

RICHARD JUAN, PETITIONER, VS. GABRIEL YAP, SR., RESPONDENT.

G.R. No. 182177. March 30, 2011

Ponente: CARPIO, J.

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CARPIO, J.:

The Case

This resolves the petition for review[1] of the ruling[2] of the Court of Appeals finding petitioner Richard Juan as trustee of an implied trust over a mortgage contract in favor of respondent Gabriel Yap, Sr.

The Facts

On 31 July 1995, the spouses Maximo and Dulcisima Cañeda (Cañeda spouses) mortgaged to petitioner Richard Juan (petitioner), employee and nephew of respondent Gabriel Yap, Sr. (respondent), two parcels of land in Talisay, Cebu to secure a loan of P1.68 million, payable within one year. The Contract was prepared and notarized by Atty. Antonio Solon (Solon).

On 30 June 1998, petitioner, represented by Solon, sought the extrajudicial foreclosure of the mortgage. Although petitioner and respondent participated in the auction sale, the properties were sold to petitioner for tendering the highest bid of P2.2 million.[3] No certificate of sale was issued to petitioner, however, for his failure to pay the sale's commission.[4]

On 15 February 1999, respondent and the Cañeda spouses executed a memorandum of agreement (MOA) where (1) the Cañeda spouses acknowledged respondent as their "real mortgagee-creditor x x x while Richard Juan [petitioner] is merely a trustee"[5] of respondent; (2) respondent agreed to allow the Cañeda spouses to redeem the foreclosed properties for P1.2 million; and (3) the Cañeda spouses and respondent agreed to initiate judicial action "either to annul or reform the [Contract] or to compel Richard Juan to reconvey the mortgagee's rights"[6] to respondent as trustor. Three days later, the Cañeda spouses and respondent sued petitioner in the Regional Trial Court of Cebu City (trial court) to declare respondent as trustee of petitioner vis a vis the Contract, annul petitioner's bid for the foreclosed properties, declare the Contract "superseded or novated" by the MOA, and require petitioner to pay damages, attorney's fees and the costs. The Cañeda spouses consigned with the trial court the amount of P1.68 million as redemption payment.

In his Answer, petitioner insisted on his rights over the mortgaged properties. Petitioner also counterclaimed for damages and attorney's fees and the turn-over of the owner's copy of the titles for the mortgaged properties.

The Ruling of the Trial Court

The trial court ruled against respondent and his co-plaintiffs and granted reliefs to petitioner by declaring petitioner the "true and real" mortgagee, ordering respondent to pay moral damages and attorney's fees, and requiring respondent to deliver the titles in question to petitioner.[7] The trial court, however, granted the Cañeda spouses' prayer to redeem the property and accordingly ordered the release of the redemption payment to

petitioner. In arriving at its ruling, the trial court gave primacy to the terms of the Contract, rejecting respondent's theory in light of his failure to assert beneficial interest over the mortgaged properties for nearly four years.

Respondent appealed to the Court of Appeals (CA), imputing error in the trial court's refusal to recognize a resulting trust between him and petitioner and in granting monetary reliefs to petitioner.

Ruling of the Court of Appeals

The CA granted the petition, set aside the trial court's ruling, declared respondent the Contract's mortgagee, directed the trial court to release the redemption payment to respondent, and ordered petitioner to pay damages and attorney's fees.[8] The CA found the following circumstances crucial in its concurrence with respondent's theory, notwithstanding the terms of the Contract: (1) Solon testified that he drew up the Contract naming petitioner as mortgagee upon instructions of respondent; (2) Dulcisima Cañeda acknowledged respondent as the creditor from whom she and her husband obtained the loan the Contract secured; and (3) respondent shouldered the payment of the foreclosure expenses.[9] Instead, however, of annulling the Contract, the CA held that reformation was the proper remedy, with the MOA "serv[ing] as the correction done by the parties to reveal their true intent." [10]

In this petition, petitioner prays for the reversal of the CA's ruling. Petitioner relies on the terms of the Contract, and argues that respondent's proof of a resulting trust created in his favor is weak. Petitioner also assails the award of damages to respondent for lack of basis.

On the other hand, respondent questions the propriety of this petition for raising only factual questions, incompatible with the office of a petition for review on certiorari. Alternatively, respondent argues that the pieces of parol evidence the CA used to anchor its ruling are more than sufficient to prove the existence of an implied trust between him and petitioner.

The Issues

The petition raises the following questions:

- Whether an implied trust arose between petitioner and respondent, binding petitioner to hold the beneficial title over the mortgaged properties in trust for respondent; and
- Whether respondent is entitled to collect damages.

