



Republic of the Philippines  
 Supreme Court  
 Baguio City

SECOND DIVISION

ROSARIO VICTORIA and ELMA  
 PIDLAOAN ,

Petitioners,

- versus -

NORMITA JACOB PIDLAOAN,  
 HERMINIGILDA PIDLAOAN and  
 EUFEMIA PIDLAOAN,

Respondents.

G.R. No. 196470

Present:

CARPIO, J., Chairperson,  
 BRION,  
 DEL CASTILLO,  
 MENDOZA, and  
 LEONEN, JJ.

Promulgated:

APR 20 2016

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**DECISION**

**BRION, J.:**

We resolve the petition for review on *certiorari* filed by petitioners to challenge the **March 26, 2010** decision<sup>1</sup> and **March 15, 2011** resolution of the Court of Appeals (CA) in CA-G.R. CV No. 89235. The Regional Trial Court's (RTC) ruled that Elma Pidlaoan (*Elma*) donated only half of the property to Normita Jacob Pidlaoan (*Normita*). The CA reversed the RTC's decision and ruled that Elma donated her entire property to Normita. The Court is called upon to ascertain the true nature of the agreement between Elma and Normita.

**THE ANTECEDENTS**

The petitioners Rosario Victoria (*Rosario*) and Elma lived together since 1978 until Rosario left for Saudi Arabia.

<sup>1</sup> *Rollo*, p. 36; penned by Associate Justice Amelita G. Tolentino and concurred in by Associate Justices Mario V. Lopez and Franchito N. Diamante.

In 1984, Elma bought a parcel of land with an area of 201 square meters in Lucena City and was issued Transfer Certificate of Title (TCT) No. T-50282.<sup>2</sup> When Rosario came home, she caused the construction of a house on the lot but she left again after the house was built.<sup>3</sup>

Elma allegedly mortgaged the house and lot to a certain Thi Hong Villanueva in 1989.<sup>4</sup> When the properties were about to be foreclosed, Elma allegedly asked for help from her sister-in-law, Eufemia Pidlaoan (*Eufemia*), to redeem the property.<sup>5</sup> On her part, Eufemia called her daughter abroad, Normita, to lend money to Elma. Normita agreed to provide the funds.<sup>6</sup>

Elma allegedly sought to sell the land.<sup>7</sup> When she failed to find a buyer, she offered to sell it to Eufemia or her daughter.<sup>8</sup>

On March 21, 1993, Elma executed a **deed of sale** entitled “*Panananto ng Pagkatanggap ng Kahustuhang Bayad*” transferring the ownership of the lot to Normita.<sup>9</sup> The last provision in the deed of sale provides that Elma shall eject the person who erected the house and deliver the lot to Normita.<sup>10</sup> The document was signed by Elma, Normita, and two witnesses but it was not notarized.

When Elma and Normita were about to have the document notarized, the notary public advised them to donate the lot instead to avoid capital gains tax.<sup>11</sup> On the next day, Elma executed a **deed of donation** in Normita’s favor and had it notarized. TCT No. T-50282 was cancelled and TCT No. T-70990 was issued in Normita’s name.<sup>12</sup> Since then, Normita had been paying the real property taxes over the lot but Elma continued to occupy the house.

Rosario found out about the donation when she returned to the country a year or two after the transaction.<sup>13</sup>

In 1997, the petitioners filed a **complaint** for reformation of contract, cancellation of TCT No. T-70990, and damages with prayer for preliminary injunction against Eufemia, Normita, and Herminigilda Pidlaoan (*respondents*).

The petitioners argued that: *first*, they co-owned the lot because both of them contributed the money used to purchase it; *second*, Elma and

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<sup>2</sup> *Id.* at 37.

<sup>3</sup> *Id.* at 38.

<sup>4</sup> RTC *rollo*, p. 246.

<sup>5</sup> *Rollo*, p. 40.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> RTC *rollo*, p. 59: “Na, ako ang siyang magpapa-alis sa tumirik ng bahay sa naulit na lote upang ito’y (*sic*) maging malinis ang pagsasauli o pagsasalin ko kay Normita Jacob Pidlaoan.”

<sup>11</sup> *Rollo*, p. 40.

<sup>12</sup> *Id.* at 41.

<sup>13</sup> *Id.* at 38.

