

SECOND DIVISION

[G.R. No. 173188, January 15, 2014]

THE CONJUGAL PARTNERSHIP OF THE SPOUSES VICENTE CADAVEDO AND BENITA ARCOY-CADAVEDO (BOTH DECEASED), SUBSTITUTED BY THEIR HEIRS, NAMELY: HERMINIA, PASTORA, HEIRS OF FRUCTUOSA, HEIRS OF RAQUEL, EVANGELINE, VICENTE, JR., AND ARMANDO, ALL SURNAMED CADAVEDO, PETITIONERS, VS. VICTORINO (VIC) T. LACAYA, MARRIED TO ROSA LEGADOS, RESPONDENTS.

D E C I S I O N

BRION, J.:

We resolve in this Rule 45 petition for review on *certiorari*^[1] the challenge to the October 11, 2005 decision^[2] and the May 9, 2006 resolution^[3] of the Court of Appeals (CA) in CA-G.R. CV No. 56948. The CA reversed and set aside the September 17, 1996 decision^[4] of the Regional Trial Court (RTC), Branch 10, of Dipolog City in **Civil Case No. 4038**, granting in part the complaint for recovery of possession of property filed by the petitioners, the Conjugal Partnership of the Spouses Vicente Cadavedo and Benita Arcoy-Cadavedo against Atty. Victorino (Vic) T. Lacaya, married to Rosa Legados (collectively, the *respondents*).

The Factual Antecedents

The Spouses Vicente Cadavedo and Benita Arcoy-Cadavedo (collectively, *the spouses Cadavedo*) acquired a homestead grant over a 230,765-square meter parcel of land known as Lot 5415 (*subject lot*) located in Gumay, Piñan, Zamboanga del Norte. They were issued Homestead Patent No. V-15414 on March 13, 1953 and Original Certificate of Title No. P-376 on July 2, 1953. On April 30, 1955, the spouses Cadavedo sold the subject lot to the spouses Vicente Ames and Martha Fernandez (*the spouses Ames*). Transfer Certificate of Title (TCT) No. T-4792 was subsequently issued in the name of the spouses Ames.

The present controversy arose when the spouses Cadavedo filed an action^[5] before the RTC (then Court of First Instance) of Zamboanga City against the spouses Ames **for sum of money and/or voiding of contract of sale of homestead** after the latter failed to pay the balance of the purchase price. The spouses Cadavedo initially engaged the services of Atty. Rosendo Bandal who, for health reasons, later withdrew from the case; he was substituted by Atty. Lacaya.

On February 24, 1969, Atty. Lacaya amended the complaint to assert the nullity of the sale and the issuance of TCT No. T-4792 in the names of the spouses Ames as gross violation of the public land law. The amended complaint stated that the spouses Cadavedo hired Atty. Lacaya on a contingency fee basis. The contingency fee stipulation specifically reads:

10. That due to the above circumstances, the **plaintiffs were forced to hire a lawyer on contingent basis and if they become the prevailing parties** in the case at bar, **they will pay the sum of P2,000.00 for attorney's fees[.]**^[6]

In a decision dated February 1, 1972, the RTC upheld the sale of the subject lot to the spouses Ames. The spouses Cadavedo, thru Atty. Lacaya, appealed the case to the CA.

On September 18, 1975, and while the appeal before the CA in *Civil Case No. 1721* was pending, the spouses Ames sold the subject lot to their children. The spouses Ames' TCT No. T-4792 was subsequently cancelled and **TCT No. T-25984** was issued in their children's names. On October 11, 1976, the spouses Ames mortgaged the subject lot with the Development Bank of the Philippines (DBP) in the names of their children.

On August 13, 1980, the CA issued its decision in *Civil Case No. 1721*, reversing the decision of the RTC and declaring the deed of sale, transfer of rights, claims and interest to the spouses Ames null and void *ab initio*. It directed the spouses Cadavedo to return the initial payment and ordered the Register of Deeds to cancel the spouses Ames' TCT No. T-4792 and to reissue another title in the name of the spouses Cadavedo. The case eventually reached this Court *via* the spouses Ames' petition for review on *certiorari* which this Court dismissed for lack of merit.

Meanwhile, the spouses Ames defaulted in their obligation with the DBP. Thus, the DBP caused the publication of a notice of foreclosure sale of the subject lot as covered by TCT No. T-25984 (under the name of the spouses Ames' children). Atty. Lacaya immediately informed the spouses Cadavedo of the foreclosure sale and filed an Affidavit of Third Party Claim with the Office of the Provincial Sheriff on September 14, 1981.

With the finality of the judgment in *Civil Case No. 1721*, Atty. Lacaya filed on September 21, 1981 a motion for the issuance of a writ of execution.

On September 23, 1981, and pending the RTC's resolution of the motion for the issuance of a writ of execution, the spouses Ames filed a complaint^[7] before the RTC against the spouses Cadavedo for **Quieting of Title or Enforcement of Civil Rights due Planters in Good Faith with prayer for Preliminary Injunction**. The spouses Cadavedo, thru Atty. Lacaya, filed a motion to dismiss on the ground of *res judicata* and to cancel TCT No. T-25984 (under the name of the spouses Ames' children).

