

LAURETA TRINIDAD, PETITIONER, VS. INTERMEDIATE APPELLATE COURT AND VICENTE J. FRANCISCO, RESPONDENTS.*G.R. No. 65922. December 03, 1991*

Ponente: CRUZ, J.

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The house looked beautiful in summer but not when the waters came. Then it was flooded five feet deep and less than prepossessing, let alone livable. Disenchanted, the buyer sued the seller for the annulment of the sale and damages, alleging fraud.

The house was Bungalow No. 17, situated at Commonwealth Village in Quezon City, and belonged to the late Vicente J. Francisco. Sometime in early 1969, Laureta Trinidad, the petitioner herein, approached him and offered to buy the property. Francisco was willing to sell. Trinidad inspected the house and lot and examined a vicinity map which indicated drainage canals along the property. The purchase price was P70,000.00, with a down payment of P17,500.00. The balance was to be paid in five equal annual installments not later than July 1 of each year at 12% interest per annum.

On March 29, 1969, Trinidad paid Francisco P5,000.00 as earnest money and entered into the possession of the house. However, as she relates it, she subsequently heard from her new neighbors that two buyers had previously vacated the property because it was subject to flooding. She says she talked to Francisco about this matter and that he told her everything had been fixed and the house would never be flooded again. Thus assured, she gave him P12,500.00 to complete the down payment. They signed the Contract of Conditional Sale on August 8, 1969.[1]

Trinidad paid the installment for 1970 and 1971 on time but asked Francisco for an extension of 60 days to pay the third installment due on July 1, 1972. However, she says she eventually decided not to continue paying the amortizations because the house was flooded again on July 18, 21, and 30, 1972, the waters rising to as high as five feet on July 21. Upon her return from the United States on October 11, 1972, she wrote the City Engineer's Office of Quezon City and requested an inspection of the subject premises to determine the cause of the flooding.

The finding of City Engineer Pantaleon P. Tabora was that "the lot is low and is a narrowed portion of the creek."

On January 10, 1973, the petitioner filed her complaint against Francisco alleging that she was induced to enter into the contract of sale because of his misrepresentations. She asked that the agreement be annulled and her payments refunded to her, together with the actual expenses she had incurred for the "annexes and decorations" she had made on the house. She also demanded the actual cost of the losses she had suffered as a result of the floods, moral and exemplary damages in the sum of P200,000.00, and P10,000.00 attorney's fees.[2]

In his answer and amended answer, the defendant denied the charge of misrepresentation and stressed that the plaintiff had thoroughly inspected the property before she decided to buy it. The claimed creek was a drainage lot, and the floods complained of were not uncommon in the village and indeed even in the Greater Manila area if not the entire Luzon. In any event, the floods were fortuitous events not imputable to him. He asked for the rescission

of the contract and the forfeiture of the payments made by the plaintiff plus monthly rentals with interest of P700.00 for the property from July 2, 1972, until the actual vacation of the property by the plaintiff. He also claimed litigation expenses, including attorney's fees.[3]

In his decision dated June 17, 1975, Judge Sergio F. Apostol of the then Court of First Instance of Rizal held in favor of the plaintiff and disposed as follows:

WHEREFORE, premises considered, judgment is hereby rendered:

- a) ordering the annulment of the contract of conditional sale entered into by the parties;
- b) ordering defendant's representatives to pay to the plaintiff the amount of P49,840.00 with interest from the time of the filing of the complaint;
- c) ordering the defendant's representatives to pay the amount of P39,800.00 representing the value of the improvements and the losses she incurred by virtue of the flood;
- d) ordering plaintiff to return to the defendant's representatives the house and lot in question;
- e) ordering defendant's representatives to pay the amount of P5,000.00 as and by way of attorney's fees.

WITH COSTS AGAINST THE DEFENDANT.

Upon separate motions for reconsideration filed by both parties. Judge Apostol ordered and held a new trial, resulting in a new decision dated April 13, 1976, reiterating his original dispositions.

Both parties appealed to the respondent court, which reversed the trial court in a decision promulgated on May 31, 1983.[4] The dispositive portion read as follows:

WHEREFORE, the appeal of plaintiff is hereby dismissed. With respect to the appeal of defendant, the decision of the lower court is hereby reversed and set aside and another one is rendered dismissing the complaint and, upon the counterclaim, sustaining the cancellation of the contract of conditional sale (Exh. B) and the forfeiture of any and all sums of money paid by plaintiff to the defendant on account of the contract to be treated as rentals for the use and occupation of the property and ordering the plaintiff to vacate the property. No special pronouncement as to costs.

This Court gave due course to the herein petition for review on certiorari of the said decision and required the parties to submit their respective memoranda. Pendente lite, Vicente J. Francisco died and was eventually substituted by his heirs,[5] two of whom, Trinidad J. Francisco and Rosario F. Kelemen, filed their own joint memorandum.[6] The Court has deliberated on the issues and the arguments of the parties and is now ready to act on the motions filed by the petitioner and the private respondents for the resolution of this case.

