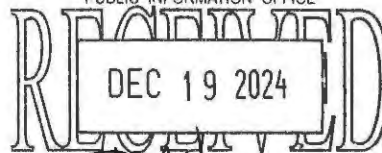




SUPREME COURT OF THE PHILIPPINES
PUBLIC INFORMATION OFFICE



BY: JUAN
TIME: 9:00

Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

HEIRS OF ELIAS SOLANO &
GLECERIA FALABI SOLANO,
Petitioners,

G.R. No. 228490

-versus-

PASCUAL T. DY,
Respondent.

G.R. No. 228645

X-----X
HEIRS OF PASCUAL T. DY,
Petitioner,

Present:

LEONEN, J., Chairperson,
ZALAMEDA,**
LOPEZ, M.,
LOPEZ, J., and
KHO, JR., JJ.

-versus-

SPOUSES RENATO & MERLE
SAMSON, HEIRS OF ELIAS
SOLANO & GLECERIA FALABI
SOLANO,*

Promulgated:

FEB 12 2024

Respondents.

X-----X

DECISION

LOPEZ, M., J.,

No person shall be affected by a proceeding in which he is a stranger.¹
We observe this jurisprudential dictum in resolving the present appeals.

* Also spelled as "Gliceria F. Solano" in some parts of the rollo.

** Designated additional member per raffle dated Aug. 19, 2020.

¹ *National Housing Authority v. Evangelista*, 497 Phil. 762, 764 (2005) [Per J. Austria-Martinez, Second Division]. See also *Galicia v. Vda. de Mindo*, 549 Phil. 595, 607 (2007) [Per J. Austria-Martinez, Third Division].

The Case

Before the Court are consolidated Petitions for Review on *Certiorari*: **G.R. No. 228490**² filed by the heirs of spouses Elias and Gleceria Solano and **G.R. No. 228645**³ filed by the heirs of Pascual T. Dy, both questioning the Decision⁴ dated April 8, 2016 and Resolution⁵ dated November 28, 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 103451, which modified the Decision⁶ dated June 17, 2014 of the Regional Trial Court (RTC) of Naga City, Branch 22 in Civil Case No. RTC 2008-0001, involving a Complaint⁷ for specific performance filed by Pascual T. Dy (Dy) against spouses Renato and Merle Samson (spouses Samson) and spouses Elias and Gleceria Solano (spouses Solano).

Antecedents

Elias Solano (Elias) owned two parcels of land—**Lot 1-A-32** with an area of 7,351 square meters (sqm), and **Lot 1-A-25** consisting of 2,284 sqm, covered by Transfer Certificate of Title (TCT) Nos. 230⁸ and 232,⁹ respectively. The properties are situated at Barrio Triangulo, Naga City, Camarines Sur and were acquired by Elias as a farmer beneficiary, under Emancipation Patent Nos. A-109074 and A-109076.

Sometime in December 1999, spouses Solano obtained a PHP 100,000.00 loan, payable within three months, from spouses Samson. As a condition for the release of the proceeds, Elias executed a Special Power of Attorney¹⁰ (SPA) dated December 3, 1999 in favor of Merle Samson (Merle) over **Lot 1-A-32**. Elias's wife Gleceria Solano (Gleceria) gave her marital consent and signed the SPA. In addition, spouses Solano executed a Deed of Sale with Right to Repurchase dated December 1999. When spouses Solano failed to pay the loan within the stipulated period, they got another PHP 150,000.00 loan and surrendered the owner's duplicate copy of TCT No. 230 to Merle.

A few months later, spouses Solano sold **Lot 1-A-25** to spouses Samson for PHP 100,000.00 as shown in the Deed of Absolute Sale¹¹ dated April 6, 2000.

² *Rollo* (G.R. No. 228490), pp. 11–25.

³ *Rollo* (G.R. No. 228645), pp. 10–22.

⁴ *Id.* at 29–49. Penned by Associate Justice Romeo F. Barza and concurred in by Associate Justices Amy C. Lazaro-Javier (now a member of this Court) and Agnes Reyes-Carpio of the Special First Division, Court of Appeals, Manila.

⁵ *Id.* at 52–53. Penned by Associate Justice Romeo F. Barza and concurred in by Associate Justices Amy C. Lazaro-Javier (now a member of this Court) and Agnes Reyes-Carpio of the Former Special First Division, Court of Appeals, Manila.

⁶ *Id.* at 56–76, docketed as Civil Case No. RTC 2008-0001.

⁷ *Id.* at 166–171. Docketed as Civil Case No. RTC 2008-0001.

⁸ *Id.* at 173–175.

⁹ *Id.* at 183–184.

¹⁰ *Id.* at 176–177.

¹¹ *Id.* at 172.

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On April 15, 2000, by virtue of the SPA dated December 3, 1999 granted to her by Elias, Merle sold **Lot 1-A-32** to Pascual Dy (Dy) in the amount of PHP 500,000.00 through a Deed of Absolute Sale with Right to Repurchase.¹²

Subsequently, on December 20, 2001, Merle also sold **Lot 1-A-25** to Dy for the amount of PHP 500,000.00 via a Deed of Absolute Sale.¹³ Merle gave the owner's duplicate copy of TCT No. 232 to Dy without effecting the registration of the previous sale of Lot 1-A-25 between her and spouses Solano.¹⁴

Several years later, on January 3, 2008, Dy filed Civil Case No. RTC 2008-0001, which is a Complaint¹⁵ for specific performance against spouses Samson and spouses Solano with the RTC of Naga City, Branch 22 (RTC-Branch 22). Dy claimed that he failed to have the deeds of conveyance for the two properties notarized and registered because he misplaced the following documents: (1) the owner's duplicate copy of TCT No. 230 for **Lot 1-A-32**; (2) the Deed of Sale with Right to Repurchase dated April 15, 2000 for **Lot 1-A-32**; and (3) the Special Power of Attorney dated December 3, 1999 for **Lot 1-A-32**.¹⁶ The delay in the registration was compounded by the failure of spouses Samson and spouses Solano to raise the funds to repurchase Lot 1-A-32. When he found the missing documents, Dy decided to transfer the titles of the lots in his name. However, both spouses refused to sign new notarized deeds of sale in his favor. Dy thus prayed that defendants-spouses be ordered to execute deeds of conveyance to allow him to register Lot 1-A-32 and Lot 1-A-25 in his name.¹⁷

