

Petition for review on certiorari assailing

[Business](#), [Marketing](#)



FIRST DIVISION [G. R. No. 144712. July 4, 2002] SPOUSES SILVESTRE and CELIA PASCUAL, petitioners, vs. RODRIGO V. RAMOS, respondent. DECISION DAVIDE, JR. , C. J. : Before us is a petition for review on certiorari assailing the 5 November 1999 Decision[1] and the 18 August 2000 Resolution[2] of the Court of Appeals in CA G. R. CV No. 52848. The former affirmed the 5 June 1995 and 7 September 1995 Orders of the Regional Trial Court, Malolos, Bulacan, Branch 21, in Civil Case No. 526 -M-93, and the latter denied petitioner's motion for reconsideration.

The case at bar stemmed from the petition[3] for consolidation of title or ownership filed on 5 July 1993 with the trial court by herein respondent Rodrigo V. Ramos (hereafter RAMOS) against herein petitioners, Spouses Silvestre and Celia Pascual (hereafter the PASCUALS). In his petition, RAMOS alleged that on 3 June 1987, for and in consideration of P150, 000, the PASCUALS executed in his favor a Deed of Absolute Sale with Right to Repurchase over two parcels of land and the improvements thereon located in Bambang, Bulacan, Bulacan, covered by Transfer Certificate of Title (TCT) No. 05626 of the Registry of Deeds of Bulacan. This document was annotated at the back of the title. The PASCUALS did not exercise their right to repurchase the property within the stipulated one -year period; hence, RAMOS prayed that the title or ownership over the subject parcels of land and improvements thereon be consolidated in his favor.

In their Answer,[4] the PASCUALS admitted having signed the Deed of Absolute Sale with Right to Repurchase for a consideration of P150, 000 but averred that what the parties had actually agreed upon and entered into was

a real estate mortgage. They further alleged that there was no agreement limiting the period within which to exercise the right to repurchase and that they had even overpaid RAMOS.

Furthermore, they interposed the following defenses: (a) the trial court had no jurisdiction over the subject or nature of the petition; (b) RAMOS had no legal capacity to sue; (c) the cause of action, if any, was barred by the statute of limitations; (d) the petition stated no cause of action; (e) the claim or demand set forth in RAMOS's pleading had been paid, waived, abandoned, or otherwise extinguished; and (f) RAMOS has not complied with the required confrontation and conciliation before the barangay.

By way of counterclaim, the PASCUALs prayed that RAMOS be ordered to execute a Deed of Cancellation, Release or Discharge of the Deed of Absolute Sale with Right to Repurchase or a Deed of Real Estate Mortgage; deliver to them the owner's duplicate of TCT No. T-305626; return the amount they had overpaid; and pay each of them moral damages and exemplary damages in the amounts of P200, 000 and P50, 000, respectively, plus attorney's fees of P100, 000; appearance fee of P1, 500 per hearing; litigation expenses; and costs of suit.

After the pre-trial, the trial court issued an order^[5] wherein it identified the following issues: (1) whether the Deed of Absolute Sale with Right to Repurchase is an absolute sale or a mere mortgage; (2) whether the PASCUALs have paid or overpaid the principal obligation; (3) whether the ownership over the parcel of land may be consolidated in favor of RAMOS; and (4) whether damages may be awarded. Among the documents offered in

evidence by RAMOS during the trial on the merits was a document denominated as Sinumpaang Salaysay[6] signed by RAMOS and Silvestre Pascual, but not notarized.

The contents of the document read: Ako, si SILVESTRE PASCUAL, Filipino, nasa hustong gulang, may asawa at kasalukuyang naninirahan sa Bambang, Bulacan, Bulacan, ay nagsasabing buong katotohanan at sumusumpa sa aking mga salaysay sa kasulatang ito: 1. Na ngayong June 3, 1987 dahil sa aking matinding pangangailangan ng puhunan ay lumapit ako at nakiusap kay Rodrigo Ramos ng Taal, Pulilan, Bulacan na pautangin ako ng halagang P150, 000. 00. 2. Na aming napagkasunduan na ang nasabing utang ay babayaran ko ng tubo ng seven percent (7%) o P10, 500. 0 isang buwan (7% per month). 3. Na bilang sangla (collateral security) sa aking utang, kami ay nagkasundo na mag-execute ng Deed of Sale with Right to Repurchase para sa aking bahay at lupa (TCT No. 305626) sa Bo. Taliptip, Bambang, Bulacan, Bulacan ngayong June 3, 1987 at binigyan ako ni Mr. Ramos ng isang taon hanggang June 3, 1988 upang mabiling muli ang aking isinanla sa kaniya sa kasunduang babayaran kong lahat ang capital na P150, 000. 00 pati na ang P10, 500. 0 na tubo buwan buwan. 4. Na bilang karagdagang condition, si RODRIGO RAMOS ay pumayag sa aking kahilingan na kung sakali na hindi ko mabayaran ng buo ang aking pagkakautang (Principal plus interest) sa loob ng isang taon mula ngayon, ang nakasanglang bahay at lupa ay hindi muna niya iilitin (foreclose) o ipalilipat sa pangalan niya at hindi muna kami paaalisin sa tinitirhan naming bahay hanggat ang tubo (interest) na P10, 500. 00 ay nababayaran ko buwan buwan. 5.

Na ako ay sumasang-ayon sa kundisyon ni Rodrigo Ramos na pagkatapos ng isang taon mula ngayon hanggang June 3, 1988 at puro interest lamang ang aking naibabayad buwan-buwan, kung sakaling hindi ako makabayad ng tubo for six (6) consecutive months (1/2 year after June 3, 1988 (6 na buwang hindi bayad ang interest ang utang ko) si Rodrigo Ramos ay binibigyan ko ng karapatan at kapangyarihan na mag-mayari ng aming bahay at lupa at kami ng aking pamilya ay kusang loob na aalis sa nasabing bahay at lupa na lumalabas na ibinenta ko sa kaniya dahil hindi ako nakasunod sa aming mga pinagkasunduang usapan. . At bilang finale ng aming kasunduan, ako ay nangangako na hindi maghahabol ng ano mang sukli sa pagkakailit ng aming bahay at lupa kung sakali mang dumating sa ganuong pagkakataon o sitwasyon o di kaya'y magsasampa ng reklamo kanino man. Bilang pagsang-ayon sa mga nasabing kasunduan, kami ay lumagda sa ibaba nito kalakip ng aming mga pangalan ngayong ika-3 ng Hunyo, 1987. (Sgd.)Rodrigo Ramos Sgd.) Silvestre Pascual Nagpautang Umutang

For their part, the PASCUALs presented documentary evidence consisting of acknowledgment receipts [7] to prove the payments they had made. The trial court found that the transaction between the parties was actually a loan in the amount of P150, 000, the payment of which was secured by a mortgage of the property covered by TCT No. 305626. It also found that the PASCUALs had made payments in the total sum of P344, 000, and that with interest at 7% per annum, the PASCUALs had overpaid the loan by P141, 500.

