

SECOND DIVISION

[G.R. No. 203946, August 04, 2021]

ARTURO A. DACQUEL, PETITIONER, VS. SPOUSES ERNESTO SOTELO AND FLORA DACQUELSOTELO, REPRESENTED BY THEIR ATTORNEY-IN-FACT, IMELDA SOTELO, RESPONDENTS.

DECISION

HERNANDO, J.:

This Petition for Review on *Certiorari*^[1] under Rule 45 of the Rules of Court assails the July 12, 2012 Decision^[2] and the October 10, 2012 Resolution^[3] of the Court of Appeals (CA) in CA-G.R. CV No. 93939.

The Antecedents:

Subject of the case is a parcel of land located in Malabon City formerly covered by Transfer Certificate of Title (TCT) No. 738^[4] in the names of respondents-spouses Ernesto and Flora Sotelo (the Sotelos), later registered under TCT No. M-10649^[5] under the name of petitioner Arturo Dacquel (Dacquel). Established facts show that in 1994, the Sotelos began the construction of a 7-door apartment on the subject land. Due to budget constraints, the Sotelos had to borrow the amount of P140,000.00 from Dacquel, who was Flora Sotelo's (Flora) brother. The construction of the apartment was completed in 1997.^[6]

The parties hereafter part versions.

The Sotelos claimed that the debt of P140,000.00 was agreed to be payable in double the said amount or P280,000.00, to be collected from the rental income of four out of the seven apartment units. There was no agreed period within which to pay the loan and the interests. Dacquel also required the Sotelos to cede to him the subject land as security for the loan.

Consequently, on September 1, 1994, the parties executed a Deed of Sale^[7] in consideration of the amount of P140,000.00. TCT No. 738 in the names of the Sotelos was thereafter cancelled and TCT No. M-10649 was issued, constituting Dacquel as the new registered owner of the subject land. In March 2000, when Dacquel had collected the full amount of P280,000.00 in rental income from the four apartment units, the Sotelos asked for the return of the subject lot. Dacquel, however, allegedly held on to the title and refused to yield the subject lot to the Sotelos.^[8]

Thus, on May 29, 2000, the Sotelos filed a Complaint^[9] for annulment of title and reconveyance against Dacquel before the Regional Trial Court (RTC), Branch 74 of Malabon City. The Sotelos alleged in their Complaint that Dacquel held the title to

the subject land only as security for the loan and in trust for the Sotelos, who remained the beneficial owners of the subject lot. Upon Dacquel's receipt of more than the amount he had loaned to the Sotelos, the former was legally obligated to reconvey the property to the latter. The building permits for the 7-door apartment, as well as the original registration of the electric and water meters of all seven units, were issued in Ernesto Sotelo's (Ernesto) name and that the construction expenses were paid for by Ernesto's checks.

Anent the September 1, 1994 Deed of Sale, Ernesto claimed that he could not remember having signed the document as he was too sick at the time, and that Flora's signature thereon was forged. The market value of the subject property in 1994 was P1,750,000.00 and not just P140,000.00. Also, in order to fund the apartment construction expenses, Ernesto had even mortgaged the subject property to a bank for P500,000.00 and the mortgage had been annotated to the title. The title to the subject property should not and could not have been transferred to Dacquel's name since the latter was a foreigner despite having misrepresented his nationality as a Filipino in the disputed Deed of Sale. The Sotelos likewise prayed for moral damages and attorney's fees.^[10]

The Sotelos presented the following pertinent documents: official receipts issued by Ernesto acknowledging rental payments made to him by the lessees of the three apartment units; building and electrical permits intended for the construction of the apartment, Meralco service deposit receipts, and Maynilad Water billings, all in the name of Ernesto; checks issued by Ernesto, which constituted as payments to the professionals who worked on the apartment construction; and copies of contracts of lease executed between Ernesto and the lessees of the three apartment units. Testifying for the Sotelos were Ernesto and Imelda Sotelo, the Sotelos' daughter and attorney-in-fact.^[11]

Dacquel, on the other hand, asserted that the Sotelos's debts to him totaled P1,000,000.00, which he had recorded in a black diary. As payment for their debts, the Sotelos had actually offered to sell to him the subject land and he had accepted their offer. They reduced the said agreement into writing as a Deed of Sale on September 1, 1994 for the true consideration of P1,000,000.00, and the amount of P140,000.00 was indicated on the Deed of Sale only for the purpose of reducing the tax liabilities for the transaction.

The Sotelos were allegedly estopped from questioning the validity of the Deed of Sale because of their acquiescence to the subject property's transfer unto Dacquel's name. Also, Dacquel caused the construction of the apartment using the sum he inherited from one Richmond Lloyd Wilcox. He did not authorize the Sotelos to lease and collect rental payments from the three apartment units. By way of counterclaim, Dacquel sought moral and exemplary damages against the Sotelos, as well as reimbursement of attorney's fees.^[12]

Dacquel offered the following as proof, among others: copy of the Deed of Sale dated September 1, 1994; copy of TCT No. M-10649 registered in Dacquel's name; last will and testament of one Richmond Lloyd Wilcox; the black diary; a *Dacion en Pago* undertaken but unsigned by Dacquel; and contracts of lease executed between Dacquel and different lessees over the apartment units.^[13] Dacquel took the witness stand, as well as Carmencita Balajadia (Carmencita) who was Dacquel and

Flora's niece. Carmencita narrated that the Sotelos signed the Deed of Sale voluntarily as she allegedly facilitated the execution of the Deed of Sale.^[14]

Ruling of the Regional Trial Court:

The RTC ruled in favor of Dacquel. It held that there was no evidence that Dacquel was of foreign citizenship who was disqualified to own lands in the Philippines as of the date of sale. It also discounted the checks issued and presented by Ernesto, since there was nothing on the face of the said checks to show that these were intended to finance the construction of the apartment, more so that these were issued to pay to the order of "Cash". The RTC also ruled that the registration of property in one's name for billing purposes, when in reality the same property is owned by another, is common practice in the country. In its May 27, 2009 Decision,^[15] the RTC dismissed the Sotelos' Complaint as follows:

WHEREFORE, premises considered, judgment is hereby rendered in favor of defendant Arturo A. Dacquel and against plaintiffs spouses Ernesto and Flora Sotelo. The complaint for Annulment of Title and Reconveyance of Instrument is **DENIED** for lack of sufficient evidence.