In their Answer with Counterclaim,¹⁸ spouses Solano countered that they did not intend to sell their properties to spouses Samson. They obtained loans from spouses Samson but clarified that the documents were solely prepared by Merle. Spouses Solano did not understand the contents of the documents which were written in English given that Gleceria only reached Grade 3 and Elias was a Grade 6 dropout. They were in dire need of money and Merle Samson tricked them into signing the following: (1) SPA dated December 3, 1999 for Lot 1-A-32; (2) Deed of Sale with Right to Repurchase dated December 1999 for Lot 1-A-32; and (3) Deed of Absolute Sale dated April 6, 2000 for Lot 1-A-25. Spouses Solano stressed that they are still in actual possession of the lots in the concept of owners, and spouses Samson never attempted to register the same under their names. Spouses Solano tried to settle their loan obligation in the amount of PHP 300,000.00, but Merle refused to accept the payment. Consequently, spouses Solano instituted Civil Case No. 2003-0150, which is an action for "Revocation and Cancellation of

¹² *Id.* at 179–180.

¹³ *Id.* at 181–182.

¹⁴ *Id.* at 183–184.

¹⁵ *Id.* at 166–171.

¹⁶ *Id.* at 169.

¹⁷ *Id.* at 169–170.

¹⁸ *Id.* at 185–190.

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the Deeds of Sale and SPA”¹⁹ with damages against spouses Samson before the RTC of Naga City, Branch 21 (RTC-Branch 21). During the trial, Merle did not disclose that she already sold the properties to Dy. It was only in the execution stage that Merle admitted that the TCTs could not be returned to spouses Solano because she gave the titles to Dy on account of the subsequent sale.²⁰

As special affirmative defense, spouses Solano stated that Dy has no cause of action against them. They were not privy to the transactions between Dy and spouses Samson involving the two properties. They maintained that the subsequent sales were not registered nor annotated in the certificates of title. In addition, spouses Solano maintained that the deeds of sale they supposedly executed in favor of Merle are actually equitable mortgages. For this reason, Merle could not validly use the documents they signed to sell the properties to Dy. As counterclaim, spouses Solano prayed for the award of PHP 100,000.00 for moral damages, PHP 50,000.00 for exemplary damages, PHP 50,000.00 for attorney’s fees, PHP 1,500.00 for each court appearance, and PHP 20,000.00 for litigation expenses.²¹

In his Reply,²² Dy argued that spouses Solano could not deny the authority they gave to spouses Samson to sell and mortgage the lots. Dy pointed out that even in Civil Case No. 2003-0150, the trial court rejected spouses Solano’s prayer for revocation or nullification of the SPA for **Lot 1-A-32** in view of their admission that they voluntarily signed the documents when they obtained the loan.²³

In a Decision²⁴ dated February 2, 2007 in Civil Case No. 2003-0150, RTC-Branch 21 ruled in favor of spouses Solano. The RTC noted that although TCT Nos. 230 and 232 were purportedly sold to spouses Samson, the registered owners spouses Solano remained in actual physical possession of the properties. This circumstance and the failure of spouses Samson to consolidate the titles in their names show that the true intention of the parties was to secure the payment of the loans, and not to convey ownership.²⁵ The RTC declared that the contracts denominated as: (1) Deed of Sale with Right to Repurchase dated December 1999 covering **Lot 1-A-32**, and (2) Deed of Absolute Sale dated April 6, 2000 for **Lot 1-A-25**, between spouses Solano and spouses Samson are equitable mortgages, thus:

WHEREFORE, in view of all the foregoing, judgment is hereby rendered as follows:

¹⁹ Docketed as Civil Case No. 2003-0150 and entitled “*Spouses Elias and Gl[i]ceria Solano v. Spouses Renato and Merle Samson*.”

²⁰ *Rollo* (G.R. No. 228645), p. 186.

²¹ *Id.* at 187–188.

²² *Id.* at 192–193.

²³ *Id.* at 192.

²⁴ *Rollo* (G.R. No. 228490), pp. 53–63. Penned by Judge Pablo Cabillan Formaran III of Branch 21, Regional Trial Court, Naga City.

²⁵ *Id.* at 60.

1. **DECLARING** the **Deed of Sale with Right to Repurchase** dated **December, 1999** and the **Deed of Absolute Sale** dated **April 6, 2000** between the parties as **equitable mortgages**;

2. **DECLARING** the plaintiffs entitled to redeem the mortgaged properties which shall be effected upon payment of their mortgaged debt to defendants in the total amount of **Two Hundred Fifty Thousand Pesos ([PHP] 250,000.00)**, including the admitted accrued interest in the amount of **Fifty Thousand Pesos ([PHP] 50,000.00)** plus legal rate of interest thereof from the time the judgment herein becomes final and executory;

3. **ORDERING** the defendants to return to plaintiffs the certificates of title of the subject properties upon full payment of the mortgaged debt inclusive of legal interest due by the plaintiffs;

4. **ORDERING** the defendants to pay plaintiffs the amount of **Thirty Thousand Pesos ([PHP] 30,000.00)** representing attorney's fees; and

5. **ORDERING** the defendants to pay the plaintiffs the amount of **Two Thousand Nine Hundred Forty-three Pesos and Fifty Centavos ([PHP] 2,943.50)** representing litigation expenses, as well as to pay the costs.

SO ORDERED.²⁶ (Emphasis in the original)

The judgment of RTC-Branch 21 became final and executory on January 15, 2009.²⁷

Meanwhile, spouses Samson failed to answer Dy's Complaint in Civil Case No. RTC 2008-0001 and were declared in default.