Accordingly, in its Decision[8] of 15 March 1995 the trial court decreed as follows: WHEREFORE, judgment is hereby rendered in favor of the defendants and against the plaintiff in the following manner: 1. Dismissing the plaintiff's petition; 2. Directing the Register of Deeds to cancel the annotation of the Deed of Sale with Right to Repurchase on the dorsal side of TCT No. 305626; 3. Awarding the defendants the sum of P141, 500. 00 as overpayment on the loan and interests; 4. Granting the defendants attorney's fee in the sum of P15, 000. 0 and P3, 000. 00 for litigation expenses. With costs against the plaintiff. RAMOS moved for the reconsideration of the decision, alleging that the trial court erred in using an interest rate of 7% per annum in the computation of the total amount of obligation because what was expressly stipulated in the Sinumpaang Salaysay was 7% per month. The total interest due from 3 June 1987 to 3 April 1995 was P987, 000. Deducting therefrom the interest payments made in the sum of P344, 000, the amount of P643, 000 was still due as interest.

Adding the latter to the principal sum of P150, 000, the total amount due from the PASCUALs as of 3 April 1995 was P793, 000. Finding merit in the motion for reconsideration, which was not opposed by the PASCUALs, the trial court issued on 5 June 1995 an Order[9] modifying its decision by deleting the award of P141, 500 to the PASCUALs as overpayment of the loan and interest and ordering them to pay RAMOS P511, 000 representing the principal loan plus interest. The trial court acknowledged that it had inadvertently declared the interest rate to be 7% per annum when, in fact, the Sinumpaang Salaysay stipulated 7% per month.

It noted that during trial, the PASCUALs never disputed the stipulated interest rate. However, the court declared that the 7% per month interest is too burdensome and onerous. Invoking the protective mantle of Article 24 of the Civil Code, which mandates the courts to be vigilant for the protection of a party at a disadvantage due to his moral dependence, ignorance, indigence, mental weaknesses, tender age or other handicap, the trial court unilaterally reduced the interest rate from 7% per month to 5% per month. Thus, the interest due from 3 June 1987 to April 1995 was P705, 000. Deducting therefrom the payments made by the PASCUALs in the amount of P344, 000, the net interest due was P361, 000. Adding thereto the loan principal of P150, 000, the total amount due from the PASCUALs was P511, 000. Aggrieved by the modification of the decision, the PASCUALs filed a motion to reconsider the Order of 5 June 1995. They alleged that the motion for reconsideration filed by RAMOS was a mere scrap of paper because they received a copy of said motion only a day before the hearing, in violation of the 3 -day-notice rule.

Moreover, they had already paid the interests and had in fact overpaid the principal sum of P150, 000. Besides, RAMOS, being an individual, could not charge more than 1% interest per month or 12% per annum; and, the interest of either 5% or 7% a month is exorbitant, unconscionable, unreasonable, usurious and inequitable. RAMOS opposed the motion of the PASCUALs. He contended that the non-compliance with the 3-day-notice rule was cured when the trial court gave them an opportunity to file their opposition, but despite the lapse of the period given them, no opposition was filed.

It is not correct to say that he was not allowed to collect more than 1% per month interest considering that with the moratorium on the Usury Law, the allowable interest is that agreed upon by the parties. In the absence of any evidence that there was fraud, force or undue influence exerted upon the PASCUALs when they entered into the transaction in question, their agreement embodied in the Sinumpaang Salaysay should be respected. Furthermore, the trial court had already reduced the interest rate to 5% per month, a rate which is not exorbitant, unconscionable, unreasonable and inequitable.

Their motion for reconsideration having been denied in the Order[10] of 7 September 1995, the PASCUALs seasonably appealed to the Court of Appeals. They pointed out that since the only prayer of RAMOS in his petition was to have the title or ownership over the subject land and the improvements thereon consolidated in his favor and he did not have any prayer for general relief, the trial court had no basis in ordering them to pay him the sum of P511, 000. In its Decision[11] of 5 November 1999, the Court of Appeals affirmed in toto the trial court's Orders of 5 June 1995 and 7 September 1995.

It ruled that while RAMOS's petition for consolidation of title or ownership did not include a prayer for the payment of the balance of the petitioners' obligation and a prayer for general relief, the issue of whether there was still a balance from the amount loaned was deemed to have been raised in the pleadings by virtue of Section 5, Rule 10 of the Rules of Court, which provides that "[w]hen issues not raised by the pleadings are tried with the

express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings. In the course of the trial, receipts were presented by the PASCUALs evidencing the payments they had made. Taken in conjunction with the Sinumpaang Salaysay which specified the interest rate at 7% per month, a mathematical computation readily leads to the conclusion that there is still a balance due from the PASCUALs, even at a reduced interest rate of 5% interest per month. With the denial of their motion for reconsideration of the decision by the Court of Appeals, the PASCUALs filed before us the instant petition raising the sole issue of whether they are liable for 5% interest per month from 3 June 1987 to 3 April 1995.

Invoking this Court's ruling in *Medel v. Court of Appeals*,^[12] they argue that the 5% per month interest is excessive, iniquitous, unconscionable and exorbitant. Moreover, respondent should not be allowed to collect interest of more than 1% per month because he tried to hide the real transaction between the parties by imposing upon them to sign a Deed of Absolute Sale with Right to Repurchase. For his part, RAMOS contends that the issue raised by petitioners cannot be entertained anymore because it was neither raised in the complaint nor ventilated during the trial.

In any case, there was nothing illegal on the rate of interest agreed upon by the parties, since the ceilings on interest rates prescribed under the Usury Law had expressly been removed, and hence parties are left freely at their discretion to agree on any rate of interest. Moreover, there was no scheme to hide a usurious transaction. RAMOS then prays that the challenged

decision and resolution be affirmed and that petitioners be further ordered to pay legal interest on the interest due from the time it was demanded. We see at once the proclivity of the PASCUALs to change theory almost every step of the case.

By invoking the decision in *Medel v. Court of Appeals*, the PASCUALs are actually raising as issue the validity of the stipulated interest rate. It must be stressed that they never raised as a defense or as basis for their counterclaim the nullity of the stipulated interest. While overpayment was alleged in the Answer, no ultimate facts which constituted the basis of the overpayment was alleged. In their pre-trial brief, the PASCUALs made a long list of issues, but not one of them touched on the validity of the stipulated interest rate.