The petitioner faults the respondent court on the following grounds:

1. The Intermediate Appellate Court palpably erred in not finding that the lot on which the house in question stands is a portion of a creek, hence outside the commerce of man.
2. The Intermediate Appellate Court palpably erred in finding that there was no fraud prior to the sale that induced petitioner to enter into the said sale.
3. The Intermediate Appellate Court palpably erred in cancelling the complaint for non-payment of the installments and declaring the previous installments forfeited.
4. The Intermediate Appellate Court erred in not granting moral damages and attorney's fees to petitioner.

The basic issue in this controversy is whether or not, under the established facts, there was misrepresentation on

the part of Francisco to justify the rescission of the sale and the award of damages to the petitioner.

The pertinent provisions of the Civil Code on fraud are the following:

Art. 1338. There is fraud when, through insidious words or machinations of one of the contracting parties, the other is induced to enter into a contract which, without them, he would not have agreed to.

Art. 1339. Failure to disclose facts, when there is a duty to reveal them, as when the parties are bound by confidential relations, constitutes fraud.

Art. 1340. The usual exaggerations in trade, when the other party had an opportunity to know the facts, are not in themselves fraudulent.

Fraud is never lightly inferred; it is good faith that is. Under the Rules of Court, it is presumed that "a person is innocent of crime or wrong" [7] and that "private transactions have been fair and regular." [8] While disputable, these presumptions can be overcome only by clear and preponderant evidence.

Our finding is that the fraud alleged by the petitioner has not been satisfactorily established to call for the annulment of the contract. This finding is based on the following considerations.

First, it was the petitioner who admittedly approached the private respondent, who never advertised the property nor offered it for sale to her.

Second, the petitioner had full opportunity to inspect the premises, including the drainage canals indicated in the vicinity map that was furnished her, before she entered into the contract of conditional sale.

Third, it is assumed that she made her appraisal of the property not with the untrained eye of the ordinary prospective buyer but with the experience and even expertise of the licensed real estate broker that she was. [9] If she minimized the presence of the drainage canals, she has only her own negligence to blame.

Fourth, seeing that the lot was depressed and there was a drainage lot abutting it, she cannot say she was not forewarned of the possibility that the place might be flooded. Notwithstanding the obvious condition of the property, she still decided to buy it.

Fifth, there is no evidence except her own testimony that two previous owners of the property had vacated it because of the floods and that Francisco assured her that the house would not be flooded again. The supposed previous owners were not presented as witnesses and neither were the neighbors. Francisco himself denied having made the alleged assurance.

Sixth, the petitioner paid the 1970 and 1971 amortizations even if, according to her Complaint, "since 1969 said lot had been under floods of about one (1) foot deep." [10] and despite the floods of September and November 1970.

Seventh, it is also curious that notwithstanding the said floods, the petitioner still "made annexes and decorations on the house," [11] all of a permanent nature, for which she now claims reimbursement from the private respondent.

To repeat, it has not been satisfactorily established that the private respondent inveigled the petitioner through false representation to buy the subject property. Assuming that he did make such representations, as the petitioner contends, she is deemed to have accepted them at her own risk and must therefore be responsible for the consequences of her careless credulousness. In the case of *Songco v. Sellner*, [12] the Court said:

The law allows considerable latitude to seller's statements, or dealer's talk, and experience teaches that it is exceedingly risky to accept it at its face value. x x x

Assertions concerning the property which is the subject of a contract of sale, or in regard to its qualities and characteristics, are the usual and ordinary means used by sellers to obtain a high price and are always understood as affording to buyers no ground for omitting to make inquiries. A man who relies upon such an affirmation made by a person whose interest might so readily prompt him to exaggerate the value of his property does so at his peril, and must take the consequences of his own imprudence.

We have also held that "one who contracts for the purchase of real estate in reliance on the representations and statements of the vendor as to its character and value, but after he has visited and examined it for himself and has had the means and opportunity of verifying such statements, cannot avoid the contract on the ground that they were false and exaggerated." [13]

The Court must also reject the petitioner's contention that the lot on which the house stands is a portion of a creek and therefore outside the commerce of man as part of the public domain.

The said property is covered by TCT No. 102167 of the Registry of Deeds of Quezon City. Under the Land Registration Act, title to the property covered by a Torrens certificate becomes indefeasible after the expiration of one year from the entry of the decree of registration. Such decree of registration is incontrovertible and is binding on all persons whether or not they were notified of or participated in the registration proceedings.