Ruling of the RTC-Branch 22

In a Decision²⁸ dated June 17, 2014 in Civil Case No. RTC 2008-0001, the RTC-Branch 22 ruled in favor of Dy. In the dispositive portion of the decision, the trial court ordered Merle Samson to perform the following acts:

WHEREFORE, viewed in light of the foregoing premises, a DECISION is hereby rendered:

1. **ORDERING** Defendant **MERLE CAMACHO-SAMSON** to execute the corresponding "**DEED OF ABSOLUTE SALE**" for the parcel of land covered by **TRANSFER CERTIFICATE OF TITLE NO. 230** subject of the "**DEED OF SALE WITH RIGHT TO REPURCHASE**" dated April 15, 2000 executed by her in favor of the Plaintiff **PASCUAL DY** pursuant to the "**SPECIAL POWER OF ATTORNEY**" dated December 3, 1999 executed by the SPS. **ELIAS** and **GLECERIA SOLANO** in her favor.

²⁶ *Id.* at 62-63.

²⁷ *Id.* at 14, 41.

²⁸ *Rollo* (G.R. No. 228645), pp. 56-76. Penned by Judge Efren G. Santos of Branch 22, Regional Trial Court, Naga City.

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2. ORDERING Defendant MERLE CAMACHO-SAMSON to cause the registration and transfer in her name the DEED OF ABSOLUTE SALE dated April 6, 2000, per Document No. 334; Page No. 75; Book No. XXI, Series of 2000 of the Notarial Register of Atty. Romeo S. Tayo, executed by the SPS. SOLANO in her favor covering the parcel of land covered by TRANSFER CERTIFICATE OF TITLE NO. 232.

3. ORDERING Defendant MERLE CAMACHO-SAMSON to cause the notarization and acknowledgement of the "DEED OF ABSOLUTE SALE" dated December 20, 2001 she executed in favor of Plaintiff PASCUAL DY for the parcel of land covered by TRANSFER CERTIFICATE OF TITLE NO. 232.

4. DISMISSING the parties' respective claims and counterclaims for insufficiency of evidence to justify the award of the same.

5. No pronouncement as to costs.²⁹

The RTC adjudged Dy to be a buyer in good faith of Lot 1-A-32 as he correctly relied on the duly notarized SPA dated December 3, 1999 presented to him by Merle. Being the attorney-in-fact of spouses Solano who are the registered owners of Lot 1-A-32, Dy believed that Merle could convey title to the property in the event that spouses Solano are unable to pay their loan.³⁰

As to Lot 1-A-25, the RTC declared that Dy believed that spouses Samson had the full capacity to sell, transfer, and convey, having acquired the land from spouses Solano through a Deed of Absolute Sale dated April 6, 2000. The SPA signed by spouses Solano in favor of Merle and the Deed of Absolute Sale executed by spouses Solano in favor of spouses Samson were valid. The RTC concluded that Dy was not only a mortgagee in good faith but also a purchaser for value and in good faith.³¹ Nonetheless, the RTC denied the prayer for damages due to lack of satisfactory proof.³²

Aggrieved, the heirs of spouses Solano filed an appeal with the CA.

Ruling of the CA

In a Decision³³ dated April 8, 2016, the CA partly granted the appeal. The dispositive portion states:

ACCORDINGLY, the present appeal is **partly GRANTED**. The dispositive portion of the Decision dated June 17, 2014 of the Regional Trial Court of Naga City, Branch 22, in Civil Case No. RTC 2008-0001, is hereby **MODIFIED** by deleting paragraphs 2 and 3 thereof. In all other respects, the decision is **AFFIRMED**.

SO ORDERED.³⁴ (Emphasis in the original)

²⁹ *Id.* at 75-76.

³⁰ *Id.* at 74.

³¹ *Id.*

³² *Id.* at 74-75.

³³ *Id.* at 29-49.

³⁴ *Id.* at 49.

The CA observed that there was a defect in the capacity of Merle to sell Lot 1-A-25 to Dy.³⁵ The CA pointed out that in Civil Case No. 2003-0150 previously filed by spouses Solano against spouses Samson, the RTC-Branch 21 ruled that the deeds of sale executed by the parties were equitable mortgages. Since the previous civil case and the present case involved the same parties and the same issues, then the facts and issues that have been resolved in that case bind the parties in the present case under the doctrine of *res judicata* by conclusiveness of judgment.³⁶ The CA ruled that Dy was not a buyer in good faith with respect to Lot 1-A-25, but is a buyer in good faith with respect to Lot 1-A-32.³⁷

The CA stated that a buyer in good faith must prove that the seller is the registered owner of the land. TCT No. 232 expressly indicates that Lot 1-A-25 was registered under the name of Elias. Thus, Dy had the obligation to exercise extraordinary diligence in ascertaining all the circumstances necessary to determine if there were any flaws in the title of his transferor, Merle. Dy failed in this aspect. Being a buyer in bad faith, Dy acquired no better right from spouses Samson over Lot 1-A-25. Consequently, Dy cannot compel spouses Samson and spouses Solano to execute the documents necessary for the registration and transfer of Lot 1-A-25 in his name.³⁸

On the other hand, Lot 1-A-32 was sold by Merle to Dy, based on the SPA dated December 3, 1999. The SPA carries the presumption of regularity since it was duly notarized. The parties did not present any other evidence to rebut this presumption. Further, Gleceria, in her testimony, admitted that the signature in the SPA belonged to her. Thus, the CA agreed with the RTC's decision that Dy was a buyer in good faith with respect to Lot 1-A-32 and may demand spouses Solano and spouses Samson to execute deeds of conveyance to have Lot 1-A-32 registered under his name.³⁹

Spouses Samson and spouses Solano filed a Partial Motion for Reconsideration. Likewise, Dy filed a Motion for Reconsideration. In a Resolution⁴⁰ dated November 28, 2016, the CA denied these motions.

Hence, the parties filed the present consolidated Petitions.