Their own evidence clearly shows that they have agreed on, and have in fact paid interest at, the rate of 7% per month. Exhibits " 1" to " 8" specifically mentioned that the payments made were for the interest due on the P150, 000 loan of the PASCUALs. In the course of the trial, the PASCUALs never put in issue the validity of the stipulated interest rate. After the trial court sustained petitioners' claim that their agreement with RAMOS was actually a loan with real estate mortgage, the PASCUALs should not be allowed to turn their back on the stipulation in that agreement to pay interest at the rate of 7% per month.

The PASCUALs should accept not only the favorable aspect of the court's declaration that the document is actually an equitable mortgage but also the necessary consequence of such declaration, that is, that interest on the loan

as stipulated by the parties in that same document should be paid. Besides, when RAMOS moved for a reconsideration of the 15 March 1995 Decision of the trial court pointing out that the interest rate to be used should be 7% per month, the PASCUALs never lifted a finger to oppose the claim. Admittedly, in their Motion for Reconsideration of the

Order of 5 June 1995, the PASCUALs argued that the interest rate, whether it be 5% or 7%, is exorbitant, unconscionable, unreasonable, usurious and inequitable. However, in their Appellants' Brief, the only argument raised by the PASCUALs was that RAMOS's petition did not contain a prayer for general relief and, hence, the trial court had no basis for ordering them to pay RAMOS P511, 000 representing the principal and unpaid interest. It was only in their motion for the reconsideration of the decision of the Court of Appeals that the PASCUALs made an issue of the interest rate and prayed for its reduction to 12% per annum.

In *Manila Bay Club Corp. v. Court of Appeals*,^[13] this Court ruled that if an issue is raised only in the motion for reconsideration of the decision of the Court of Appeals, the effect is that it is as if it was never duly raised in that court at all. Our ruling in *Medel v. Court of Appeals*^[14] is not applicable to the present case. In that case, the excessiveness of the stipulated interest at the rate of 5.5% per month was put in issue by the defendants in the Answer.

Moreover, in addition to the interest, the debtors were also required, as per stipulation in the promissory note, to pay service charge of 2% per annum and a penalty charge of 1% per month plus attorney's fee of equivalent to

25% of the amount due. In the case at bar, there is no other stipulation for the payment of an extra amount except interest on the principal loan. Thus, taken in conjunction with the stipulated service charge and penalty, the interest rate of 5.5% in the Medel case was found to be excessive, iniquitous, unconscionable, exorbitant and hence, contrary to morals, thereby making such stipulation null and void.

Considering the variance in the factual circumstances of the Medel case and the instant case, we are not prepared to apply the former lest it be construed that we can strike down anytime interest rates agreed upon by parties in a loan transaction. It is a basic principle in civil law that parties are bound by the stipulations in the contracts voluntarily entered into by them. Parties are free to stipulate terms and conditions which they deem convenient provided they are not contrary to law, morals, good customs, public order, or public policy. [15]

The interest rate of 7% per month was voluntarily agreed upon by RAMOS and the PASCUALs. There is nothing from the records and, in fact, there is no allegation showing that petitioners were victims of fraud when they entered into the agreement with RAMOS. Neither is there a showing that in their contractual relations with RAMOS, the PASCUALs were at a disadvantage on account of their moral dependence, ignorance, mental weakness, tender age or other handicap, which would entitle them to the vigilant protection of the courts as mandated by Article 24 of the Civil Code.

Apropos in our ruling in Vales vs. Villa: All men are presumed to be sane and normal and subject to be moved by substantially the same motives. When of

age and sane, they must take care of themselves. In their relations with others in the business of life, wits, sense, intelligence, training, ability and judgment meet and clash and contest, sometimes with gain and advantage to all, sometimes to a few only, with loss and injury to others. In these contests men must depend upon themselves - upon their own abilities, talents, training, sense, acumen, judgment.

The fact that one may be worsted by another, of itself, furnishes no cause of complaint. One man cannot complain because another is more able, or better trained, or has better sense or judgment than he has; and when the two meet on a fair field the inferior cannot murmur if the battle goes against him. The law furnishes no protection to the inferior simply because he is inferior, any more than it protects the strong because he is strong. The law furnishes protection to both alike - to one no more or less than to the other.

It makes no distinction between the wise and the foolish, the great and the small, the strong and the weak. The foolish may lose all they have to the wise; but that does not mean that the law will give it back to them again. Courts cannot follow one every step of his life and extricate him from bad bargains, protect him from unwise investments, relieve him from one-sided contracts, or annul the effects of foolish acts. Courts cannot constitute themselves guardians of persons who are not legally incompetent.

Courts operate not because one person has been defeated or overcome by another, but because he has been defeated or overcome illegally. Men may do foolish things, make ridiculous contracts, use miserable judgment, and lose money by then - indeed, all they have in the world; but not for that alone

can the law intervene and restore. There must be, in addition, a violation of law, the commission of what the law knows as an actionable wrong, before the courts are authorized to lay hold of the situation and remedy it. 16] With the suspension of the Usury Law and the removal of interest ceiling, the parties are free to stipulate the interest to be imposed on loans. Absent any evidence of fraud, undue influence, or any vice of consent exercised by RAMOS on the PASCUALs, the interest agreed upon is binding upon them. This Court is not in a position to impose upon parties contractual stipulations different from what they have agreed upon. As declared in the decision of *Cuizon v. Court of Appeals*,[17]

It is not the province of the court to alter a contract by construction or to make a new contract for the parties; its duty is confined to the interpretation of the one which they have made for themselves without regard to its wisdom or folly as the court cannot supply material stipulations or read into the contract words which it does not contain. Thus, we cannot supplant the interest rate, which was reduced to 5% per month without opposition on the part of RAMOS.

We are not persuaded by the argument of the PASCUALs that since RAMOS tried to hide the real transaction by imposing upon them the execution of a Deed of Absolute Sale with Right to Repurchase, he should not be allowed to collect more than 1% per month interest. It is undisputed that simultaneous with the execution of the said deed was the execution of the *Sinumpaang Salaysay*, which set forth the true agreement of the parties. The PASCUALs cannot then claim that they did not know the real transaction.

RAMOS's claim that the interest due should earn legal interest cannot be acted upon favorably because he did not appeal from the Order of the trial court of 5 June 1995, which simply ordered the payment by the PASCUALs of the amount of P511, 000 without interest thereon. No relief can be granted a party who does not appeal. [18] Therefore, the order of the trial court should stand. Incidentally, we noticed that in the Memorandum filed by RAMOS, the ruling in *Vales v. Valle* was reproduced by his counsel without the proper citation. Such act constitutes plagiarism. Atty. Felimon B.