Normita entered into an equitable mortgage because they intended to constitute a mortgage over the lot to secure Elma's loan but they executed a deed of sale instead; and *third*, the deed of donation was simulated because Elma executed it upon the notary public's advice to avoid capital gains tax.<sup>14</sup>

**In their answer**, the respondents admitted that the deed of donation was simulated and that the original transaction was a sale.<sup>15</sup> They argued, however, that there was no agreement to constitute a real estate mortgage on the lot.<sup>16</sup>

The RTC ruled that Rosario and Elma co-owned the lot and the house.<sup>17</sup> Thus, Elma could only donate her one-half share in the lot.<sup>18</sup>

Hence, the respondents appealed to the CA.

### **THE CA RULING**

The CA **reversed** the RTC's decision and dismissed the petitioners' complaint.

The CA held that Elma and Normita initially entered into two agreements: a loan and a sale. They entered into a loan agreement when Elma had to pay Thi Hong Villanueva to redeem the property. Thereafter, Elma sold the property to Normita. They subsequently superseded the contract of sale with the assailed deed of donation.

The CA also held that the deed of donation was not simulated. It was voluntarily executed by Elma out of gratitude to Normita who rescued her by preventing the foreclosure of the lot. Moreover, the deed of donation, being a public document, enjoys the presumption of regularity. Considering that no conclusive proof was presented to rebut this presumption, the deed of donation is presumed valid.

The CA denied the petitioners' motion for reconsideration; hence, this petition.

### **THE PETITIONERS' ARGUMENTS**

In their petition, the petitioners argue that: (1) Rosario is a co-owner because she caused the construction of the house, which has a higher market value than the lot; (2) the deed of donation is simulated; (3) the transaction was a mere equitable mortgage; and (4) the CA unduly disturbed the RTC's factual findings. The petitioners emphasize that the respondents have consistently admitted in their answer that the deed of donation was

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<sup>14</sup> RTC *rollo*, pp. 1-5.

<sup>15</sup> *Id.* at 16-21.

<sup>16</sup> *Id.*

<sup>17</sup> CA *rollo*, pp. 19-24.

<sup>18</sup> *Id.*

simulated; therefore, the CA should not have reversed the RTC's decision on that point.

In their three-page comment, the respondents insist that the CA correctly dismissed the complaint. They stressed that the petitioners were the ones who argued that the deed of donation was simulated but the CA ruled otherwise. Furthermore, the petition involves questions of facts and law outside the province of the Supreme Court. Hence, the petition must be dismissed.

### **THE COURT'S RULING**

We **PARTIALLY GRANT** the petition.

The issues before the Court are: (1) whether Rosario is a co-owner; (2) whether the deed of donation was simulated; and (3) whether the transaction between Elma and Normita was a sale, a donation, or an equitable mortgage. Considering that these issues are inter-related, we shall jointly discuss and resolve them.

At the outset, we note that the issues raised by the petitioners in the present case require a review of the factual circumstances. As a rule, only questions of law may be raised in a petition for review on *certiorari* under Rule 45 of the Rules of Court.

The Court distinguished between a question of law and a question of fact in a number of cases. A question of law arises when there is doubt on what the law is on a certain set of fact, while a question of fact exists when there is doubt as to the truth or falsity of the alleged facts.<sup>19</sup> For a question to be one of law, it must not involve an examination of the probative value of the evidence presented by the litigants.<sup>20</sup> If the issue invites a review of the evidence on record, the question posed is one of fact.<sup>21</sup>

The factual findings of the CA are conclusive and binding and are not reviewable by the Court, unless the case falls under any of the recognized exceptions.<sup>22</sup> One of these exceptions is when the findings of the RTC and the CA are contradictory, as in the present case.

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<sup>19</sup> *Lorzano v. Tabayag, Jr.*, G.R. No. 189647, February 6, 2012; *Republic v. Vega*, G.R. No. 177790, January 17, 2011, citing *New Rural Bank of Guimba (N.E.) Inc. v. Abad*, G.R. No. 161818, August 20, 2008.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Cirtek Employees Labor Union-Federation of Free Workers v. Cirtek Electronics, Inc.*, G.R. No. 190515, June 6, 2011. The exceptions are: (a) when the conclusion is a finding grounded entirely on speculation, surmises, and conjectures; (b) when the inference made is manifestly mistaken, absurd or impossible; (c) when there is grave abuse of discretion; (d) when the judgment is based on a misapprehension of facts; (e) when the findings of fact are conflicting; (f) when the CA, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee; (g) when the findings are contrary to those of the trial court; (h) when the findings of fact are conclusions without citation of specific evidence on which they are based; (i) when the facts set forth in the petition as well as in the petitioners' main and reply briefs are not disputed by the respondents; and (j)