In **G.R. No. 228490**,⁴¹ the heirs of spouses Solano argued that the doctrine of *res judicata* by conclusiveness of judgment should apply based on the final and executory Decision of RTC-Branch 21 in Civil Case No. 2003-0150. The judgment decreed that the deeds of sale executed in relation to Lots 1-A-32 and 1-A-25 are equitable mortgages, which affirmed the intention of the parties to secure the payment of a loan and not to convey ownership. When Elias found out about the SPA dated December 3, 1999 which Merle made

³⁵ *Id.* at 39.

³⁶ *Id.* at 41.

³⁷ *Id.* at 44-48.

³⁸ *Id.* at 44-46.

³⁹ *Id.* at 46-48.

⁴⁰ *Id.* at 52-53.

⁴¹ *Rollo* (G.R. No. 228490), pp. 11-25.

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him sign, he immediately executed a Revocation of Special Power of Attorney.⁴² Thus, RTC-Branch 21 no longer passed upon the validity of the SPA since it was already revoked. The heirs reiterated that they remained in actual possession of the lots in the concept of owners and spouses Samson did not register the deeds of sale to transfer the titles in their names. These factors prove the lack of due execution of the deeds of sale. Spouses Solano tried to repay Merle but she unjustifiably refused, which led to the filing of Civil Case No. 2003-0150. During the execution stage, Merle disclosed that she could not deliver the titles as these were already in the possession of Dy due to the sale made by spouses Samson. The heirs of spouses Solano thus prayed to be declared as the lawful owners of both lots and for Dy to be declared as a buyer in bad faith.

In their Comment⁴³ in **G.R. No. 228490** and Petition⁴⁴ in **G.R. No. 228645**, the heirs of Dy remarked that the doctrine of conclusiveness of judgment does not apply as there is no identity of parties in the first and second cases. In Civil Case No. 2003-0150, the first case filed before RTC-Branch 21, the plaintiffs were spouses Solano and the defendants were spouses Samson. The second case, Civil Case No. RTC 2008-0001 subject of the present appeal, the parties are Dy as plaintiff, and spouses Samson and Solano as defendants. Clearly, Dy was not a party to the earlier RTC case.⁴⁵ Also, the heirs of Dy claim that the issues raised in the two cases are not identical. In Civil Case No. 2003-0150, the question is whether the SPA and the deeds of sale between spouses Solano and spouses Samson could be legally revoked. On the other hand, in Civil Case No. RTC 2008-0001, the main issue is whether Dy was a buyer in good faith and had the right to compel the defendants-spouses to execute a new deed of conveyance as a necessary incident of his absolute ownership.⁴⁶

In any case, the heirs of Dy assert that any matter resolved in the previous RTC case could not prejudice his rights over the properties. They maintain that Dy is a buyer in good faith of Lot 1-A-32 because he relied on Merle's SPA, which was duly notarized and carries with it the presumption of regularity. Even assuming that Merle obtained the SPA by fraudulent means, Dy's rights as a buyer in good faith should be protected.⁴⁷

With respect to Lot 1-A-25, the heirs of Dy insists that Dy is also a buyer in good faith since the deed of sale executed by Merle was duly notarized and enjoys the presumption of regularity like the SPA executed by Elias in favor of Merle, which the CA upheld.⁴⁸

⁴² *Rollo* (G.R. No. 228645), p. 191.

⁴³ *Rollo* (G.R. No. 228490), pp. 133–140.

⁴⁴ *Rollo* (G.R. No. 228645), pp. 10–22.

⁴⁵ *Id.* at 16–17.

⁴⁶ *Id.* at 18.

⁴⁷ *Id.* at 19–20.

⁴⁸ *Id.*

Meanwhile, in their Comment⁴⁹ in **G.R. No. 228645**, the Heirs of spouses Solano contend that Dy is not a buyer in good faith. He should have been more vigilant in dealing with Merle given that: (1) spouses Solano are the registered owners, not Merle; (2) Merle was not the actual possessor of the lots; (3) the properties are agricultural lands covered by emancipation patents awarded to spouses Solano as farmer beneficiaries, which were clearly indicated in the certificates of title; and (4) Merle sold both properties to Dy in the span of a year and a half—Lot 1-A-32 on April 15, 2000 and Lot 1-A-25 on December 20, 2001, with Merle posing as “owner” of both properties. The heirs of spouses Solano submit that these suspicious circumstances should have prompted Dy to verify the real status of the subject lots.⁵⁰

In his Reply⁵¹ in **G.R. No. 228645**, Dy reiterates that: (1) the doctrine of conclusiveness of judgment does not apply as there is no identity of parties and issues, and (2) he is a buyer in good faith with respect to Lot 1-A-25 because the Deed of Absolute Sale dated April 6, 2000 between spouses Solano and spouses Samson was regular on its face. He is not required to determine the extent of the ownership of spouses Samson and he was not privy to the previous transactions between the two spouses.⁵²

Our Ruling

The Court **partially grants** G.R. No. 228490 and G.R. No. 228645.

To serve as a goalpost, we state at the outset that the Decision dated February 2, 2007 of the RTC-Branch 21 in Civil Case No. 2003-0150 is final and executory. Inevitably, the RTC’s declaration that the transactions between the Solanos and the Samsons are equitable mortgages may no longer be altered following the doctrine of immutability of final judgment.

Relying on RTC-Branch 21’s final Decision, the Solanos now invoke the principle of *res judicata* in arguing that the heirs of Dy can no longer assert any claim over the properties that are the subject of the equitable mortgages.

There are two concepts of *res judicata*. The first kind is ***res judicata through bar by prior judgment***⁵³ wherein there is identity of parties, subject matter, and causes of action. In the second one which is ***res judicata by conclusiveness of judgment***,⁵⁴ there is only identity of parties and subject

⁴⁹ *Id.* at 226–233.

⁵⁰ *Id.* at 232–233.

⁵¹ *Id.* at 310–316.

⁵² *Id.*

⁵³ Section 47(b), Rule 39 of the Rules of Civil Procedure, states:

Section 47. *Effect of judgments or final orders.*—The effect of a judgment or final order rendered by a court of the Philippines, having jurisdiction to pronounce the judgment or final order, may be as follows:

....
(b) In other cases, the judgment or final order is, with respect to the matter directly adjudged or as to any other matter that could have been missed in relation thereto, conclusive between the parties and their successors in interest, by title subsequent to the commencement of the action or special proceeding, litigating for the same thing and under the same title and in the same capacity[.]

