

### Title:

Director of Lands vs. Silvestra Ababa et al.: The Validity of the Registration of an Adverse Claim Based on a Contingent Fee Agreement

### Facts:

This case springs from a legal battle over the interpretation and application of contingent fee agreements and the registration of adverse claims in real estate transactions in the Philippines. Maximo Abarquez engaged the legal services of attorney Alberto B. Fernandez in a civil case against Agripina Abarquez, concerning the annulment of a contract of sale with right of repurchase and recovery of land. Unable to compensate his lawyer due to financial constraints, Abarquez promised Fernandez half of whatever he might recover from certain lots if the appeal succeeded. This was formalized in a document executed on June 10, 1961.

When the Court of Appeals reversed the lower court's decision, making Abarquez victorious, he secured title over his adjudged share in Lots No. 5600 and 5602. Fernandez, expecting fulfillment of their agreement, filed an affidavit of adverse claim when Abarquez reneged on his promise and instead sold a portion of the property.

Subsequently, the Larrazabals, who bought a portion of the land from Abarquez, sought to cancel the adverse claim. The trial court denied their petition, prompting an appeal to the Supreme Court.

### Issues:

1. Whether the contingent fee agreement between Abarquez and Fernandez violates Article 1491 of the New Civil Code and Canon 13 of the Canons of Professional Ethics.
2. Whether the registration of the adverse claim based on such a contingent fee agreement was valid or not.

### Court's Decision:

The Supreme Court held that the contingent fee agreement did not violate Article 1491 of the New Civil Code. It reasoned that the prohibition in Article 1491 applies only to sales or assignments of property that are the subject of litigation during the pendency of the litigation. Since the assignment of property in this case would take effect only after favorable judgment, the agreement was not covered by Article 1491.

Moreover, the Court found that contingent fee agreements are not prohibited by the Canons of Professional Ethics. Contrary to the petitioners' assertion, Canon 13 recognizes the

validity of reasonable contingent fees, subject to court supervision regarding their reasonableness.

On the validity of the adverse claim, the Court affirmed the registration, stating the claim vested in Fernandez was based on a valid interest arising after the litigation, meeting the requirements of Section 110 of the Land Registration Act.

**### Doctrine:**

1. Contingent fee agreements are valid and not prohibited by Article 1491 of the New Civil Code when the transfer or assignment of the property in litigation becomes effective after the final judgment, not during the pendency of litigation.
2. The Canons of Professional Ethics, specifically Canon 13, allow reasonable contingent fee arrangements, subject to the court's supervision concerning their reasonableness.
3. Adverse claims based on valid contingent fee agreements arising after the commencement of the original registration can be registered under Section 110 of the Land Registration Act.

**### Class Notes:**

- **\*\*Article 1491, New Civil Code\*\***: Prohibits specific individuals, including lawyers, from acquiring by purchase or assignment properties under litigation they are involved in. However, this prohibition does not extend to contingent fee agreements where the assignment of property takes effect after litigation.
- **\*\*Contingent Fee Agreements\*\***: An arrangement between a lawyer and a client where the lawyer's fees depend on the successful outcome of the case.
- **\*\*Adverse Claim, Land Registration Act\*\***: An announcement to the public by someone who claims to have a right or interest in registered land, asserting a claim that is adverse to the registered owner.

**### Historical Background:**

Contingent fee agreements have long been a contentious issue in legal ethics, balancing concerns of access to justice for clients unable to pay upfront legal fees against the potential for conflicts of interest and undue influence. This case reiterates the Philippine legal system's acceptance of contingent fees as necessary for ensuring that individuals, regardless of financial capacity, have access to legal representation and justice.