Mangahas is hereby warned that a repetition of such act shall be dealt with accordingly. WHEREFORE, in view of all the foregoing, the petition is DENIED. The assailed decision of the Court of Appeals in CA G. R. CV No. 52848 is AFFIRMED in toto. Costs against petitioners. SO ORDERED. Vitug, Kapunan, Ynares-Santiago, and Austria-Martinez, Jj. , concur. FIRST DIVISION SPS. EDGAR AND DINAH OMENGAN, Petitioners, G. R. No. 161319 Present: PUNO, C. J. , SANDOVAL-GUTIERREZ, Working Chairperson, CORONA, AZCUNA and GARCIA, Jj. - versus - PHILIPPINE NATIONAL BANK, HENRY M. MONTALVO AND MANUEL S. ACIERTO,*

Respondents. Promulgated: January 23, 2007 x -----
 -----x DECISION CORONA, J. This petition for review on certiorari[1] seeks a review and reversal of the Court of Appeals (CA) decision [2] and resolution[3] in CA-G. R. CV No. 71302. In October 1996, the Philippine National Bank (PNB) Tabuk (Kalinga) Branch approved petitioners-spouses' application for a revolving credit line of P3 million. The loan was secured by two residential lots in Tabuk, Kalinga-

Apayao covered by Transfer Certificate of Title (TCT) Nos. 2954 and 12112. The certificates of title, issued by the Registry of Deeds of the Province of KalingaApayao, were in the name of Edgar^[4] Omengan married to Dinah Omengan. The first P2. 5 million was released by Branch Manager Henry Montalvo on three separate dates. The release of the final half million was, however, withheld by Montalvobecause of a letter allegedly sent by Edgar's sisters. It read: A ppas, Tabuk Kalinga 7 November 1996 The Manager Philippine National Bank Tabuk Branch Poblacion, Tabuk Kalinga Sir:

This refers to the land at Appas, Tabuk in the name of our brother, Edgar Omengan, which was mortgaged to [the] Bank in the amount of Three Million Pesos (P3, 000, 000. 00), the sum of [P2. 5 Million] had already been released and received by our brother, Edgar. In this connection, it is requested that the remaining unreleased balance of [half a million pesos] be held in abeyance pending an understanding by the rest of the brothers and sisters of Edgar. Please be informed that the property mortgaged, while in the name of Edgar Omengan, is owned in co-ownership by all the children of the late Roberto and Elnora Omengan.

The lawyer who drafted the document registering the subject property under Edgar's name can attest to this fact. We had a prior understanding with Edgar in allowing him to make use of the property as collateral, but he refuses to comply with such arrangement. Hence, this letter. (emphasis ours)

Very truly yours, (Sgd.) Shirley O. Gamon (Sgd.) Imogene O. Bangao (Sgd.)
Caroline O. Salicob (Sgd.) Alice O. Claver^[5] Montalvo was eventually

replaced as branch manager by Manuel Acierto who released the remaining half million pesos to petitioners on May 2, 1997.

Acierto also recommended the approval of a P2 million increase in their credit line to the Cagayan Valley Business Center Credit Committee in Santiago City. The credit committee approved the increase of petitioners' credit line (from P3 million to P5 million), provided Edgar's sisters gave their conformity. Acierto informed petitioners of the conditional approval of their credit line. But petitioners failed to secure the consent of Edgar's sisters; hence, PNB put on hold the release of the additional P2 million. On October 7, 1998, Edgar Omengan demanded the release of the P2 million.

He claimed that the condition for its release was not part of his credit line agreement with PNB because it was added without his consent. PNB denied his request. On March 3, 1999, petitioners filed a complaint for breach of contract and damages against PNB with the Regional Trial Court (RTC), Branch 25 in Tabuk, Kalinga. After trial, the court decided in favor of petitioners. Accordingly, judgment is hereby rendered finding in favor of [petitioners.] [PNB is ordered] : 1) To release without delay in favor of [petitioners] the amount of P2, 000, 000. 00 to complete the P5, 000, 000. 00 credit line agreement;) To pay [petitioners] the amount of P2, 760, 000. 00 representing the losses and/or expected income of the [petitioners] for three years; 3) To pay lawful interest, until the amount aforementioned on paragraphs 1 and 2 above are fully paid; and 4) To pay the costs. SO ORDERED. [6] The CA, however, on June 18, 2003, reversed and set aside the RTC decision dated April 21, 2001. [7] Petitioners now contend that the

CA erred when it did not sustain the finding of breach of contract by the RTC.

[8] The existence of breach of contract is a factual matter not usually reviewed in a petition filed under Rule 45.

But since the RTC and the CA had contradictory findings, we are constrained to rule on this issue. Was there a breach of contract? There was none. Breach of contract is defined as follows: [It] is the “ failure without legal reason to comply with the terms of a contract. ” It is also defined as the “[f]ailure, with out legal excuse, to perform any promise which forms the whole or part of the contract. ” [9] In this case, the parties agreed on a P3 million credit line. This sum was completely released to petitioners who subsequently applied [10] for an increase in their credit line.

This was conditionally approved by PNB’s credit committee. For all intents and purposes, petitioners sought an additional loan. The condition attached to the increase in credit line requiring petitioners to acquire the conformity of Edgar’s sisters was never acknowledged and accepted by petitioners. Thus, as to the additional loan, no meeting of the minds actually occurred and no breach of contract could be attributed to PNB. There was no perfected contract over the increase in credit line. “[T]he business of a bank is one affected with public interest, for which reason the bank should guard against loss due to negligence or bad faith.

In approving the loan of an applicant, the bank concerns itself with proper [information] regarding its debtors. ” [11] Any investigation previously conducted on the property offered by petitioners as collateral did not preclude PNB from considering new information on the same property as

security for a subsequent loan. The credit and property investigation for the original loan of P3 million did not oblige PNB to grant and release any additional loan. At the time the original P3 million credit line was approved, the title to the property appeared to pertain exclusively to petitioners.

By the time the application for an increase was considered, however, PNB already had reason to suspect petitioners' claim of exclusive ownership. A mortgagee can rely on what appears on the certificate of title presented by the mortgagor and an innocent mortgagee is not expected to conduct an exhaustive investigation on the history of the mortgagor's title. This rule is strictly applied to banking institutions. xxx Banks, indeed, should exercise more care and prudence in dealing even with registered lands, than private individuals, as their business is one affected with public interest. xx Thus, this Court clarified that the rule that persons dealing with registered lands can rely solely on the certificate of title does not apply to banks. [12] (emphasis supplied) Here, PNB had acquired information sufficient to induce a reasonably prudent person to inquire into the status of the title over the subject property. Instead of defending their position, petitioners merely insisted that reliance on the face of the certificate of title (in their name) was sufficient. This principle, as already mentioned, was not applicable to financial institutions like PNB.