By granting the appeal and dismissing the petitioners' complaint, the CA effectively ruled that the transfer of ownership involved the entire lot rather than only half of it as the RTC held. The lower courts' differing findings provide us sufficient reason to proceed with the review of the evidence on record.<sup>23</sup>

***First, we rule that Elma transferred ownership of the entire lot to Normita.***

One who deals with property registered under the Torrens system has a right to rely on what appears on the face of the certificate of title and need not inquire further as to the property's ownership.<sup>24</sup> A buyer is charged with notice only of the claims annotated on the title.<sup>25</sup> The Torrens system was adopted to best guarantee the integrity of land titles and to protect their indefeasibility once the claim of ownership is established and recognized.<sup>26</sup>

In the present case, the records of the case show that Elma *alone* purchased the lot in 1984 from its previous owners.<sup>27</sup> Accordingly, TCT No. T-50282 was issued *solely* in her name. Thus, Normita bought the lot relying on the face of the TCT that Elma and *no other person* owned it.

We acknowledge that registration under the Torrens system does not create or vest title. A certificate of title merely serves as an evidence of ownership in the property. Therefore, the issuance of a certificate of title does not preclude the possibility that persons not named in the certificate may be co-owners of the real property, or that the registered owner is only holding the property in trust for another person.<sup>28</sup>

In the present case, however, the petitioners failed to present proof of Rosario's contributions in purchasing the lot from its previous owners. The execution of the transfer documents solely in Elma's name alone militate against their claim of co-ownership. Thus, we find no merit in the petitioners' claim of co-ownership over the lot.

At this point, we address the petitioners' claim that Rosario co-owned the lot with Elma because the value of the house constructed by Rosario on it is higher than the lot's value. We find this argument to be erroneous.

We hold that mere construction of a house on another's land does not create a co-ownership. Article 484 of the Civil Code provides that co-ownership exists when the ownership of an undivided thing or right belongs

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when he findings of facts of the CA are premised on the supposed absence of evidence and contradicted by the evidence on record.

<sup>23</sup> *Ramos v. Heirs of Ramos*, G.R. No. 140848, April 25, 2002.

<sup>24</sup> *Cagatao v. Almonte*, G.R. No. 174004, October 9, 2003.

<sup>25</sup> *Casimiro Development Corporation v. Mateo*, G.R. No. 175485, July 27, 2011.

<sup>26</sup> *Id.*

<sup>27</sup> RTC *rollo*, p. 135.

<sup>28</sup> *Id.*

to different persons. Verily, a house and a lot are separately identifiable properties and can pertain to different owners, as in this case: the house belongs to Rosario and the lot to Elma.

Article 448 of the Civil Code provides that if a person builds on another's land in good faith, the land owner may either: (a) appropriate the works as his own after paying indemnity; or (b) oblige the builder to pay the price of the land. The law does not force the parties into a co-ownership.<sup>29</sup> A builder is in good faith if he builds on a land believing himself to be its owner and is unaware of the defect in his title or mode of acquisition.<sup>30</sup>

As applied in the present case, Rosario's construction of a house on the lot did not create a co-ownership, regardless of the value of the house. Rosario, however, is not without recourse in retrieving the house or its value. The remedies available to her are set forth in Article 448 of the Civil Code.

*Second, on the nature of the transaction between Elma and Normita,* we find that the deed of donation was simulated and the parties' real intent was to enter into a sale.

The petitioners argue that the deed of donation was simulated and that the parties entered into an equitable mortgage.<sup>31</sup> On the other hand, the respondents deny the claim of equitable mortgage<sup>32</sup> and argue that they validly acquired the property *via* sale.<sup>33</sup> The RTC ruled that there was donation but only as to half of the property. The CA agreed with the respondents that the deed of donation was not simulated, relying on the presumption of regularity of public documents.