The Ruling of the Court

We hold in the affirmative on both questions, and thus affirm the CA.

Conflicting Rulings Below Justify

Rule 45 Review

The question of the existence of an implied trust is factual,[11] hence, ordinarily outside the purview of a Rule 45 review of purely legal questions.[12] Nevertheless, our review is justified by the need to make a definitive finding on this factual issue in light of the conflicting rulings rendered by the courts below.[13]

Implied Trust in Mortgage Contracts

An implied trust arising from mortgage contracts is not among the trust relationships the Civil Code enumerates.[14] The Code itself provides, however, that such listing "does not exclude others established by the general law on trust x x x." [15] Under the general principles on trust, equity converts the holder of property right

as trustee for the benefit of another if the circumstances of its acquisition makes the holder ineligible "in x x x good conscience [to] hold and enjoy [it]."[16] As implied trusts are remedies against unjust enrichment, the "only problem of great importance in the field of constructive trusts is whether in the numerous and varying factual situations presented x x x there is a wrongful holding of property and hence, a threatened unjust enrichment of the defendant." [17]

Applying these principles, this Court recognized unconventional implied trusts in contracts involving the purchase of housing units by officers of tenants' associations in breach of their obligations,[18] the partitioning of realty contrary to the terms of a compromise agreement,[19] and the execution of a sales contract indicating a buyer distinct from the provider of the purchase money.[20] In all these cases, the formal holders of title were deemed trustees obliged to transfer title to the beneficiaries in whose favor the trusts were deemed created. We see no reason to bar the recognition of the same obligation in a mortgage contract meeting the standards for the creation of an implied trust.

Parol Evidence Favor Respondent

The resolution of this appeal hinges on the appreciation of two conflicting sets of proofs - petitioner's (based on the mortgage contract) or respondent's (based on parol evidence varying the terms of the mortgage contract, allowed under the Civil Code[21]). After a review of the records, we find no reason to reverse the ruling of the CA finding respondent's case convincing.

In the first place, the Cañeda spouses acknowledged respondent as the lender from whom they borrowed the funds secured by the Contract. They did so in the MOA[22] and Dulcisima Cañeda reiterated the concession on the stand.[23] True enough, when the Cañeda spouses sought an extension of time within which to settle their loan, they directed their request not to petitioner but to respondent who granted the extension.[24] Petitioner, therefore, was a stranger to the loan agreement, the principal obligation the Contract merely secured.

Secondly, Solon, the notary public who drew up and notarized the Contract, testified that he placed petitioner's name in the Contract as the mortgagor upon the instruction of respondent.[25] Respondent himself explained that he found this arrangement convenient because at the time of the Contract's execution, he was mostly abroad and could not personally attend to his businesses in the country.[26] Respondent disclosed that while away, he trusted petitioner, his nephew by affinity and paid employee, to "take care of everything." [27] This arrangement mirrors that in *Tigno v. Court of Appeals*[28] where the notary public who drew up a sales contract testified that he placed the name of another person in the deed of sale as the vendee upon instructions of the actual buyer, the source of the purchase money, who had to go abroad to attend to pressing concerns. In settling the competing claims between the nominal buyer and the financier in *Tigno*, we gave credence to the parol evidence of the latter and found the former liable to hold the purchased property in trust of the actual buyer under an implied trust. No reason has been proffered why we should arrive at a different conclusion here.

Lastly, it was respondent, not petitioner, who shouldered the payment of the foreclosure expenses.[29] Petitioner's failure to explain this oddity, coupled with the fact that no certificate of sale was issued to him (despite tendering the highest bid) for his non-payment of the commission, undercuts his posturing as the real mortgagor.

Clearly then, petitioner holds title over the mortgaged properties only because respondent allowed him to do so. The demands of equity and justice mandate the creation of an implied trust between the two, barring petitioner from asserting proprietary claims antagonistic to his duties to hold the mortgaged properties in trust for respondent. To arrive at a contrary ruling is to tolerate unjust enrichment, the very evil the fiction of implied trust was devised to remedy.

Award of Damages Proper

Nor do we find reversible error in the CA's award of moral and exemplary damages to respondent. Respondent substantiated his claim for the former^[30] and the interest of deterring breaches of trusts justifies the latter.

WHEREFORE, we DENY the petition. We AFFIRM the Decision dated 23 November 2007 and Resolution dated 6 March 2008 of the Court of Appeals.

SO ORDERED.

Nachura, Peralta, Abad, and Mendoza, JJ., concur.

[1] Under Rule 45 of the 1997 Rules of Civil Procedure.