If such title is to be challenged, it may not be done collaterally, as in the present case, because the judicial action required is a direct attack. Section 48 of the Property Registration Decree expressly provides that a certificate of title cannot be subject to collateral attack and can be altered, modified or canceled only in a direct proceeding in accordance with law. This was the same rule under Act 496. [14] Moreover, the right of reversion belongs to the State and may be invoked on its behalf only by the Solicitor General. [15]

It is true, as the private respondents have insisted and the respondent court has found, that the Contract of Conditional Sale contains the following condition:

(d) That should the SECOND PARTY fail to make any of the payments referred to in the aforesaid paragraphs 2(a) and (b), of this contract of conditional sale, shall be considered automatically rescinded and cancelled without the necessity of notice to the SECOND PARTY, or of any judicial declaration to that effect, and any and all sums paid by the SECOND PARTY shall be considered rents and liquidated damages for the breach of this contract, and the SECOND PARTY shall forthwith vacate the foresaid property peacefully.

Nevertheless, we cannot say that the petitioner was, strictly speaking, in default in the payment of the remaining amortizations in the sense contemplated in that stipulation. She was not simply unable to make the required payments. The fact is she refused to make such payments. If she suspended her payments, it was because she felt she was justified in doing so in view of the defects she found in the property. It is noteworthy that it was she who sued the private respondent, not the other way round, and that it was she who argued that the seller was not entitled to the additional installments because of his violation of the contract. If she asked for the annulment of the contract and the refund to her of the payments she had already made, plus damages, it was because she felt she had the right to do so.

Given such circumstances, the Court feels and so holds that the above-quoted stipulation should not be strictly enforced, to justify the rescission of the contract. To make her forfeit the payments already made by her and at the same time return the property to the private respondents for standing up to what she considered her right would, in our view, be unfair and unconscionable. Justice demands that we moderate the harsh effects of the stipulation. Accordingly, in the exercise of our equity jurisdiction, we hereby rule that the Contract of Conditional Sale shall be maintained between the parties except that the petitioner shall not return the house to the private respondents. However, she will have to pay them the balance of the purchase price in the sum of P52,500.00,* with 12%

annual interest from July 1, 1972, until full payment.

Obviously, rejection of the petitioner's claim for moral and exemplary damages must also be sustained.

What we see here is a bad bargain, not an illegal transaction vitiated by fraud. While we may commiserate with the petitioner for a purchase that has proved unwise, we can only echo what Mr. Justice Moreland observed in *Vales v. Villa*,^[16] thus:

x x x Courts cannot follow one every step of his life and extricate him from bad bargains, protect him from unwise investments, relieve him from one-sided contracts, or annul the effects of foolish acts. Courts cannot constitute themselves guardians of persons who are not legally incompetent. Courts operate not because one person has been defeated or overcome by another, but because he has been defeated or overcome illegally. Men may do foolish things, make ridiculous contracts, use miserable judgment, and lose money by them - indeed, all they have in the world; but not for that alone can the law intervene and restore. There must be, in addition, a violation of law, the commission of what the law knows as an actionable wrong, before the courts are authorized to lay hold of the situation and remedy it.

WHEREFORE, the appealed decision is **AFFIRMED** as above modified, with no pronouncement as to costs. It is so ordered.

Narvasa, C.J., Feliciano, Griño-Aquino, and Medialdea, JJ., concur.

[1] Rollo, p. 16.

[2] Record on Appeal, pp. 6-12.

[3] *Ibid.*, pp. 22-31.

[4] Rollo, pp. 42-47; Sison, J., ponente, with Bidin, Veloso and Jurado, JJ., concurring.

[5] *Ibid.*, pp. 139-140. Trinidad J. Francisco, Jose J. Francisco, Salvacion F. Irinco, Rosario F. Kelemen, Rodolfo J. Francisco, Ricardo J. Francisco, Victor O. Francisco and Gustavo Francisco. Substitution was delayed considerably because of the difficulty in locating Atty. Rustico de los Reyes, Francisco's counsel, who it turned out had already migrated to the United States.

[6] *Id.*, pp. 152-163, Another heir, Ricardo J. Francisco, asked for a period of 45 days to file his memorandum but this has not been submitted to date and is hereby dispensed with.

[7] Rule 131, Sec. 5(a).

[8] Rule 131, Sec. 5(p).

[9] Record on Appeal, p. 43.

[10] *Ibid.*, p. 7.

[11] *Id.*, p. 9.

[12] 37 Phil. 254.

[13] *Azarraga v. Gay*, 52 Phil. 599.

[14] *Cabrera v. Court of Appeals*, 163 SCRA 214; *Gonzales v. IAC*, 157 SCRA 587.

[15] Sec. 101. Public Land Act: *Republic v. Court of Appeals*, 183 SCRA 620.

* Per the Contract of Conditional Sale (Exh. B). The amount includes the stipulated 12% interest on the amortizations.

[16] 35 Phil. 769.

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