

IMELDA A. NAKPIL, PETITIONER, VS. INTERMEDIATE APPELLATE COURT, CARLOS J. VALDES AND CAVAL REALTY CORPORATION, RESPONDENTS.

G.R. No. 74449, August 20, 1993

Ponente: BELLOSILLO, J.

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BELLOSILLO, J.:

PULONG MAULAP, a summer residence in Baguio City along historic Moran Street, is the subject of this bitter and protracted legal battle for ownership between two families earlier associated for years in close, kinship-like relations.

Pinggoy and Charlie were the best of friends, their closeness dating back to their high school days in La Salle, and later, at the Philippine Law School. Treating each other more than just brothers, Charlie easily became Pinggoy's confidant, and later, his lawyer, accountant, auditor, and on some occasions, a business and financial consultant. Their relationship extended to their families. Pinggoy became the godfather of Charlie's second son, while Charlie became the godfather of Pinggoy's youngest.

But the close relationship had to end. On 8 July 1973, tragedy struck. While the two families were vacationing at the beach house of the Valdeses in Bagac, Bataan, Pinggoy drowned. As expected, Charlie went to the succor of Pinggoy's distressed wife Nena. He acted as the legal counsel and accountant of Nena, who became the administratrix of her husband's estate.

However, since then things have changed. In fact, towards the end of 1978, the question arose as to who between the Nakpils and the Valdeses should own Pulong Maulap.

On 21 March 1979, petitioner instituted an action for reconveyance with damages for breach of trust before the Regional Trial Court of Baguio City against respondents Carlos "Charlie" Valdes and Caval Realty Corporation. She alleged in her complaint that her husband Jose "Pinggoy" Nakpil prior to his death had requested Valdes to purchase Pulong Maulap and thereafter register the sale and hold the title thereto in trust for him (Pinggoy Nakpil), which respondent Valdes did. But after her husband's death, Valdes concealed and suppressed all information regarding the trust agreement; instead, he transferred Pulong Maulap in the name of respondent Caval Realty Corporation, which is 99.7% owned by him, in exchange for 1,500 shares of stock.

Respondent Valdes, on the other hand, denied the existence of any trust agreement over Pulong Maulap. He averred that he bought the summer residence for himself with his own funds and without any participation of the late Nakpil; neither was it bought in trust for the latter. Valdes claims that he only informed Pinggoy Nakpil of the acquisition of Pulong Maulap, and Pinggoy merely showed interest in buying the property if he could have the money. Meanwhile, considering their avowed friendship, he (Valdes) offered the usufruct of the property to the Nakpils who in turn agreed to shoulder its maintenance expenses, real estate taxes, fire insurance premiums and servicing of interest on the mortgage obligation constituted on the property.

From the records it appears that the Valdeses bought Pulong Maulap for P150,000.00 with respondent Valdes giving a downpayment of P50,000.00 and assuming the vendors' mortgage obligation of P100,000.00 with the Philippine National Bank (PNB), which he reduced to P75,000.00 by paying P25,000.00. On 12 July 1965, a deed of sale was executed and Transfer Certificate of Title No. T-10247 was thereafter issued in the name of Valdes. As agreed, in the early part of May 1965, even before the execution of the deed of sale in favor of the Valdeses, the Nakpils moved in and stayed at Pulong Maulap even until after Pinggoy's death.

Meanwhile, in order to facilitate the servicing of the mortgage obligation over Pulong Maulap, the loan was transferred to the First United Bank (FUB) where Pinggoy Nakpil was then a vice-president. Valdes borrowed P75,000.00 from FUB with which he paid PNB, and at the same time constituted in favor of FUB a mortgage over Pulong Maulap. He also borrowed P65,000.00 from FUB to finance the repair and renovation of Pulong Maulap.

