

****Title: Arturo A. Dacquel vs. Spouses Ernesto Sotelo and Flora Dacquel-Sotelo****

****Facts:****

- * In 1994, the Spouses Sotelo began constructing a 7-door apartment on their land due to financial constraints and borrowed P140,000 from Flora's brother, Arturo Dacquel.
- * Per Sotelos: The loan was repayable at P280,000 from apartment rental income, with no set payment period. They ceded the land to Dacquel as loan security.
- * September 1, 1994: Parties executed a Deed of Sale for P140,000, transferring land ownership to Dacquel.
- * March 2000: After full loan repayment via rentals, Sotelos asked for land return; Dacquel refused.
- * May 29, 2000: Sotelos filed a complaint for annulment and reconveyance before RTC, asserting the land transfer was only security for the loan.
- * Dacquel contested, claimed it was a legitimate sale for P1,000,000 with P140,000 indicated for tax purposes, and sought damages.
- * RTC ruled for Dacquel, finding he did not prove foreign citizenship disqualification to own land.
- * CA reversed RTC, declaring the Deed an equitable mortgage due to price inadequacy and Sotelos' continued possession.

****Issues:****

1. Whether the September 1, 1994 Deed of Sale was an equitable mortgage.
2. Whether Dacquel's title to the property should be nullified and reconveyed.
3. Whether the respondents-spouses are entitled to attorney's fees.

****Court's Decision:****

*** On Equitable Mortgage:**

- ****Court found****: The contract was an equitable mortgage under Article 1602 and 1604 due to the gross inadequacy of the price and continued possession by the Sotelos.
- ****Details****: The property's market value was P1,750,000 in 1994, but sold for P140,000 in the Deed. Sotelos' continued acts asserting ownership also showed intent to secure a debt, not to transfer ownership.

*** On Nullification and Reconveyance:**

- ****Court found****: Under Article 2088, a creditor cannot appropriate property pledged as mortgage upon debtor's default; requires foreclosure instead.
- ****Result****: Dacquel's title is nullified, and property reconveyed to Sotelos due to the void

practice of pactum commissorium (automatic transfer of property on debt default).

* On Attorney's Fees:

- **Court found**: No bad faith by Dacquel, just mutual misunderstanding.
- **Conclusion**: No award for attorney's fees as per Article 2208; CA's grant was deleted.

Doctrine:

1. **Equitable Mortgage Presumption**: When the price is unusually inadequate or the vendor remains in possession, an alleged sale is presumed an equitable mortgage. (Civil Code Articles 1602, 1604)
2. **Pactum Commissorium**: Prohibition against mortgaged property appropriation without foreclosure; any agreement to the contrary is void. (Civil Code Article 2088)

Class Notes:

- * **Equitable Mortgage**: Under Articles 1602 and 1604, indicated by price inadequacy and continuous vendor possession rather than outright sale.
- * **Pactum Commissorium Doctrine**: Prohibited under Article 2088; creditors must foreclose; automatic title conveyance is void.
- * **Attorney's Fees**: Only awarded under specific conditions in Article 2208 (e.g., bad faith, unwarranted litigation). Must be factual and justified.

Historical Background:

- * **Case Context**: Reflects the widespread issue of using sales disguised as loan securities, with courts favoring protective measures for the vendor.
- * **Legal Environment**: Reinforces the judiciary's inclination to protect mortgagors from unjust appropriation and uphold mortgage laws strictly.