⁵⁴ Section 47(c), Rule 39 of the Rules of Civil Procedure, reads:

matter or issues. Considering that there is no identity of causes of action in *res judicata* by conclusiveness of judgment, the final ruling is conclusive *only* as to those matters directly controverted and determined in the first case.⁵⁵

Consequently, there is *res judicata* by conclusiveness of judgment when the following elements are present: (1) the judgment sought to bar the new action must be final; (2) the decision must have been rendered by a court having jurisdiction over the subject matter and the parties; (3) the disposition of the case must be a judgment on the merits; and (4) there must be identity of parties and issues as between the first and second action, but not identity of causes of action.⁵⁶

There is no question that the first, second, and third elements are present in this case. *First*, the RTC-Branch 21 decision is final and executory there being no appeal taken within the reglementary period. *Second*, the RTC had jurisdiction over the case, the subject matter, and the parties. *Third*, the RTC's judgment was rendered based on the merits.

Our task then is to determine the existence of the fourth element, which is the identity of parties and issues.

With regard to the similarity of parties, the Court explained in *PD No. 1271 Committee v. De Guzman*⁵⁷ that the parties in the two cases need not be identical provided that they substantially share the same interest. It is enough that there is privity between the party in the first case and in the second case, like when a successor-in-interest or an heir participates in the second case.⁵⁸

There is identity of parties in the present controversy. In the first case decided by RTC-Branch 21, spouses Solano were the plaintiffs while spouses Samson were the defendants. In the second case decided by RTC-Branch 22, Dy was the plaintiff while spouses Solano and spouses Samson were impleaded as co-defendants. Although the parties are not strictly identical, there is substantial identity. Substantial identity of parties exists when there is a community of interest between a party in the first case and a party in the second case.⁵⁹ As stressed in *Development Bank of the Philippines v. Court of Appeals*⁶⁰ and *Republic v. Court of Appeals*,⁶¹ absolute identity is not required:

For purposes of *res judicata*, only substantial identity is required and not absolute identity. Parties in both cases need not be physically

Section 47. *Effect of judgments or final orders.*—The effect of a judgment or final order rendered by a court of the Philippines, having jurisdiction to pronounce the judgment or final order, may be as follows:

.....
(c) In any other litigation between the same parties or their successors in interest, that only is deemed to have been adjudged in a former judgment or final order which appears upon its face to have been so adjudged, or which was actually and necessarily included therein or necessary thereto.

⁵⁵ *Spouses Rosario v. Alvar*, 817 Phil. 994, 1004 (2017) [Per J. Del Castillo, First Division].

⁵⁶ *Id.* at 1004–1005.

⁵⁷ 801 Phil. 731 (2016) [Per J. Leonen, Second Division].

⁵⁸ *Id.* at 767.

⁵⁹ *Spouses Santos v. Heirs of Lustre*, 583 Phil. 118, 127 (2008) [Per J. Nachura, Third Division].

⁶⁰ 409 Phil. 717 (2001) [Per J. Panganiban, Third Division].

⁶¹ *Republic v. Court of Appeals*, 381 Phil. 558 (2000) [Per J. Quisumbing, Second Division].

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identical provided that there is **privity between the parties or their successors-in-interest subsequent to the commencement of the previous cause of action, litigating for the same thing, title[,] or capacity.**⁶² (Emphasis supplied)

Dy became the successor-in-interest of spouses Samson after buying Lot 1-A-32 and Lot 1-A-25. As such, although the parties to the two civil cases are not exactly the same, there is substantial identity of parties.

However, to warrant the application of *res judicata*, the aspect of identity of issues must also be satisfied.

There is identity of issues when a competent court has adjudicated the fact, matter, or right, or when the same was “necessarily involved in the determination of the action.” The litmus test in gauging whether an issue has been resolved in the first case is to check if the evidence needed to resolve the second case “would have authorized a judgment for the same party in the first action.” Thus, if the fact or matter litigated in the first case is re-litigated in the second case, it is barred by *res judicata* by conclusiveness of judgment.⁶³

The Court finds that the identity of issues is lacking in this case.

In its Decision dated April 8, 2016, the CA ruled that Dy’s action for specific performance against spouses Solano and spouses Samson, is closely related to the first civil action for annulment and revocation of the deeds of sale and SPA filed by spouses Solano against spouses Samson before RTC-Branch 21. The excerpts of the CA’s decision reads:

Since Civil Case No. 2003-150 and the present case essentially involve the same parties and the same issues, the facts and issues that had been resolved in the said case binds [sic] the parties in the present case under the doctrine of conclusiveness of judgment. The said doctrine was explained by the Supreme Court in the case of *Degayo v. Magbama-Dinglasan*⁶⁴ as follows:

Conclusiveness of judgment finds application when a fact or question has been squarely put in issue, judicially passed upon, and adjudged in a former suit by a court of competent jurisdiction. The fact or question settled by final judgment or order binds the parties to that action (and persons in privity with them or their successors-in-interest), and continues to bind them while the judgment or order remains standing and unreversed by proper authority on a timely motion or petition; the conclusively settled fact or question furthermore cannot again be litigated in any future or other action between the same parties or their privies and successors-in-interest, in the same or in any other court of concurrent jurisdiction, either for the same or for a different

⁶² *Id.* at 566. See also *Landbank v. Del Moral, Inc.*, 888 Phil. 44, 56 (2020) [Per J. Hernando, Second Division].

⁶³ *Id.* at 564.

⁶⁴ 757 Phil. 376 (2015) [Per J. Brion, Second Division].