Petitioner submits that respondent Valdes had recognized her late husband's ownership of Pulong Maulap on the basis among others of the following documents: (a) "Exh. "H," a letter dated 28 March 1969 sent by Carlos J. Valdes & Co., an accounting firm owned by respondent Valdes, to the City Treasurer of Baguio remitting to the latter, "[o]n behalf of (our) their clients, Mr. Jose Nakpil x x x the following FUB checks for the payment of their 1969 real estate taxes" on Pulong Maulap; (b) Exh. "J," letter of Valdes to petitioner dated 24 August 1973 with the latter's handwritten *conformé*, date and signature -

"Dear Nena,

At the First United Bank, there are two loans in my name:

PN # ERB-893/73 for P65,000.00

PN # 644/72 for P75,000.00

In addition, there fell due on note # ERB 893/73, P3,976.00 representing interest as of July 22, 1973. On the loan of P75,000.00, there is an interest payable of P750.00 a month.

Both of these loans, while in my name, were obtained by Pinggoy for his person x x x x

As we agreed, I will take over the total loan of P140,000.00 and pay all of the interests due on the notes. It is likewise understood between us that you will continue occupying the premises at Moran St., free of any encumbrance or payment, for 5 years starting August 1, 1973.

It is likewise understood that real property taxes will be paid by us but maintenance expenses shall be shouldered by you.

As I said, this letter is purely for the record.

Sincerely,

(SGD.) CHARLIE JV,"

and, (c) Exh. "L," another letter of Valdes to petitioner dated 17 September 1974 -

"Dear Comadre,

Our records show that the P75,000.00 initially advanced for the Moran property still remains unpaid.

Under these circumstances, you could add to the present purchase price, P75,000.00 plus interest therein at 12% for 5 years or:

Present Purchase Price: P255,056.64; Add: Unpaid account - P75,000.00; Interest for 5 years at 12% - P45,000.00 = P120,000.00; Total - P375,056.64.

Sincerely,

(SGD.) CHARLIE JV."

The records likewise show that on 13 February 1978, Valdes assigned Pulong Maulap to Caval Realty Corporation, for which Transfer Certificate of Title No. T-28484 was issued on 23 March 1978. Later, after petitioner allegedly received a P2,000,000.00-offer for Pulong Maulap from Pasay City Mayor Pablo Cuneta, she wrote Valdes demanding a reconveyance to enable her to effect the sale and reimburse the latter from the proceeds thereof for the advances he made. On 30 December 1978, Valdes allegedly told petitioner that he could not execute the deed of conveyance because Pulong Maulap was his and he had no intention of selling it.

On 7 July 1983, the Regional Trial Court[1] rendered a decision holding that a trust relationship existed[2] -

"From the two letters of Valdes, Exhibits 'J' and 'L', it would appear that while the downpayment of P50,000.00 and the further sum of P25,000.00 paid to PNB were paid out of his personal funds, the same were considered by him as a loan to Nakpil; and while the remaining P75,000.00, representing the balance of the mortgage indebtedness of the Garcias to the PNB, was liquidated with the proceeds of a loan from FUB, the said loan, although in the name of Valdes, was actually Nakpil's. In other words, the property was acquired with funds partly loaned by Valdes to Nakpil and partly borrowed by Nakpil from FUB albeit in Valdes' name.

"To the mind of the Court, Exhibits 'J' and 'L' are confirmatory of a pre-existing express trust relationship between Valdes and the late Nakpil over the property in dispute, conformably with the theory of the plaintiff, whereunder Valdes is the trustee and Nakpil, the trustor and, at the same time, beneficiary x x x x

"Assuming that Exhibits 'J' and 'L' could not stand as proof of an express trust, still the Court believes that they could, as they indeed are, proof of an implied trust under Article 1450 of the Civil Code x x x x"

Nevertheless, the trial court dismissed the petition for reconveyance on the ground that petitioner, by conforming to Exh. "J" and acquiescing with Exh. "L," the very documents she presented to prove the existence of a trust relationship, has waived her right over Pulong Maulap[3] -

"x x x the Court is inclined to believe that the real agreement between the plaintiff and the defendant Valdes under Exhibits 'J'" or '5' and 'L' is that Valdes was to take over the two FUB loans of the plaintiff's late husband in consideration of the plaintiff giving up her claim to the disputed property, but with a right to continued occupancy for a period of five years, free from any encumbrance or payment, except maintenance expenses, and under an option yet in favor of the latter to purchase back the property within the stipulated five years upon the payment of the said FUB loans, including interests, plus the further sum of P75,000.00 initially advanced by Valdes on the property, also with interests, or the total amount of P375,056.64.