In truth, petitioners had every chance to turn the situation in their favor if, as they said, they really owned the subject property alone, to the exclusion of any other owner(s). Unfortunately, all they offered were bare denials of the co-ownership claimed by Edgar's sisters. PNB exercised reasonable

prudence in requiring the above-mentioned condition for the release of the additional loan. If the condition proved unacceptable to petitioners, the parties could have discussed other terms instead of making an obstinate and outright demand for the release of the additional amount.

If the alleged co-ownership in fact had no leg to stand on, petitioners could have introduced evidence other than a simple denial of its existence. Since PNB did not breach any contract and since it exercised the degree of diligence expected of it, it cannot be held liable for damages. WHEREFORE, the decision and resolution of the Court of Appeals in CA-G. R. CV No. 71302 are hereby AFFIRMED. Costs against petitioners. SO ORDERED. RENATO C. CORONA Associate Justice WE CONCUR: REYNATO S. PUNO Chief Justice ANGELINA SANDOVAL-GUTIERREZ Associate Justice Working Chairperson

ADOLFO S. AZCUNA Associate Justice CANCIO C. GARCIA Associate Justice
CERTIFICATION Pursuant to Section 13, Article VIII of the Constitution, 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. REYNATO S. PUNO Chief Justice FIRST DIVISION [G. R. No. 126713. July 27, 1998] ADORACION E. CRUZ, THELMA DEBBIE E. CRUZ and GERRY E. CRUZ, petitioners, vs. COURT OF APPEALS and SPOUSES ELISEO and VIRGINIA MALOLOS, respondents. DECISION PANGANIBAN, J. :

Contracts constitute the law between the parties. They must be read together and interpreted in a manner that reconciles and gives life to all of them. The intent of the parties, as shown by the clear language used, prevails over post facto explanations that find no support from the words

employed by the parties of from their contemporary and subsequent acts showing their understanding of such contracts, Furthermore, a subsequent agreement cannot novate or change by implication a previous one, unless old and new contracts are, on every point, incompatible with each other.

Finally, collateral facts may be admitted in evidence when a rational similarity exists between the conditions giving rise to the fact offered and the circumstances surrounding the issue or fact to be proved. The Case Before us is a petition for review on certiorari seeking to nullify the Court of Appeals (CA) Decision[1] in CA- GR CV 33566, promulgated July 15, 1996, which reversed the Regional Trial Court (RTC) of Antipolo, Rizal; and CA Resolution [2] of October 1, 1996, which denied petitioner's Motion for Reconsideration.

Petitioner's Adoracion, Thelma Debbie, Gerry and Arnel (all surnamed Cruz) filed an action for partition against the private respondents, Spouses Eliseo and Virginia Malolos. On January 28, 1991, the trial court rendered a Decision which disposed as follows:[3] " WHEREFORE, judgment is hereby rendered for the plaintiffs and against the defendants -spouses - 1. Ordering the partition of the seven parcels of land totalling 1, 912 sq. m. among the four (4) plaintiffs and the defendants-spouses as follows: a. b. c. d. e. Adoracion E. Cruz (1/5) Thelma Debbie Cruz (1/5) Gerry E. Cruz (1/5) Arnel E. Cruz (1/5) Spouses Eliseo and Virginia Malolos (1/5) ----- 382 sq. m. 382 sq. m. 382 sq. m. 382 sq. m. 382 sq. m. to whom Lot No. 1-C-2-B-2-B-4-L-1-A with an area of 276 sq. m. covered by TCT No. 502603 and a portion of Lot No. 1-C2-B-2-B-4-L-1-B covered by TCT No. 502604 to the extent of 106 sq. m.

adjoining TCT No. 502603. 2. Ordering the parties herein to execute a project of partition in accordance [with] this decision indicating the partition of the seven (7) parcels of land within fifteen (15) days upon receipt of this judgment. 3. Ordering defendants-spouses to pay plaintiffs herein P5, 000. 00 as and for attorney's fees; 4. Cost of suit. On appeal, Respondent Court reversed the trial court thus:[4] " WHEREFORE, finding the appeal to be meritorious, we REVERSE the appealed decision and render judgment DISMISSING the complaint without prejudice however to the claim of plaintiff -appellees for their shares in the proceeds of the auction sale of the seven (7) parcels of land in question against Nerissa Cruz Tamayo pursuant to the Memorandum Agreement. Cost against the plaintiff-appellees. " As earlier stated, reconsideration was denied through the appellate court's challenged Resolution: [5] " WHEREFORE, for lack of merit, the Motion for Reconsideration is DENIED. . The Antecedent Facts The facts of this case are undisputed. The assailed Decision relates them as follows:[6] " Delfin I. Cruz and Adoracion Cruz were spouses and their children were Thelma, Nerissa, Arnel and Gerry Cruz. Upon the death of Delfin I. Cruz, [his] surviving spouse and children executed on August 22, 1977 a notarized Deed of Partial Partition (Exhibit 2) by virtue of which each one of them was given a share of several parcels of registered lands all situated in Taytay, Rizal.

The following day, August 23, 1977, the same mother and children executed a Memorandum Agreement (Exhibit H) which provided: " That the parties hereto are common co-owners pro-indiviso in equal shares of the following registered real properties, all situated at Taytay, Rizal, Philippines, x x x. xxx That sometime on August 22, 1977, a Deed of Partial Partition was executed

among us before Atty. Virgilio J. Tamayo, Notary Public on and for the Province of Rizal, per Doc. No. 1776; Page No. 14; of his Notarial Register No. XLIX, Series of 1977; xxx

That as a result of said partial partition, the properties affected were actually partitioned and the respective shares of ea ch party, adjudicated to him/her; That despite the execution of this Deed of Partial Partition and the eventu al disposal or sale of their respective shares, the contracting parties herein covenanted and agreed among themselves and by these presents do hereby bind themselves to one another that they shall share alike and received equal shares from the proceeds of the sale of any lot or lots allotted to and adjudicated in their individual names by virtue of this deed of partial partition. That this Agreement shall continue to be valid and enforceable among the contracting parties herein up to and until the last lot covered by the Deed of [P]artial [P]artition above adverted to shall have been disposed of or sold and the proceeds thereof equally divided and their respective shares received by each of them. " This Memorandum Agreement was registered and annotated in the titles of the lands covered by the Deed of Partial Partition. Subsequently, the same parties caused the consolidation and subdivisions of the lands they respectively inherited from the late Delfin I.

Cruz per Deed of Partial Partition. After that, they registered the Deed of Partial Partition and subdivision plans and titles were issued in their names. In the case of Nerissa Cruz Tamayo, the following titles were issued to her in her name: TCT No. 502603 (Exhibit A), TCT No. 502604, (Exhibit B), TCT No.