On October 16, 1981, the RTC granted the motion for the issuance of a writ of execution in *Civil Case No. 1721*, and the spouses Cadavedo were placed in possession of the subject lot on October 24, 1981. Atty. Lacaya asked for one-half of the subject lot as attorney's fees. He caused the subdivision of the subject lot into two equal portions, based on area, and selected the more valuable and productive half for himself; and assigned the other half to the spouses Cadavedo.

Unsatisfied with the division, Vicente and his sons-in-law entered the portion assigned to the respondents and ejected them. The latter responded by filing a counter-suit for forcible entry before the Municipal Trial Court (MTC); the ejectment case was docketed as Civil Case No. 215. This incident occurred while *Civil Case No. 3352* was pending.

On May 13, 1982, Vicente and Atty. Lacaya entered into an amicable settlement (*compromise agreement*)^[8] in Civil Case No. 215 (the ejectment case), re-adjusting the area and portion obtained by each. Atty. Lacaya acquired 10.5383 hectares pursuant to the agreement. The MTC approved the compromise agreement in a decision dated June 10, 1982.

Meanwhile, on May 21, 1982, the spouses Cadavedo filed before the RTC an action against the DBP for Injunction; it was docketed as **Civil Case No. 3443** (*Cadavedo v. DBP*). The RTC subsequently denied the petition, prompting the spouses Cadavedo to elevate the case to the CA *via* a petition for *certiorari*. The CA dismissed the petition in its decision of January 31, 1984.

The records do not clearly disclose the proceedings subsequent to the CA decision in *Civil Case No. 3443*. However, on August 18, 1988, **TCT No. 41051** was issued in the name of the spouses Cadavedo concerning the subject lot.

On August 9, 1988, the spouses Cadavedo filed before the RTC an action^[9] against the respondents, assailing the MTC-approved compromise agreement. The case was docketed as **Civil Case No. 4038** and is the root of the present case. The spouses Cadavedo prayed, among others, that the respondents be ejected from their one-half portion of the subject lot; that they be ordered to render an accounting of the produce of this one-half portion from 1981; and that the RTC fix the attorney's fees on a *quantum meruit* basis, with due consideration of the expenses that Atty. Lacaya incurred while handling the civil cases.

During the pendency of **Civil Case No. 4038**, the spouses Cadavedo executed a Deed of Partition of Estate in favor of their eight children. Consequently, TCT No. 41051 was cancelled and TCT No. 41690 was issued in the names of the latter. The records are not clear on the proceedings and status of *Civil Case No. 3352*.

The Ruling of the RTC

In the September 17, 1996 decision^[10] in **Civil Case No. 4038**, the RTC declared the contingent fee of 10.5383 hectares as excessive and unconscionable. The RTC reduced the land area to 5.2691 hectares and ordered the respondents to vacate and restore the remaining 5.2692 hectares to the spouses Cadavedo.

The RTC noted that, as stated in the amended complaint filed by Atty. Lacaya, the agreed attorney's fee on contingent basis was P2,000.00. Nevertheless, the RTC also pointed out that the parties novated this agreement when they executed the compromise agreement in Civil Case No. 215 (ejectment case), thereby giving Atty. Lacaya one-half of the subject lot. The RTC added that Vicente's decision to give Atty. Lacaya one-half of the subject lot, *sans* approval of Benita, was a valid act of administration and binds the conjugal partnership. The RTC reasoned out that the disposition redounded to the benefit of the conjugal partnership as it was done precisely to remunerate Atty. Lacaya for his services to recover the property itself.

These considerations notwithstanding, the RTC considered the one-half portion of the subject lot, as Atty. Lacaya's contingent fee, excessive, unreasonable and unconscionable. The RTC was convinced that the issues involved in *Civil Case No. 1721* were not sufficiently difficult and complicated to command such an excessive award; neither did it require Atty. Lacaya to devote much of his time or skill, or to perform extensive research.

Finally, the RTC deemed the respondents' possession, prior to the judgment, of the excess portion of their share in the subject lot to be in good faith. The respondents were thus entitled to receive its fruits.

On the spouses Cadavedo's motion for reconsideration, the RTC modified the decision in its resolution^[11] dated December 27, 1996. The RTC ordered the respondents to account for and deliver the produce and income, valued at P7,500.00 per annum, of the 5.2692 hectares that the RTC ordered the spouses Ames to restore to the spouses Cadavedo, from October 10, 1988 until final restoration of the premises.

The respondents appealed the case before the CA.