"Under the agreement, the Court is of the view that the plaintiff has waived whatever right she may have over the property, and she would be in estoppel to revive or assert the same unless she could prove that she has complied with the terms and the conditions she agreed on. To hold otherwise would be tantamount to placing Valdes in a very disadvantageous position x x x x"

Furthermore, petitioner's letter dated 31 July 1978, the last day of the five-year period stipulated in Exh. "J," sent to respondent Valdes and his wife, which states -

"Dear Aida and Charlie,

I hope that when this letter reaches you it finds you and your family in the best of health and happiness. My children and I are enjoying these too, thank God. We have also managed to adapt contentedly through all the various pressures and strains we have been subjected to since Pinggoy's death. It is amazing how we humans can endure so much of these when met with acceptance and humility. Honestly, I cannot claim credit to the latter virtue. Many times in the past, during my darkest moments, believe me, humility was farthest from my

thoughts.

With regard to our Moran property, a thought occurred to me that if I may be able to raise the amount necessary to pay back your advances for 'Pulong Maulap' (this is the name I gave the property, remember?), would you be willing to reconvey the property to us as soon as I reimburse your advances?

Of course, as I said this is just an idea because at present, although we are in the final stages of winding-up the estate, the results are still hazy and uncertain. I understand from Linda Asuncion that so much will depend on the generosity of my in-laws; hence, so be it!

Thank you again for the help you have given me and my children. For you and your family, I offer to God all the 'Purgatory' He gives me here on earth.

Sincerely,

(SGD.) Nena A. Nakpil,"

was construed by the trial court as "more an expression of her (petitioner's) resignation to her having lost the property than a demand for reconveyance." [4]

Not satisfied with the decision of the trial court, both parties appealed to respondent Intermediate Appellate Court which on 17 December 1985 [5] reversed the trial court and ruled that "[f]rom the foregoing facts, it is quite evident there was no trust at all x x x" [6] On 21 April 1986, the motion of herein petitioner to reconsider the decision of respondent appellate court was denied for "absolute lack of merit."

Petitioner, in this petition for review, argues that respondent Intermediate Appellate Court did not only err in holding that the documents she presented were insufficient to prove the existence of a trust relationship but it also failed to rule that the trial court's interpretation of petitioner's conformity to Exh. "J" as a waiver was, in essence, a pactum commissorium, and therefore null and void.

Respondent Valdes, on the other hand, maintains that no direct proof has been presented to sustain that he was merely instructed by petitioner's late husband to purchase the disputed property, and thereafter register and hold title thereto in trust for the latter; neither could there have been an implied trust pursuant to Art. 1450 of the Civil Code [7] since this provision refers only to instances where the purchase price of the property sold is paid by the lender for the benefit of the borrower or buyer of the property. Here, Valdes bought the disputed property using his own funds. The late Nakpil came into the picture only after the sale to Valdes was consummated, and only as an offeror to buy the property, not from the former owners, but from Valdes. Furthermore, Valdes contends that Exhs. "J" and "L" cannot amount to pactum commissorium since the elements thereof, i.e., existence of a creditor-debtor relationship; the obligation is secured by pledge or mortgage of certain properties over which the debtor has title; and, ownership of the property passes to the creditor by mere default of debtor, are not present.

Thus, the issues before us are: whether Art. 1450 of the Civil Code applies; and, if it so applies, whether petitioner can still compel reconveyance of Pulong Maulap from respondent Valdes.

Implied trusts, which may either be resulting or constructive, are those which, without being express, are deducible from the nature of the transaction as matters of intent, or which are superinduced on the transaction by operation of law as matters of equity, independently of the particular intention of the parties. [8] Article 1450, which petitioner invokes in the case at bar, is an illustration of an implied trust which is constructive. [9]

Article 1450 presupposes a situation where a person, using his own funds, purchases a certain piece of land in behalf of another who, in the meantime, may not have sufficient funds to purchase the land. The property is then transferred in the name of the trustee, the person who paid for the land, until he is reimbursed by the beneficiary,

the person for whom the land is purchased. It is only after the beneficiary reimburses the trustee of the purchase price that the former can compel conveyance of the purchased property from the latter.