502605 (Exhibit C), TCT No. 502606 (Exhibit D), TCT No. 502608 (Exhibit E), TCT No. 502609 (Exhibit F), TCT No. 502610 (Exhibit G), hereinafter called the lands in question. Naturally, the annotation pertaining to the Memorandum Agreement was carried in each of said seven (7) titles and annotated in each of them.

Meanwhile, the spouses Eliseo and Virginia Malolos filed Civil Case No. 31231 against the spouses Nerissa Cruz -Tamayo and Nelson Tamayo for a sum of money. The Court of First Instance of Rizal, Branch XVI (Quezon City) rendered a decision of June 1, 1981 in favor of Eliseo and Virginia condemning the spouses Nerissa and Nelson Tamayo to pay them P126, 529. 00 with 12% interest per annum from the filing of the complaint plus P5, 000. 00 attorney's fee. After the finality of that decision, a writ of execution (Exhibit J) was issued on November 20, 1981. Enforcing said writ, the sheriff of the court levied upon the lands in question.

On June 29, 1983, these properties were sold in an execution sale to the highest bidders, the spouses Eliseo and Virginia Malolos. Accordingly, the sheriff executed a Certificate of Sale (Exhibit K) over - '... all the rights, claims, interests, titles, shares, and participations of defendant spouses Nerissa Tamayo and Ne Ison Tamayo.. ' Nerissa Cruz Tamayo failed to exercise her right of redemption within the statutory period and so the final deed of sale was executed by the sheriff conveying the lands in question to spouses Eliseo and Virginia Malolos.

The Malolos couple asked Nerissa Cruz Tamayo to give them the owner's duplicate copy of the seven (7) titles of the lands in question but she

refused. The couple moved the court to compel her to surrender said titles to the Register of Deeds of Rizal for cancellation. This was granted on September 7, 1984. But Nerissa was adamant. She did not comply with the Order of the court and so the Malolos couple asked the court to declare said titles as null and void.

At this point, Adoracion Cruz, Thelma Cruz, Gerry Cruz and Arnel Cruz entered the picture by filing in said lower court a motion for leave to intervene and oppose [the] Malolos' motion. The Cruzes alleged that they were co-owners of Nerissa Cruz Tamayo over the lands in question. On January 18, 1985, said court issued an Order modifying the Order of September 7, 1984 by directing the surrender of the owner's duplicate copies of the titles of the lands in question to the Register of Deeds not for cancellation but for the annotation of the rights, interest acquired by the Malolos over said lands.

On February 17, 1987, Adoracion, Thelma, Gerry and Arnel Cruz filed Civil Case No. 961-A for Partition of Real Estate against spouses Eliseo and Virginia Malolos over the lands in question. As already stated in the first paragraph of this Decision, the court a quo rendered a decision in favor of the plaintiffs from which the defendants appealed to this court, x x x x . " Ruling of the Court of Appeals For Respondent Court, the central issue was: " Did the Memorandum of Agreement [MOA] (Exhibit H)[7] revoke, cancel or supersede the Deed of Partial Partition [DPP] (Exhibit 2)? [8] If so, then petitioners and Spouses Tamayo were co-owners of the land in issue, and partition should ensue upon motion of the former; if not, then the latter are

its absolute owners and to partition should be made. Respondent Court resolved the above question in the negative for the following reasons: First, the DPP was not materially and substantially incompatible with the MOA. The DPP conferred absolute ownership of the parcels of land in issue on Nerissa Cruz Tamayo, while the MOA merely created an obligation on her part to share with the petitioners the proceeds of the sale of said properties.

Second, the fact that private respondent registered the DPP was inconsistent with the allegation that they intended to abandon it. Indeed, had they meant to abandon it, they would have simply gathered the copies of said document and then torn or burned them. Third, petitioners were estopped from claiming co-ownership over the disputed properties because, as absolute owners, they either mortgaged or sold the other properties adjudicated to them by virtue of the DPP. Hence, this petition. [9] Assignment of Errors

In their Memorandum,[10] petitioners submit the following assignment of errors: “ A. Respondent Court erred in ruling that the Memorandum of Agreement (Exhibit ‘ H’) does not prevail over the Deed of Partial Partition (Exhibit 2). B. sale. C. Respondent Court erred in ruling that petitioners can only claim their right to the proceeds of [the] auction Respondent Court erred in ruling that petitioners are in estoppel by deed. D. Respondent Court erred in ruling that the registration of the deed of partial partition precluded the petitioners from abrogating it. E.

Respondent Court erred when it completely ignored the finality of the order of the Regional Trial Court of Quezon City, Branch LXXXVI as embodied in the decision of the Regional Trial Court of Antipolo, Rizal, Branch 71. ” In fine,

the resolution of this petition hinges of the following issues: (1) whether DPP was cancelled or novated by the MOA; (2) whether the MOA established, between petitioners and the judgment debtor, a co -ownership of the lots in question; (3) whether petitioners are barred by estoppel from claiming co-ownership of the seven parcels of land; and (4) whether res judicata has set in.

The Court's Ruling The petition is bereft of merit. It fails to demonstrate any reversible error on the part of the Court of Appeals. First Issue: No Novation or Cancellation In their Memorandum, petitioners insist that the MOA categorically and unmistakably named and covenanted them as co owners of the parcels in issue and novated their earlier agreement, the Deed of Partial Part ition. Petitioners claim that the MOA clearly manifested their intention to create a co -ownership. This is particularly evident in Exhibit 1-B, which provides: That despite the execution of this Deed of Partial Partition and eventual disposal or sale of their respective shares, the contracting parties herein covenanted and agreed among themselves and by these presents do hereby bind themselves to one another that they shall share and receive equal shares from the proceeds of the sale of any lot or lots allotted to and adjudicated in their individual names by virtue of this deed of partial partition. " The Court disagrees. The foregoing provision in the MOA does not novate, much less cancel, the earlier DPP.

Novation, one of the modes of extinguishing an obligation, requires the concurrence of the following: (1) there is a previous valid obligation; (2) the parties concerned agree to a new contract; (3) the old contract is

extinguished; and (4) there is a valid new contract. [11] Novation may be express or implied. Article 1292 of the Code provides: “ In order that an obligation may be extinguished by another which substitutes the same, it is imperative that it be so declared in unequivocal terms [express novation], [12] or that the old and new obligations be on every point incompatible with each other [implied novation]. Tested against the foregoing standards, petitioners’ stance is shattered to pieces. The stipulation that the petitioners and Spouses Tamayo were co-owners was merely the introductory part of the MOA, and it reads:[13] “ That the parties are common co-owners pro-indiviso in equal shares of the following registered real properties, all situated at Taytay, Rizal, Philippines. xxx” xxx xxx xxx That sometime in August 22, 1977, a Deed of Partial Partition was executed among us before Atty. Virgilio J.