We first dwell on the genuineness of the deed of donation. There are two types of simulated documents – absolute and relative. A document is absolutely simulated when the parties have no intent to bind themselves at all, while it is relatively simulated when the parties concealed their true agreement.<sup>34</sup> The true nature of a contract is determined by the parties' intention, which can be ascertained from their contemporaneous and subsequent acts.<sup>35</sup>

In the present case, Elma and Normita's contemporaneous and subsequent acts show that they were about to have the contract of sale notarized but the notary public ill-advised them to execute a deed of donation instead. Following this advice, they returned the next day to have a deed of donation notarized. Clearly, Elma and Normita intended to enter into a sale that would transfer the ownership of the subject matter of their

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<sup>29</sup> Arturo M. Tolentino, *Civil Code of the Philippines II* 2004, p. 110, *citing* 3 Manresa 213, *et. al.*

<sup>30</sup> *Spouses Aquino v. Spouses Aguilar*, G.R. No. 182754, June 29, 2015.

<sup>31</sup> *Rollo*, pp. 25-29.

<sup>32</sup> RTC *rollo*, p. 17, pars. 4-6.

<sup>33</sup> *Id.*

<sup>34</sup> CIVIL CODE OF THE PHILIPPINES, Art. 1345.

<sup>35</sup> *Velario v. Refresco*, G.R. No. 163687, March 28, 2006.

contract but disguised it as a donation. Thus, the deed of donation subsequently executed by them was only relatively simulated.

The CA upheld the deed of donation's validity based on the principle that a notarized document enjoys the presumption of regularity. This presumption, however, is overthrown in this case by the respondents' own admission in their answer that the deed of donation was simulated.

Judicial admissions made by a party in the course of the proceedings are conclusive and do not require proof.<sup>36</sup> Notably, the respondents explicitly recognized in their answer that the deed of donation was simulated upon the notary public's advice and that both parties intended a sale.<sup>37</sup>

In paragraphs 5 and 6 of the answer,<sup>38</sup> the respondents stated thus:

5. That defendants admit the allegations in paragraph 9 which readily acknowledges that there was indeed an agreement to sell the property of plaintiff, Elma Pidlaoan to defendant, Normita Pidlaoan (Normita, for brevity) for which a Deed of Absolute Sale was drafted and executed;

6. That defendants **admit the simulation of the Deed of Donation** in paragraph 10 of the Complaint, but deny the remainder, the truth being that Elma Pidlaoan herself offered her property for sale in payment of her loans from Normita. (Emphasis supplied)

Having admitted the simulation, the respondents can no longer deny it at this stage. The CA erred in disregarding this admission and upholding the validity of the deed of donation.

Considering that the deed of donation was relatively simulated, the parties are bound to their real agreement.<sup>39</sup> The records show that the parties intended to transfer the ownership of the property to Normita by absolute sale. This intention is reflected in the unnotarized document entitled "*Panananto ng Pagkatanggap ng Kahustuhang Bayad.*"<sup>40</sup>

We have discussed that the transaction was definitely not one of donation. Next, we determine whether the parties' real transaction was a sale or an equitable mortgage.

The petitioners insist that the deed of sale is an equitable mortgage because: (i) the consideration for the sale was grossly inadequate; (ii) they remained in possession of the property; (iii) they continuously paid the water and electric bills; (iv) the respondents allowed Victoria to repay the "loan"

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<sup>36</sup> RULES OF COURT, Rule 129, Section 4; Civil Code of the Philippines, Art. 1431; *Josefa v. Manila Electric Company*, G.R. No. 182705, July 18, 2014.

<sup>37</sup> *Rollo*, p. 17.

<sup>38</sup> *Id.*

<sup>39</sup> CIVIL CODE OF THE PHILIPPINES, Art. 1346.

<sup>40</sup> CA *rollo*, p. 247.

within three months;<sup>41</sup> (v) the respondents admitted that the deed of donation was simulated; and (vi) the petitioners paid the taxes even after the sale.

Notably, neither the CA nor the RTC found merit in the petitioners' claim of equitable mortgage. We find no reason to disagree with these conclusions.

An equitable mortgage is one which, although lacking in some formality or other requisites demanded by statute, nevertheless reveals the intention of the parties to charge real property as security for a debt, and contains nothing impossible or contrary to law.<sup>42</sup> Articles 1602 and 1604 of the Civil Code provide that a contract of absolute sale shall be presumed an equitable mortgage if any of the circumstances listed in Article 1602 is attendant.