[2] Decision dated 23 November 2007 and Resolution dated 6 March 2008 per by Associate Justice Isaias P. Dicdican with Associate Justices Stephen C. Cruz and Franchito N. Diamante, concurring.

[3] While the mortgage contract (Exhibit "A," records p. 7) mentioned only two parcels of land, the notice of extrajudicial foreclosure sale (Exhibit "15," folder of exhibits) listed three parcels of land for foreclosure. None of the parties has raised this matter as an issue below or here.

[4] TSN (Arthur Cabigon), 23 April 2004, p. 21.

[5] Records, p. 10.

[6] Id. at 11.

[7] The dispositive portion of the ruling provides (Rollo, p. 93):

WHEREFORE, foregoing premises considered, judgment is hereby rendered by:

1. Declaring defendant as the true and real mortgagee of the parcels of land as covered by the Deed of Real Estate Mortgage, Exhibit "A";
2. The plaintiff Gabriel Yap, Sr. having violated articles 19, 20 and 21 of the New Civil Code of the Philippines is ordered to pay to defendant Richard Juan in concept of Moral Damages the amount of Php 100,000.00;
3. The plaintiff Gabriel Yap, Sr. is ordered to pay Attorney's Fees in the amount of Php50,000.00 and litigation expenses in the amount of Php25,000.00;
4. The plaintiff Gabriel Yap, Sr. is ordered to return to defendant Richard Juan TCT No. 1600; TCT No. 83727 and TCT No. 80639;
5. The plaintiffs Maximo Cañeda and Dulcisima Cañeda or their heirs and successors in interest is allowed to redeem their mortgaged properties;
6. The money deposited with the Clerk of Court in the sum of Php1,680,000.00 Philippine Currency including the interest thereon be released to defendant Richard Juan, as redemption price.

[8] The dispositive portion of the ruling provides (id. at 77):

WHEREFORE, in view of the foregoing premises, the decision of the RTC, Branch 19, in Cebu City in Civil Case No. CEB-23375 is hereby REVERSED and SET ASIDE. Accordingly, a new judgment is hereby rendered as follows:

1. Declaring the plaintiff-appellant as the true mortgagee of the parcels of land covered by the Deed of Real Estate Mortgage dated July 31, 1995;
2. Allowing the plaintiffs-appellees mortgagors to redeem their mortgaged properties;
3. Directing the Clerk of Court of the RTC to release the sum of P1,680,000.00, including the interest thereon, to the plaintiff-appellant as redemption price; and
4. Ordering defendant-appellee Richard Juan to pay the plaintiff-appellant the sum of P50,000.00 as moral damages; P35,000.00 as exemplary damages and P20,000.00 as attorney's fees and litigation expenses.

[9] Id. at 73-75.

[10] Id. at 76.

[11] Spouses Rosario v. Court of Appeals, 369 Phil. 729 (1999); Tigno v. Court of Appeals, 345 Phil. 486 (1997).

[12] Section 1, Rule 45, 1997 Rules of Civil Procedure.

[13] We observed the same procedure in Spouses Rosario v. Court of Appeals, 369 Phil. 729 (1999) and Tigno v. Court of Appeals, 345 Phil. 486 (1997).

[14] See Articles 1448-1454.

[15] Article 1447 ("The enumeration of the following cases of implied trust does not exclude others established by the general law of trust, but the limitation laid down in article 1442 shall be applicable.").

[16] Roa, Jr. v. Court of Appeals, 208 Phil. 2, 14 (1983), citing 76 Am.Jur.2d. 446-447.

[17] Heirs of Moreno v. Mactan-Cebu Int'l Airport Authority, 459 Phil. 948, 966 (2003) citing G.G. Bogert, Handbook of the Law of Trusts 210 (1963).

[18] Policarpio v. Court of Appeals, 336 Phil. 329 (1997); Arlegui v. Court of Appeals, 428 Phil. 381 (2002).

[19] Roa, Jr. v. Court of Appeals, *supra*.

[20] Tigno v. Court of Appeals, 345 Phil. 486 (1997).

[21] Article 1457 ("An implied trust may be proved by oral evidence.")

[22] Records, p. 10.

[23] TSN (Dulcisima Cañeda), 5 September 2000, pp. 5-7.

[24] Id. at 12.

[25] TSN (Antonio Solon), 29 April 2002, p. 10.

[26] TSN (Gabriel Yap, Sr.), 8 November 2002, p. 14.

[27] Id.

[28] 345 Phil. 486 (1997).

[29] TSN (Arthur Cabigon), 23 April 2004, pp. 18-21.

[30] TSN (Gabriel Yap, Sr.), 8 November 2002, p. 18.

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