Tamayo, Notary Public in and for the Province of Rizal, per Doc. No. 1796; Page No. 14; of his Notarial Register No. XLIX, Series of 1977;” Following the above-quoted stipulation is a statement that the subject parcels of land had in fact been partitioned, but that the former co-owner intended to share with petitioners the proceeds of any sale of said land,[14] viz: “ That [as] a result of said partial partition, the properties affected were actually partitioned and the respective shares of each party, adjudicated to him/her;

That despite the execution of this Deed of Partial Partition and the eventual disposal or sale of their respective shares, the contracting parties herein covenanted and agreed among themselves [and] to one another that they shall do [sic] hereby bind themselves to one another that they shall share

alike and receive equal shares from the proceeds of the sale of any lot or lots allotted to and adjudicated in their individual names by virtue of this deed of partial partition; That this Agreement shall continue to be valid and enforceable among the contracting parties herein up to and until the last lot covered by the deed or partial partition above adverted to shall have been disposed of or sold and the proceeds thereof equally divided and their respective shares received by each of them. xxx xxx xxx

The MOA falls short of producing a novation, because it does not express a clear intent to dissolve the old obligation as a consideration for the emergence of the new one. [15] Likewise, petitioners fail to show that the DPP and the MOA are materially and substantially incompatible with each other. Petitioners admit that, under the MOA, they and the Tamayo spouses agreed to equally share in the proceeds of the sale of the lots. [16] Indeed, the DPP granted title to the lots in question to the co-owner to whom they were assigned, and the MOA created an obligation on the part of such co-owner to share with the others the proceeds of the sale of such parcels. There is no incompatibility between these two contracts. Verily, the MOA cannot be construed as a repudiation of the earlier DPP.

Both documents can exist together and must be so interpreted as to give life to both. Respondent Court aptly explained:[17] “ The Deed of Partition conferred upon Nerissa Cruz Tamayo absolute ownership over the lands in question. The Memorandum of Agreement merely created an obligation on the part of absolute owner Nerissa Cruz Tamayo to share [with] the appellees with [sic] the proceeds of the sale of said properties. The

obligation of the owner of a piece of land to share [with] somebody with [sic] its fruits or the proceeds of its sale does not necessarily impair his dominion over the property much less make the beneficiary his co -owner thereof. All in all, the basic principle underlying this ruling is simple: when t he text of a contract is explicit and leaves no doubt as to its intention, the court may not read into it any intention that would contradict its plain import. [18] The hornbook rule on interpretation of contracts gives primacy to the intention of the parties, which is the law among them. Ultimately, their intention is to be deciphered not from the unilateral post facto assertions of one of the parties, but from the language used in the contract. And when the terms of the agreement, as expressed in such language, are clear, they are to be understood literally, just as they appear on the face of the contract. Indeed, the legal effects of a contract are determined by extracting the intention of the parties from the language they used and from their contemporaneous and subsequent acts. 19] This principle gains more force when third parties are concerned. To require such persons to go beyond what is clearly written in the document is unfair and unjust. They cannot possibly delve into the contracting parties' minds and suspect that something is amiss, when the language of th e instrument appears clear and unequivocal. Second Issue: No Co-ownership in the MOA Petitioners contend that they converted their separate and individual ownership over the lands in dispute into a co ownership by their execution of the MOA and the annotation thereof on the separate titles. The Court is not convinced. The very provisions of the MOA belie the existence of a co -ownership.

First, it retains the partition of the properties, which petitioners supposedly placed in co -ownership; and, second, it vests in the registered owner the power to dispose of the land adjudicated to him or her under the DPP. These are antithetical to the petitioner's contention. In a co-ownership, an undivided thing or right belongs to two or more persons. [20] Put differently, several persons hold common dominion over a spiritual (or ideal) part of a thing, which is not physically divided. [21] In the present case, however, the parcels of land in the MOA have all been partitioned and titled under separate and individual names. More important, the MOA stipulated that the registered owner could sell the land without the consent of the other parties to the MOA.

Jus disponendi is an attribute of ownership, and only the owner can dispose of a property. [22] Contrary to petitioner's claim, the annotation of the MOA in the certificate of title did not engender any co -ownership. Well settled is the doctrine that registration merely confirms, but does not confer, title. [23] It does not give the holder any better title than what he actually has. As earlier observed, the MOA did not make petitioners co-owners of the disputed parcels of land. Hence, the annotation of this document in the separate certificates of title did not grant them a greater right over the same property. Third Issue: Estoppel by Deed

Respondent Court found that several deeds of sale and real estate mortgage, which petitioners executed when they sold or mortgaged some parcels adjudicated to them under the DPP, contained the statement that the vendor/mortgagor was the absolute owner of the parcel of residential land

and that he or she represented it as free from liens and encumbrances. On the basis of these pieces of evidence, respondent Court held that petitioners were estopped from claiming that there was a co-ownership over the disputed parcels of land which were also covered by the DPP. Petitioners contend that Respondent Court, in so ruling violated the res inter alios acta rule. Petitioners' contentions is untenable.

Res inter alios acta, as a general rule, prohibits the admission of evidence that tends to show that what a person has done at one time is probative of the contention that he has done a similar as act at another time. [24] Evidence of similar acts or occurrences compels the dependant to meet allegation s that are not mentioned in the complaint, confuses him in his defense, raises a variety of irrelevant issues, and diverts the attention of the court from th e issues immediately before it. Hence, this evidentiary rule guards against the practical inconven ience of trying collateral issues and protracting the trial and prevents surprise or other mischief prejudicial to litigants. [25] The rule, however, is not without exception.

W hile inadmissible in general, collateral facts may be received as evidence under exceptional circumstances, as when there is a rational similarity or resemblance between the conditions giving rise to the fact offered and the circumstances surrounding the issue or fact to be proved. [26] Evidence of similar acts may frequently become relevant, especially in actions based on fraud and deceit, because it sheds light on the state of mind or knowledge of a person's; it provides insight into such person's motive or intent; it uncovers a scheme, design or plan; or it reveals a mistake. [27] In this case,

petitioners argue that transactions relating to the other parcels of land they entered into, in the concept of absolute owners, are inadmissible as evidence to show that the parcels in issue are not co-owned.

The court is not persuaded. Evidence of such transactions falls under the exception to the rule on the *res inter alios acta*. Such evidence is admissible because it is relevant to an issue in the case and corroborative of evidence already received. [28] The relevancy of such transactions is readily apparent. The nature of ownership of said property should be the same as that of the lots on question since they are all subject to the MOA. If the parcels of land were held and disposed by petitioners in fee simple, in the concept of absolute owners, then the lots in question should similarly be treated as absolutely owned in fee simple by the Tamayo spouses.