Two requisites must concur for Articles 1602 and 1604 of the Civil Code to apply: *one*, the parties entered into a contract denominated as a contract of sale; and *two*, their intention was to secure an existing debt by way of mortgage.<sup>43</sup>

In the present case, the unnotarized contract of sale between Elma and Normita is denominated as "*Panananto ng Pagkatanggap ng Kahustuhang Bayad.*"<sup>44</sup> Its contents show an unconditional sale of property between Elma and Normita. The document shows no intention to secure a debt or to grant a right to repurchase. Thus, there is no evidence that the parties agreed to mortgage the property as contemplated in Article 1602 of the Civil Code. Clearly, the contract is not one of equitable mortgage.

Even assuming that Article 1602 of the Civil Code applies in this case, none of the circumstances are present to give rise to the presumption of equitable mortgage. *One*, the petitioners failed to substantiate their claim that the sale price was unusually inadequate.<sup>45</sup> In fact, the sale price of ₱30,000.00 is not unusually inadequate compared with the lot's market value of ₱32,160 as stated in the 1994 tax declaration. *Two*, the petitioners continued occupation on the property was coupled with the respondents' continuous demand for them to vacate it. *Third*, no other document was executed for the petitioners to repurchase the lot after the sale contract was

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<sup>41</sup> RTC rollo, p. 19. Answer, pars. 16-17:

16. That it was agreed upon that Elma Pidlaon will remunerate Normita within three months after the lot's redemption but when Elma failed to do so even on the sixth month, Elma instead voluntarily offered to sell her property to Normita in payment of her loans sometime in early 1992, which offer the latter accepted and Normita thereafter remitted Elma's loans totalling ₱35,000.00;

17. That likewise in 1992, upon learning of the lot's sale to Normita, Rosario undertook the repayment of Elma's loans with Normita within three months after the said sale, but she failed and also failed to remove the house on her own as she had promised.

<sup>42</sup> 42 Corpus Juris 303.

<sup>43</sup> *Heirs of Spouses Balite v. Lim*, G.R. No. 152168, December 10, 2004; *San Pedro v. Lee*, G.R. No. 156522, May 28, 2004.

<sup>44</sup> RTC rollo, p. 247.

<sup>45</sup> The petitioners alleged that the market value of the house and lot per tax declaration is ₱182,7000.00, but the lot was sold only for ₱30,000.00. However, they failed to attach the alleged tax declaration.

executed. *Finally*, the respondents paid the real property taxes on the lot.<sup>46</sup> These circumstances contradict the petitioners' claim of equitable mortgage.

A review of the sale contract or the "*Panananto ng Pagkatanggap ng Kahustuhang Bayad*" shows that the parties intended no equitable mortgage. The contract even contains Elma's undertaking to remove Rosario's house on the property.<sup>47</sup> This undertaking supports the conclusion that the parties executed the contract with the end view of transferring full ownership over the lot to Normita.

In sum, we rule that based on the records of the case, Elma and Normita entered in a sale contract, not a donation. Elma sold the entire property to Normita. Accordingly, TCT No. T-70990 was validly issued in Normita's name.

**WHEREFORE**, we hereby **PARTIALLY GRANT** the petition. The March 26, 2010 decision and March 15, 2011 resolution of the Court of Appeals in CA-G.R. CV No. 89235 are hereby **AFFIRMED** with the **MODIFICATION** that the parties entered into a contract of sale, not a donation, and that petitioner Elma Pidlaoan sold the whole disputed property to respondent Normita Jacob Pidlaoan. Costs against the petitioners.

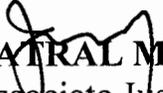
**SO ORDERED.**

  
**ARTURO D. BRION**  
 Associate Justice

**WE CONCUR:**

  
**ANTONIO T. CARPIO**  
 Associate Justice  
 Chairperson

  
**MARIANO C. DEL CASTILLO**  
 Associate Justice

  
**JOSE CATRAL MENDOZA**  
 Associate Justice

  
**MARVIC M.V.F. LEONEN**  
 Associate Justice

<sup>46</sup> RTC rollo, pp. 250-251.

<sup>47</sup> *Id.* at 247.

**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

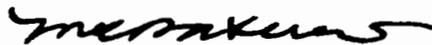
**ANTONIO T. CARPIO**

Associate Justice

Chairperson

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**MARIA LOURDES P.A. SERENO**

Chief Justice