transaction, courts must construe such transaction purporting to be a sale as an equitable mortgage, as the latter involves a lesser transmission of rights and interests over the property in controversy.¹⁶

Applying the foregoing principles to the instant case, this Court finds that the presence of three badges of an equitable mortgage creates a very strong presumption that the purported contract of sale entered between Hayag and Laguna is actually an equitable mortgage.

¹⁴ *Spouses Alvaro v. Spouses Ternida*, 515 Phil. 267, 271-272 (2006).

¹⁵ *Muñoz, Jr. v. Ramirez, et al.*, 643 Phil. 267, 280 (2010).

¹⁶ *Sps. Felipe Solitarios and Julia Torda v. Sps. Jaque*, 746 Phil. 852, 876 (2014).

The price of the purported sale with a right to repurchase is inadequate and simulated.

Based on the deed of absolute sale, the consideration for the purchase of the 20 machineries and equipment was ₱3,000,000.00.¹⁷ However, in the acknowledgment receipt with agreement,¹⁸ Laguna acknowledged the receipt of the amount of ₱1,930,000.00 from Hayag as consideration for the same machineries and equipment, it being the amount the former is indebted to Hayag. Likewise, Hayag agreed to resell the machineries to Laguna for the same amount of ₱1,930,000.00 if the latter's financial status improves.

The contradicting amounts as purchase price stated in the deed of absolute sale and the acknowledgment receipt give this Court reason to believe that the ₱3,000,000.00 purchase price is, not only insufficient, but more so simulated. The CA's observation on this matter is on point, for if indeed the price Hayag gave up for the sale was actually ₱3,000,000.00, why would he allow Laguna to repurchase the machineries for ₱1,930,000.00, which is way lower than what he paid therefor.¹⁹

Respondent Laguna would have remained in possession of the machineries purportedly sold if not for the writ of replevin issued by the court a quo.

It is established that after the execution of the deed of absolute sale, most of the machineries and equipment subject thereof remained in the custody of Laguna. In fact, Hayag admits that out of the 20 machineries and equipment, Laguna delivered only five wood working machineries and two forklifts. If the parties really intended to transfer possession of and ownership over all the machineries and equipment to Hayag, they should have done so by delivering all of them to Hayag at the very same time when they executed the deed of absolute sale. Unfortunately, this was clearly not the case. It took Hayag more than a month from the execution of the deed of absolute sale before demanding for the delivery of all the machineries and equipment to his possession.

Furthermore, records show that if not for the court *a quo*'s issuance of a writ of replevin, Laguna could have still been in possession of these machineries and equipment.

¹⁷ *Rollo*, pp. 30-31.

¹⁸ *Id.* at 42-43.

¹⁹ *Id.* at 23.

From the acknowledgment receipt, it may be inferred that the real intent of the parties in executing the Deed of Absolute Sale is to secure the payment of respondent's debt.

The parties, especially Hayag, do not deny the existence and due execution of the acknowledgment receipt with agreement, wherein it clearly states, among others, that Laguna has received the amount of ₱1,930,000.00 from Hayag as consideration for the 20 machineries and equipment, and that if Laguna's financial condition improves, Laguna shall resell the 20 units to Hayag in the same amount of ₱1,930,000.00 with forbearance of money or interest thereon at the rate of one and one-half percent (1½%) per month.

Such provision for repurchase and/or redemption of the machineries and equipment stated in the acknowledgment receipt and not in the deed of absolute sale *vis-a-vis* Laguna's obligation to pay forbearance of money or interest in case of repurchase are clear manifestations of the parties' real intent to secure Laguna's loan of ₱1,930,000.00 with the 20 machineries and equipment as collateral. If it were otherwise, then the acknowledgment receipt should have only stated the amount received by Laguna for the sale of the items and/or the provision for repurchase should likewise have been stated in the deed of absolute sale.

Anent Hayag's argument that Laguna should be held liable to pay the amount of ₱1,930,000.00 plus interest if the sale is finally deemed an equitable mortgage, this Court finds it bereft of merit.

This case originated from a complaint for replevin, which is defined as an action for the recovery of personal property.²⁰ It is both a principal remedy and a provisional relief. When utilized as a principal remedy, the objective is to recover possession of personal property that may have been wrongfully detained by another.²¹ As such, the only issue in this case is the recovery of the 20 machineries and equipment, and no other. Hayag's claim in the instant case for recovery of the sum of ₱1,930,000.00 is, therefore, misplaced. A separate complaint for sum of money is necessary wherein Hayag as complainant is required to prove the existence of Laguna's monetary obligation to the former.

²⁰ RULES OF COURT, Rule 60, Section 1.

²¹ *Enriquez v. The Mercantile Insurance Co., Inc.*, G.R. No. 210950, August 15, 2018, 877 SCRA 447, 456.

All told, the CA committed no reversible error when it dismissed Hayag’s complaint for replevin. The records of this case point to no other conclusion but to consider the deed of absolute sale as an equitable mortgage.

WHEREFORE, in view of the foregoing premises, the instant petition is **DISMISSED** for lack of merit. The assailed Decision dated December 7, 2015 and the Resolution dated August 16, 2016 of the Court of Appeals in CA-G.R. CV No. 03483-MIN, are **AFFIRMED** in that the Complaint for Replevin, Damages, and Attorney’s Fees against respondent Oscar M. Laguna is **DISMISSED** for lack of merit. Petitioner Sol T. Hayag is **ORDERED** at his own expense, to return all the machinery and equipment subject of the deed to the respondent, in the condition as they were before. Should this be no longer possible, the petitioner is **ORDERED** to **PAY** respondent its current market value.

SO ORDERED.”

By authority of the Court:

Misa D C Batt
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Division Clerk of Court
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5/9/21

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