SO ORDERED.^[16]

The Sotelos appealed to the CA.

Ruling of the Court of Appeals:

The CA reversed the RTC and decided in favor of the Sotelos. Applying the provisions of Articles 1602 and 1604 of the Civil Code, the CA declared the September 1, 1994 Deed of Sale to be one of equitable mortgage. It found two badges of fraud: gross inadequacy of the price and the continued possession by the Sotelos of the subject property.^[17]

According to the CA, the first badge of fraud was extant as the undisputed market value of the 350-square meter subject property in 1994 was P1,750,000.00 at P5,000.00 per square meter, but was sold in the Deed of Sale for only P140,000.00. Dacquel failed to substantiate the Sotelos' indebtedness of P1,000,000.00 to justify the allegation that the Deed of Sale was subjected to a dation in payment.

Even if the amount is so proven, the Deed of Sale did not show that the subject property was being conveyed for a consideration other than the amount of P140,000.00. There was also no proof that the parties consented to the supposed dation in payment in the amount of P1,000,000.00. From these, the CA concluded that there was gross inadequacy of the purchase price as indicated in the Deed of Sale and the actual price of the subject property.^[18]

The CA likewise found the Sotelos to have continued their actual possession over the subject property, taking into consideration their supervision of the apartment's construction, their execution of lease contracts over the units, and Dacquel's failure

to prove that he had instructed the Sotelos to act in his stead. Having remained a mortgagee in the transaction, the issuance of a TCT in favor of Dacquel did not vest upon him ownership of the property and does not preclude its cancellation. The CA granted attorney's fees to the Sotelos while denying their prayer for moral damages. [19] The July 12, 2012 CA Decision [20] disposed of the Sotelos' appeal in the following manner:

WHEREFORE, premises considered, the appeal is **GRANTED**. The Decision of the Regional Trial Court, Branch 74, Malabon City in Civil Case No. 3099-MN is hereby **ANNUL[L]ED and SET ASIDE**. Judgment is hereby rendered declaring that the Deed of Sale executed between the parties is an equitable mortgage rather than one of absolute sale over the subject property, and that the obligation for which it has been constituted has been extinguished. Appellee Arturo Dacquel is hereby ordered to reconvey the subject property to appellants, and to cease and desist from collecting rentals thereon. The Register of Deeds of Malabon City is hereby ordered to cancel TCT No. M-10649 issued to appellee and to issue a new TCT in the name of appellants, while the City Assessor of Malabon is hereby ordered to cancel the Tax Declarations in the name of appellee Arturo Dacquel. Finally, appellee Arturo Dacquel is hereby ordered to pay appellants attorney's fees in the amount of Php100,000.00.

SO ORDERED. [21]

Finding a reiteration of the issues raised in the appeal, the CA likewise denied [22] Dacquel's Motion for Reconsideration. [23] Thus, this Petition.

Petitioner Dacquel's Arguments:

Dacquel insists on the validity of the September 1, 1994 Deed of Sale. He asserts his lawful ownership over the subject property, and that the Decision declaring the nullity of his title and ordering the reconveyance of the subject property to the Sotelos is grave error on the part of the CA. The parties clearly intended to be bound by the Deed of Sale and what was concealed was only the actual price of the subject property. Dacquel puts premium on the notarial seal on the Deed of Sale, which gave the document the presumption of regularity.

The price of P140,000.00 was not a grossly inadequate price for the sale of the subject property as there were no improvements at the time of the transaction. All the requisites of *dacion en pago* attended their contract. Moreover, the absence of his authorization empowering Ernesto to construct and manage the apartment was on account of their relationship, being brothers-in-law. Dacquel remained in constructive possession of the subject property as he collected in his name the rental for four apartment units and even claimed the other three units in the same manner. He also asserts that the permits, billings, and checks in the name of Ernesto likewise did not prove the Sotelos' ownership of the subject property. As regards the award of attorney's fees, Dacquel disputes the same as he was not guilty of bad faith in litigating his case against the Sotelos. [24]

Respondents-

Spouses Sotelo's Position.

The Sotelos maintain that the transaction was an equitable mortgage. They rest their claim with the findings by the CA that gross inadequacy of the price and the continued possession by the Sotelos of the subject property constituted as badges of fraud under Articles 1602 and 1604 of the Civil Code against Dacquel, negating the veracity of the September 1, 1994 Deed of Sale.^[25]

Issues:

The main issues to be resolved are (1) whether or not the September 1, 1994 Deed of Sale between petitioner and respondents-spouses constituted an equitable mortgage; and (2) whether petitioner's title to the subject property should be nullified and reconveyed to respondents-spouses, and (3) whether or not respondents-spouses are entitled to attorney's fees.

Our Ruling

The Petition is meritorious in part.

The transaction between petitioner and respondents- spouses was an equitable mortgage.

The relevant provisions of the Civil Code read:

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 a 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