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cause of action. Thus, only the identities of *parties and issues* are required for the operation of the principle of conclusiveness of judgment. While ***conclusiveness of judgment*** does not have the same barring effect as that of a *bar by former judgment* that proscribes subsequent actions, the former nonetheless **estops the parties from raising in a later case the issues or points that were raised and controverted, and were determinative of the ruling in the earlier case.** In other words, the dictum laid down in the earlier final judgment or order becomes conclusive and continues to be binding between the same parties, their privies and successors-in-interest, as long as the facts on which that judgment was predicated continue to be the facts of the case or incident before the court in a later case; the binding effect and enforceability of that earlier dictum can no longer be re-litigated in a later case since the issue has already been resolved and finally laid to rest in the earlier case.⁶⁵ (Emphasis supplied)

It is settled that the binding effect of a final ruling in *res judicata* by conclusiveness of judgment is limited only to those matters directly controverted and determined in the first case. However, the Court finds that this principle, reiterated in the case of *Degayo v. Magbanua-Dinglasan*⁶⁶ cited by the CA, does not squarely apply in the present dispute.

In *Degayo*, both the first and second cases stemmed from actions *in rem* which seek the declaration of ownership of the subject land. In the first case, the RTC ruled against Degayo's tenants by declaring that the disputed land, an old riverbed, rightfully belongs to the respondents who are the owners of the property now occupied by the river. Although Degayo was not formally impleaded as a defendant and her motion for intervention was denied by the RTC in the first case, the Court ruled that the second case which is Degayo's own complaint for declaration of ownership is proscribed under the principle of *res judicata* by conclusiveness of judgment. The second action filed by Degayo involves the same matters and defenses raised by her tenants in the first case—that the land is an accretion to Degayo's Lot 861 which she inherited from her parents. More importantly, Degayo had the fullest opportunity to prove the alleged accretion when she participated in the trial of the first case as one of the witnesses. Since Degayo's rights were not unduly prejudiced, the main issue on ownership which was unequivocally settled in the final judgment in the first case remains binding.⁶⁷

In contrast, the RTC's Decision in the first case for annulment of deeds of sale and SPA filed by the Solanos merely alluded to the dispute on ownership. Moreover, it is clear from the records that Dy's interest in the subject lots was not considered by the RTC, not even remotely, because Merle mentioned the sale to Dy only during the execution of RTC's final judgment in the annulment case. Unlike *Degayo*, Dy was not aware of the pendency of

⁶⁵ *Rollo* (G.R. No. 228490), pp. 41–42.

⁶⁶ *Degayo v. Magbanua-Dinglasan*, 757 Phil. 376 (2015).

⁶⁷ *Id.* at 388.

the first civil case such that he had no opportunity to establish his cause of action. Truly, a person who was not impleaded in the complaint cannot be bound by the decision rendered therein for no man can be affected by a proceeding in which he is a stranger.⁶⁸

Pertinently, it can be observed that the CA created more dissonance in its assailed Decision when it decreed that *res judicata* by conclusiveness of judgment should apply while making distinctions on whether Dy was a buyer in good or bad faith. It then proceeded to grant one lot to Dy and deny him the other. The CA's ruling sows confusion and cannot be sustained.

Similarly, we reject the CA's ruling with regard to the validity of the SPA. Records show that RTC-Branch 21 did not squarely resolve this issue in Civil Case No. 2003-0150. In its Decision dated February 2007, the RTC-Branch 21 merely stated:

Incidentally, as regards the *Special Power of Attorney*, the Court will no longer delve on it, for obvious reason that the same has already been revoked as admitted by [spouses Solano] and as shown by plaintiff Elias Solano's *Revocation of Special Power of Attorney* dated July 5, 2002.⁶⁹ (Emphasis in the original)

It is clear that RTC-Branch 21 did not find it necessary to rule on the validity of the SPA since Elias Solano already revoked it. Eventually, RTC-Branch 21 declared that the contracts executed by spouses Solano and spouses Samson were actually equitable mortgages because their true intention was to secure the payment of the loans and not to convey ownership. At any rate, the Court sees no reason to pursue this ancillary issue as it would no longer affect the resolution of the main case.

To be sure, the only matter directly controverted and determined by RTC-Branch 21 in the first action for annulment is that the purported sale transactions between spouses Solano and spouses Samson are actually equitable mortgages.⁷⁰

An equitable mortgage is a contract, which although lacking in some formality, or form of words, or other requisites demanded by a statute, nevertheless reveals the intention of the parties to treat real property as a security for a debt, and contains nothing impossible or contrary to law. The essential requisites are: (1) that the parties entered into an agreement denominated as a contract of sale; and (2) that they intended to secure an

⁶⁸ *National Housing Authority v. Evangelista*, 497 Phil. 762, 764 (2005) [Per J. Austria-Martinez, Second Division]. See also *Galicia v. Vda. de Mindo*, 549 Phil. 595, 607 (2007) [Per J. Austria-Martinez, Third Division].

⁶⁹ *Rollo* (G.R. No. 228490), p. 61.

⁷⁰ *Id.*



existing debt by way of a mortgage. Equitable mortgages are covered by Articles 1602,⁷¹ 1603,⁷² and 1604⁷³ of the Civil Code.

In *Spouses Salonga v. Spouses Concepcion*,⁷⁴ the Court explained that Articles 1602, 1603, and 1604 of the Civil Code were designed to prevent the circumvention of usury laws and serve to prohibit the creditor from appropriating the mortgaged properties. In times of grave financial distress, persons who are hard-pressed to meet an emergency would have no choice but to sign a deed of absolute sale of property if only to obtain a much-needed loan from unscrupulous money lenders.⁷⁵

The overriding factor in evaluating the true nature of the agreement between the parties is their intent, shown not merely by the contract's terminology but by the totality of the surrounding circumstances, such as the relative situations of the parties at that time; the attitudes, acts, conduct, and declarations of the parties; the negotiations between them leading to the deed; and generally, all pertinent facts tending to fix and determine the real nature of their design and understanding.⁷⁶

When in doubt, Article 1603 of the Civil Code requires the courts to construe a transaction purporting to be a sale as an equitable mortgage because there is lesser transmission of rights and interests over the property in controversy.⁷⁷

In its Decision in Civil Case No. 2003-0150, RTC-Branch 21 declared as equitable mortgages the two contracts entered into by spouses Solano and spouses Samson: (1) Deed of Sale with Right to Repurchase dated December 1999 involving Lot 1-A-32; and (2) Deed of Absolute Sale dated April 6, 2000, for Lot 1-A-25. Since the intention of the parties was to secure the payment of the loans, and not to convey ownership, spouses Samson did not become the new owners of the properties. They are mere mortgagees who are bound by the prohibition against *pactum commissorium* in Article 2088⁷⁸ of the Civil Code. Considering that RTC-Branch 21's ruling has already attained

⁷¹ Art. 1602. The 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.