The Ruling of the CA

In its decision^[12] dated October 11, 2005, the CA reversed and set aside the RTC's September 17, 1996 decision and maintained the partition and distribution of the subject lot under the compromise agreement. In so ruling, the CA noted the following facts: (1) Atty. Lacaya served as the spouses Cadavedo's counsel from 1969 until 1988, when the latter filed the present case against Atty. Lacaya; (2) during the nineteen (19) years of their attorney-client relationship, Atty. Lacaya represented the spouses Cadavedo in three civil cases – Civil Case No. 1721, Civil Case No. 3352, and Civil Case No. 3443; (3) the first civil case lasted for twelve years and even reached this Court, the second civil case lasted for seven years, while the third civil case lasted for six years and went all the way to the CA; (4) the spouses Cadavedo and Atty. Lacaya entered into a compromise agreement concerning the division of the subject lot where Atty. Lacaya ultimately agreed to acquire a smaller portion; (5) the MTC approved the compromise agreement; (6) Atty. Lacaya defrayed all of the litigation expenses in Civil Case No. 1721; and (7) the spouses Cadavedo expressly recognized that Atty. Lacaya served them in several cases.

Considering these established facts and consistent with Canon 20.01 of the Code of Professional Responsibility (enumerating the factors that should guide the determination of the lawyer's fees), the CA ruled that the time spent and the extent of the services Atty. Lacaya rendered for the spouses Cadavedo in the three cases, the probability of him losing other employment resulting from his engagement, the benefits resulting to the spouses Cadavedo, and the contingency of his fees justified the compromise agreement and rendered the agreed fee under the compromise agreement reasonable.

The Petition

In the present petition, the petitioners essentially argue that the CA erred in: (1) granting the attorney's fee consisting of one-half or 10.5383 hectares of the subject lot to Atty. Lacaya, instead of confirming the agreed contingent attorney's fees of P2,000.00; (2) not holding the respondents accountable for the produce, harvests and income of the 10.5383-hectare portion (that they obtained from the spouses Cadavedo) from 1988 up to the present; and (3) upholding the validity of the purported oral contract between the spouses Cadavedo and Atty. Lacaya when it was champertous and dealt with property then still subject of *Civil Case No. 1721*.

^[13]

The petitioners argue that stipulations on a lawyer's compensation for professional services, especially those contained in the pleadings filed in courts, control the amount of the attorney's fees to which the lawyer shall be entitled and should prevail over oral agreements. In this case, the spouses Cadavedo and Atty. Lacaya agreed that the latter's contingent attorney's fee was P2,000.00 in cash, not one-half of the subject lot. This agreement was clearly stipulated in the amended complaint filed in *Civil Case No. 1721*. Thus, Atty. Lacaya is bound by the expressly stipulated fee and cannot insist on unilaterally changing its terms without violating their contract.

The petitioners add that the one-half portion of the subject lot as Atty. Lacaya's contingent attorney's fee is excessive and unreasonable. They highlight the RTC's observations and argue that the issues involved in *Civil Case No. 1721*, pursuant to which the alleged contingent fee of one-half of the subject lot was agreed by the parties, were not novel and did not involve difficult questions of law; neither did the case require much of Atty. Lacaya's time, skill and effort in research. They point out that the two subsequent civil cases should not be considered in determining the reasonable contingent fee to which Atty. Lacaya should be entitled for his services in *Civil Case No. 1721*, as those cases had not yet been instituted at that time. Thus, these cases should not be considered in fixing the attorney's fees. The petitioners also claim that the spouses Cadavedo concluded separate agreements on the expenses and costs for each of these subsequent cases, and that Atty. Lacaya did not even record any attorney's lien in the spouses Cadavedo's TCT covering the subject lot.

The petitioners further direct the Court's attention to the fact that Atty. Lacaya, in taking over the case from Atty. Bandal, agreed to defray all of the litigation expenses in exchange for one-half of the subject lot should they win the case. They insist that this agreement is a champertous contract that is contrary to public policy, prohibited by law for violation of the fiduciary relationship between a lawyer and a client.

Finally, the petitioners maintain that the compromise agreement in Civil Case No. 215 (ejectment case) did not novate their original stipulated agreement on the attorney's fees. They reason that Civil Case No. 215 did not decide the issue of attorney's fees between the spouses Cadavedo and Atty. Lacaya for the latter's services in *Civil Case No. 1721*.

The Case for the Respondents

In their defense,^[14] the respondents counter that the attorney's fee stipulated in the amended complaint was not the agreed fee of Atty. Lacaya for his legal services. They argue that the questioned stipulation for attorney's fees was in the nature of a penalty that, if granted, would inure to the spouses Cadavedo and not to Atty. Lacaya.

The respondents point out that: (1) both Vicente and Atty. Lacaya caused the survey and subdivision of the subject lot immediately after the spouses Cadavedo reacquired its possession with the RTC's approval of their motion for execution of judgment in *Civil Case No. 1721*; (2) Vicente expressly ratified and confirmed the agreement on the contingent attorney's fee consisting of one-half of the subject lot; (3) the MTC in Civil Case No. 215 (ejectment case) approved the compromise agreement; (4) Vicente is the legally designated administrator of the conjugal