

### Title:

**\*\*Security Bank & Trust Company vs. Court of Appeals and Ysmael C. Ferrer: A Legal Analysis on Contractual Obligations and Unjust Enrichment\*\***

### Facts:

The case revolves around a contractual dispute between Ysmael C. Ferrer (respondent) and Security Bank and Trust Company (SBTC) along with Rosito C. Manhit (petitioners). Ferrer was contracted by the petitioners to construct SBTC's building in Davao City for P1,760,000.00, with a completion deadline within 200 working days. Ferrer completed the construction by 15 August 1980 but incurred an additional P300,000.00 due to a significant increase in the cost of construction materials. The increase was communicated to the petitioners as early as March 1980, with Ferrer demanding payment for the additional expenses backed by supporting documents.

Following Ferrer's demands in March 1981, an evaluation by SBTC's representatives acknowledged the legitimacy of his claims, albeit recommending a settlement of P200,000.00. Despite this, SBTC refused to pay any amount beyond the original contract, citing Article IX of the building contract which put liability for additional costs on mutually agreed adjustments. This disagreement led Ferrer to file a complaint for breach of contract with damages.

The trial court ruled in favor of Ferrer, ordering the petitioners to pay for the increased costs among other damages, a decision affirmed by the Court of Appeals. The petitioners appealed to the Supreme Court under Rule 45 of the Rules of Court, challenging the Court of Appeals' findings and interpretations, particularly the application of Article IX of the construction contract.

### Issues:

1. Whether the petitioner's refusal to pay beyond the original contract price is justified under Article IX of the construction contract.
2. Whether the principle of unjust enrichment applies to the petitioner's benefit from the construction completed by the respondent.
3. The reasonableness of the attorney's fees awarded to the respondent.

### Court's Decision:

The Supreme Court found the petitioners' arguments against liability for the increased construction cost unconvincing. It highlighted that the contract's provision for appropriate

adjustments in case of increased costs was not meant to absolve the petitioners from liability but to provide a mechanism for addressing such eventualities. The court observed that the petitioners implicitly acknowledged their liability when they considered settling for P200,000.00. Further, the court noted that not compensating Ferrer for his additional expenses would result in unjust enrichment of the petitioners.

The Court also addressed the attorney's fees awarded to Ferrer, reducing them to P10,000.00 from the originally granted 25% of the principal amount due, citing the lack of complexity in the case and the inadequate legal representation evidenced by the respondent's counsel.

### ### Doctrine:

1. **Unjust Enrichment:** No person shall unjustly benefit at the expense of another without just or legal ground, as embodied in Article 22 of the Civil Code.
2. **Conditional Obligations:** A conditional obligation based solely on the debtor's will is void, as per Article 1182 of the Civil Code.

### ### Class Notes:

- **Unjust Enrichment:** Remember, a party benefits unjustly when it gains at the expense of another without legal grounds. This doctrine aims to prevent one from enriching themselves at the expense of another unfairly.
- **Article 22 of the Civil Code:** "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 to him."
- **Article 1182 of the Civil Code:** Discusses the void nature of conditional obligations if the obligation's fulfillment is left to the debtor's will, promoting fairness in the execution of contractual obligations.
- **Implications for Contract Drafting:** Parties should clearly define conditions, especially in contracts involving variable costs or conditions potentially affecting the agreement's value or performance.

### ### Historical Background:

This case reflects the intricacies of contract law, specifically addressing issues around contractual obligations and the principle of unjust enrichment within the context of increasing construction costs. Its resolution underlines the importance of equitable considerations in contract execution and the boundaries of contractual flexibility and enforceability under Philippine law.