⁷² Art. 1603. In case of doubt, a contract purporting to be a sale with right to repurchase shall be construed as an equitable mortgage.

⁷³ Art. 1604. The provisions of Article 1602 shall also apply to a contract purporting to be an absolute sale.

⁷⁴ 507 Phil. 287 (2005) [Per J. Callejo, Sr., Second Division].

⁷⁵ *Id.* at 304.

⁷⁶ *Banga v. Spouses Bello*, 508 Phil. 623, 635 (2005) [Per J. Carpio-Morales, Third Division].

⁷⁷ *Legaspi v. Spouses Ong*, 498 Phil. 167, 182 (2005) [Per J. Austria-Martinez, Second Division].

⁷⁸ Art. 2088. The creditor cannot appropriate the things given by way of pledge or mortgage, or dispose of them. Any stipulation to the contrary is null and void.

finality and is deemed conclusive as to the title of the subject lots, logically, the Court must determine the effects of this final judgment on the subsequent agreements between Merle Samson and Dy.

Based on the premise that the deeds of sale signed by spouses Solano is really a simple loan secured by a mortgage, the Court cannot allow the ensuing sale between Merle Samson and Dy as this would amount to *pactum commissorium*. This arrangement is contrary to morals and public policy as it condones the mortgagee's aberrant act of automatically assuming ownership of the encumbered property upon mere default in the payment of the loan obligation.⁷⁹ Consequently, unlike in a true sale with right to repurchase, the agreements between the Solanos and the Samsons did not give rise to the immediate transfer of title from the seller to the buyer. Perforce, the title to the subject properties remained with spouses Solano.

Nonetheless, the deeds signed by spouses Solano and spouses Samson are not avoided in their entirety as to prevent them from producing any legal effect. The transactions which are considered equitable mortgages merely alter the relationship of the parties from seller and buyer to mortgagor and mortgagee. As a result, the ownership of the contested properties is not transferred to the Samsons as mortgagees but is subjected to a lien in favor of the latter.⁸⁰

What happens then to the Deeds of Absolute Sale dated April 15, 2000 and December 20, 2001 wherein Merle Samson sold Lots 1-A-32 and 1-A-25 to Dy?

Considering that spouses Samson have no right of ownership over the two lots, no title can be transferred to Dy. *Nemo dat quod non habet*—one cannot give what one does not have.⁸¹ As creditor-mortgagee, Merle's only right in case of non-payment of the debt secured by mortgage would be to judicially foreclose the mortgage and have the encumbered properties sold to satisfy spouses Solano's outstanding indebtedness.⁸²

To reframe, the only right transferred by Merle Samson to Dy is the mortgage lien over the properties, which is akin to an assignment of credit.⁸³ The transfer of right entitles the assignee not only to the credit itself but it also

⁷⁹ *Spouses Solitarios v. Spouses Jaque*, 746 Phil. 852, 877 (2014) [Per J. Velasco, Jr., Third Division].

⁸⁰ *Spouses Raymundo v. Spouses Bandong*, 553 Phil. 480, 494 (2007) [Per J. Chico-Nazario, Third Division].

⁸¹ *Duque v. Spouses Yu*, 826 Phil. 358, 367 (2018) [Per J. Velasco, Jr., Third Division]; citing *Cavite Development Bank v. Spouses Lim*, 381 Phil. 355, 365 (2000) [Per J. Mendoza, Second Division].

⁸² *Spouses Solitarios v. Spouses Jaque*, 746 Phil. 852, 877 (2014) [Per J. Velasco, Jr., Third Division].

⁸³ *See Bangko Sentral ng Pilipinas v. Libo-on*, 773 Phil. 229, 236–237 (2015) [Per J. Peralta, Third Division]. An assignment of credit is an agreement by virtue of which the owner of a credit, known as the assignor, by a legal cause, such as sale, *dation* in payment, exchange or donation, and without the consent of the debtor, transfers his credit and accessory rights to another, known as the assignee, who acquires the power to enforce it to the same extent as the assignor could enforce it against the debtor. It may be in the form of sale, but at times it may constitute a *dation* in payment, such as when a debtor, in order to obtain a release from his debt, assigns to his creditor a credit he has against a third person.

gives him the power to enforce it against the debtor of the assignor.⁸⁴ Thus, if Dy, as the assignee/mortgagee in equity, desires to obtain a perfect title to the mortgaged lots, his remedy is to cause the foreclosure of the mortgage in equity upon spouses Solano's failure to pay the loan obligation and then purchase the properties at the foreclosure auction.⁸⁵

Meanwhile, to comply with the final judgment in Civil Case No. 2003-0150, Dy should surrender the certificates of title covering Lots 1-A-32 and 1-A-25 to the Clerk of Court of RTC-Branch 21.⁸⁶

Relative to this, the judgment ordering spouses Solano/heirs to pay the mortgaged debt in the total amount of PHP 250,000.00, including the admitted accrued interest in the amount of PHP 50,000.00, is upheld with the modification that the payment should be made to Dy as the present mortgagee in equity. There being no consignation of payment from spouses Solano, the total amount due shall earn interest at the legal rate of 12% per annum, from the time the judgment of RTC-Branch 21 became final and executory on January 15, 2009 until June 30, 2013, and then 6% per annum from July 1, 2013 until full payment.⁸⁷ To exercise their right to repurchase the encumbered lots, spouses Solano/heirs are given 30 days⁸⁸ from finality of this Decision to make full payment to the heirs of Dy. Failing this, the heirs of Dy may initiate the proper judicial foreclosure proceedings with the RTC and participate in the auction.