Unmistakably, the evidence in dispute manifests petitioners' common purpose and design to treat all the parcels of land covered by the DPP as absolutely owned and not subject to co-ownership. [29] Under the principle of estoppel, petitioners are barred from claiming co-ownership of the lands in issue. In estoppel, a person, who by his deed or conduct has introduced another to act in a particular manner, is barred from adopting an inconsistent position, attitude or course of conduct that thereby causes loss or injury to another. [30] It further bars him from denying the truth of a fact which has, in the contemplation of law, become settled by the acts and proceedings of judicial or legislative officers or by the act of the party himself, either by conventional writing or by representations, express or implied or in pairs. [31]

In their transaction with others, petitioners have declared that the other lands covered by the same MOA are absolutely owned, without indicating the existence of a co-ownership over such properties. Thus, they are estopped from claiming otherwise because, by their very own acts and representations as evidenced by the deeds of mortgage and of sale, they have denied such co-ownership. [32] FOURTH ISSUES: No Res Judicata On Co-ownership

Petitioners argue that the Order (Exhibit J)[33] dated January 18, 1985, issued by the RTC of Quezon City, Branch 86, which had long become final and executory, confirmed their co-ownership. Thus, they claim that Respondent Court's reversal of the ruling of the RTC of Antipolo, Rizal, is a violation of the rule on res judicata. This contention is equally untenable.

The elements of res judicata are: (1) the former judgment was final; (2) the court which rendered it had jurisdiction over the subject matter and the parties;(3) the judgment was on the merits; and (4) the parties, subject matters and causes of action in the first and second actions are identical.

[34] The RTC of Quezon City had no jurisdiction to decide on the merits of the present case or to entertain questions regarding the existence of co-ownership over the parcels in dispute, because the suit pending before it was only for the collection of a sum of money. Its disquisition on co-ownership was merely for the levy and the execution of the properties of the Tamayo spouses, in satisfaction of their judgment debt to the private respondents. Perhaps more glaring is the lack of identity between the two actions.

The first action before the RTC of Quezon City was for the collection of money, while the second before the RTC of Antipolo, Rizal, was for partition. There being no concurrence of the elements of *res judicata* in this case, the Court finds no error in Respondent Court's ruling. No further discussion is needed to show the glaring difference between the two controversies. WHEREFORE, the petition is hereby DENIED and the assailed Decision is Affirmed. Cost against petitioners. SO ORDERED. Davide, Jr. , (Chairman), Bellosillo, Vitug, and Quisumbing, JJ. , concur. THIRD DIVISION [G. R. No. 134559. December 9, 1999] ANTONIA TORRES, assisted by her husband, ANGELO TORRES; and EMETERIA BARING, petitioners, vs.

COURT OF APPEALS and MANUEL TORRES, respondents. DECISION PANGANIBAN, J. : Courts may not extricate parties from the necessary consequences of their acts. That the terms of a contract turn out to be financially disadvantageous to them will not relieve them of their obligations therein. The lack of an inventory of real property will not ipso facto release the contracting partners from their respective obligations to each other arising from acts executed in accordance with their agreement. The Case The Petition for Review on Certiorari before us assails the March 5, 1998 Decision [1] Second Division of the Court of Appeals[2] (CA) in CA-GR CV No. 2378 and its June 25, 1998 Resolution denying reconsideration. The assailed Decision affirmed the ruling of the Regional Trial Court (RTC) of Cebu City in Civil Case No. R -21208, which disposed as follows: " WHEREFORE, for all the foregoing considerations, the Court, finding for the defendant and against the plaintiffs, orders the dismissal of the plaintiff's complaint. The counterclaims of the defendant are likewise ordered dismissed. No

pronouncement as to costs. "[3] The Facts Sisters Antonia Torres and Emeteria Baring, herein petitioners, entered into a " joint venture agreement" with Respondent Manuel Torres for the development of a parcel of land into a subdivision.

Pursuant to the contract, they executed a Deed of Sale covering the said parcel of land in favor of respondent, who then had it registered in his name. By mortgaging the property, respondent obtained from Equitable Bank a loan of P40, 000 which, under the Joint Venture Agreement, was to be used for the development of the subdivision. [4] All three of them also agreed to share the proceeds from the sale of the subdivided lots. The project did not push through, and the land was subsequently foreclosed by the bank. According to petitioners, the project failed because of " respondent's lack of funds or means and skills. " They add that respondent used the loan not for the development of the subdivision, but in furtherance of his own company, Universal Umbrella Company.

On the other hand, respondent alleged that he used the loan to implement the Agreement. With the said amount, he was able to effect the survey and the subdivision of the lots. He secured the Lapu Lapu City Council's approval of the subdivision project which he advertised in a local newspaper. He also caused the construction of roads, curbs and gutters. Likewise, he entered into a contract with an engineering firm for the building of sixty low -cost housing units and actually even set up a model house on one of the subdivision lots. He did all of these for a total expense of P85, 000. Respondent claimed that the subdivision project failed, however, because

petitioners and their relatives had separately caused the annotations of diverse claims on the title to the land, which eventually scared away prospective buyers. Despite his requests, petitioners refused to cause the clearing of the claims, thereby forcing him to give up on the project. [5] Subsequently, petitioners filed a criminal case for estafa against respondent and his wife, who were however acquitted. Thereafter, they filed the present civil case which, upon respondent's motion, was later dismissed by the trial court in an Order dated September 6, 1982. On appeal, however, the appellate court remanded the case for further proceedings. Thereafter, the RTC issued its assailed Decision, which, as earlier stated, was affirmed by the CA. Hence, this Petition. [6] Ruling of the Court of Appeals

In affirming the trial court, the Court of Appeals held that petitioners and respondent had formed a partnership for the development of the subdivision. Thus, they must bear the loss suffered by the partnership in the same proportion as their share in the profits stipulated in the contract. Disagreeing with the trial court's pronouncement that losses as well as profits in a joint venture should be distributed equally,[7] the CA invoked Article 1797 of the Civil Code which provides: " Article 1797 - The losses and profits shall be distributed in conformity with the agreement. If only the share of each partner in the profits has been agreed upon, the share of each in the losses shall be in the same proportion. " The CA elucidated further: In the absence of stipulation, the share of each partner in the profits and losses shall be in proportion to what he may have contributed, but the industrial partner shall not be liable for the losses. As for the profits, the industrial partner shall receive such share as may be just and equitable under the circumstances. If

besides his services he has contributed capital, he shall also receive a share in the profits in proportion to his capital. " The Issue Petitioners impute to the Court of Appeals the following error: " x x x [The] Court of Appeals erred in concluding that the transaction x x x between the petitioners and respondent was that of a joint venture/partnership, ignoring outright the provision of Article 1769, and other related provisions of the Civil Code of the Philippines. "[8] The Court's Ruling

The Petition is bereft of merit. Main Issue: Existence of a Partnership
Petitioners deny having formed a partners