On the other hand, if spouses Solano/heirs are able to timely repurchase the lots by paying the principal mortgage debt of PHP 300,000.00, the principle of unjust enrichment in Article 22 of the Civil Code⁸⁹ entitles the heirs of Dy to recover **PHP 700,000.00** from spouses Samson. This amount represents the difference between the PHP 300,000.00 they will receive from spouses Solano/heirs and the PHP 1,000,000.00 purchase price Dy paid earlier to spouses Samson broken as follows: PHP 500,000.00 for Lot 1-A-32 and PHP 500,000.00 for Lot 1-A-25. The reimbursement of what he has given is in order considering that spouses Samson cannot legally transfer ownership of the lots they sold to Dy. There is no reason for them to retain the money Dy paid for the sale.⁹⁰

Therefore, to prevent unjust enrichment, spouses Samson must return to the heirs of Dy the total amount of PHP 700,000.00, subject to interest at the rate of 12% per annum from January 3, 2008, the date when Dy filed the

⁸⁴ *Spouses Serfino v. Far East Bank and Trust Co., Inc.*, 697 Phil. 51, 57 (2012) [Per J. Brion, Second Division].

⁸⁵ *Bangko Sentral ng Pilipinas v. Libo-on*, 773 Phil. 229 (2015) [Per J. Peralta, Third Division].

⁸⁶ *Rollo* (G.R. No. 228490), pp. 53-63.

⁸⁷ *Nacar v. Gallery Frames*, 716 Phil. 267, 281 (2013) [Per J. Peralta, *En Banc*].

⁸⁸ See Article 1606 of the Civil Code. See also *Vda. de Zulueta v. Octaviano*, 206 Phil. 247 (1983) [Per J. Melencio-Herrera, First Division].

⁸⁹ Art. 22. Every person who through an act of performance by another, or any other means, acquires or comes into possession of something at the expense of the latter without just or legal ground, shall return the same.

⁹⁰ *Nool v. Court of Appeals*, 342 Phil. 106 (1997) [Per J. Panganiban, Third Division].

Complaint for specific performance, until June 30, 2013, and 6% per annum from July 1, 2013 until full payment.

ACCORDINGLY, the petition in **G.R. No. 228490** filed by the heirs of spouses Elias and Gleceria Falabi Solano and the petition in **G.R. No. 228645** filed by the heirs of Pascual T. Dy are **PARTLY GRANTED**. The Decision dated April 8, 2016 and Resolution dated November 28, 2016 of the Court of Appeals in CA-G.R. CV No. 103451, which modified the Decision dated June 17, 2014 of Branch 22, Regional Trial Court of Naga City in Civil Case No. RTC 2008-0001, are **REVERSED**.

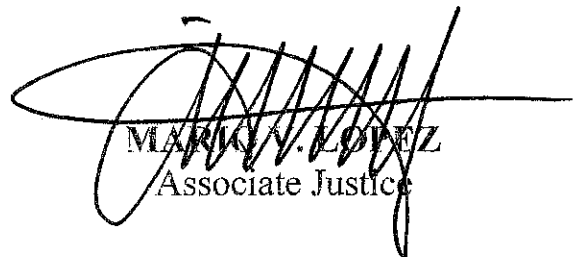
As discussed above, the final judgment of Branch 21, Regional Trial Court of Naga City in Civil Case No. 2003-0150, which declared the Deed of Sale with Right to Repurchase dated December 1999 and the Deed of Absolute Sale dated April 6, 2000 between spouses Elias and Gleceria Falabi Solano and spouses Renato and Merle Samson, as equitable mortgages **STANDS**. The Court further decrees that:

(1) Spouses Elias and Gleceria Falabi Solano/heirs are entitled to repurchase the mortgaged properties described as Lot 1-A-32 covered by Transfer Certificate of Title No. 230, and Lot No. 1-A-25 covered by Transfer Certificate of Title No. 232. For this purpose, they are **ORDERED** to pay the principal mortgaged debt to Pascual Dy/heirs, in the total amount of PHP 300,000.00, with interest at the legal rate of 12% per annum, from January 15, 2009 until June 30, 2013, and 6% per annum from July 1, 2013 until full payment. The payment shall be made by spouses Solano/heirs within 30 days from finality of this Decision. Otherwise, Pascual Dy/heirs may initiate the proper judicial foreclosure proceedings.

(2) Meanwhile, to comply with the final judgment in Civil Case No. 2003-0150, Pascual Dy/heirs are **ORDERED** to deposit/surrender Transfer Certificate of Title Nos. 230 and 232 covering Lots 1-A-32 and 1-A-25 to the Clerk of Court of Branch 21, Regional Trial Court of Naga City.

(3) In case of a timely repurchase by spouses Solano/heirs, to prevent unjust enrichment, spouses Renato and Merle Samson/heirs are **ORDERED** to return to Pascual Dy/heirs the total amount of PHP 700,000.00, plus interest at the rate of 12% per annum from January 3, 2008 until June 30, 2013, and 6% per annum from July 1, 2013 until full payment.

SO ORDERED.


MARIA V. LOPEZ
Associate Justice

WE CONCUR:


MARVIC M.V.F. LEONEN
Senior Associate Justice
Chairperson


RODIL V. ZALAMEDA
Associate Justice


JHOSEP Y. LOPEZ
Associate Justice


ANTONIO T. KHO, JR.
Associate Justice

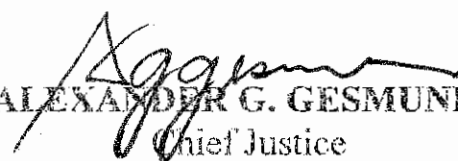
ATTESTATION

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


MARVIC M.V.F. LEONEN
Senior Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VII 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 cases were assigned to the writer of the opinion of the Court's Division.


ALEXANDER G. GESMUNDO
Chief Justice