From the evidence adduced, it may be concluded that respondent Valdes, using his own funds, purchased Pulong Maulap in behalf of the late Nakpil. This is based on the letters to petitioner of Valdes where he categorically admitted that "[b]oth of these loans, while in my (respondent Valdes') name, were obtained by Pinggoy (the late Nakpil) for his person,"[10] and that the "P75,000.00 initially advanced for the Moran property still remains unpaid." [11]

It is evident from these letters that while the balance of P75,000.00 on the mortgage of the vendors with PNB was liquidated from the proceeds of a loan respondent obtained from FUB, such loan was actually secured by the late Nakpil by merely using Valdes' name. Such is also the case with respect to another FUB loan amounting to P65,000.00, the proceeds of which were used to finance the repair and renovation of Pulong Maulap. And, while the downpayment of P50,000.00 and the partial payment of P25,000.00 to PNB came from the personal funds of Valdes, he considered them as advances to the late Nakpil. Otherwise, Valdes would never have deemed the amount as "unpaid" in his letter to petitioner of 17 September 1974.

The letter of Valdes to the City Treasurer of Baguio made while remitting payment of real estate taxes is also enlightening. It provided therein that the payment being tendered was "[o]n behalf" of the Nakpils,[12] which is an express recognition of the implied trust.

Consequently, respondent Valdes is estopped from claiming that he bought Pulong Maulap for himself, and not merely in trust for the late Nakpil, as this contention is belied by the facts. Hence, we rule that constructive trust under Art. 1450 of the New Civil Code existed between the parties.

However, petitioner cannot as yet redeem and compel conveyance of the property. For, Valdes must still be reimbursed for the advances he made on the disputed property, such reimbursement being a *conditio sine qua non* for compelling conveyance under Art. 1450.

The period within which to compel conveyance of Pulong Maulap is not imprescriptible. The rule is well-settled that an action for reconveyance based on an implied or constructive trust prescribes in ten (10) years.[13] But, in the case before us, petitioner could still compel conveyance of the disputed property from respondent provided the former reimburses the latter for all his expenses. After all, Valdes never repudiated the constructive trust during the lifetime of the late Jose Nakpil. On the contrary, he expressly recognized it. The prescriptive period therefore did not begin to run until after he repudiated the trust.[14] And such repudiation came when Valdes excluded Pulong Maulap from the list of properties of the late Jose Nakpil submitted to the intestate court[15] in 1973. Even then, the present action for conveyance was filed in 1979 or well within the ten-year period.

At first blush, it may seem that after the death of Jose Nakpil on 8 July 1973, petitioner ceded ownership of Pulong Maulap to Valdes by way of *dacion en pago*[16] as shown by her acquiescence to Exh. "J". A careful examination of said Exh. "J" does not show however that petitioner, as administratrix of the estate of the late Jose Nakpil, released or surrendered the latter's interest over Pulong Maulap to respondent. Thus, there can be no *dacion en pago* to speak of since ownership of the thing delivered was never transferred to the creditor.[17] The trust relations between the parties was therefore never extinguished. Besides, petitioner could not have waived the interest of her children with the late Jose M. Nakpil who are her co-heirs to the Nakpil estate.

The fact that there was no transfer of ownership intended by the parties under their arrangement during the five-year period to pay can further be bolstered by Exh. "I?2",[18] an annex to the claim filed against the estate proceedings of the late Jose Nakpil by his brother, Angel Nakpil, which was prepared by Carlos J. Valdes & Co.,

the accounting firm of herein respondent. Exhibit "I-2", which is a list of the application of the proceeds of various FUB loans contracted as of 31 December 1973 by the late Jose Napkil, whether in his name or that of others, contains the two (2) loans contracted in the name of respondent. If ownership of Pulong Maulap was already transferred or ceded to Valdes, these loans should not have been included in the list.

Indeed, as we view it, what the parties merely agreed to under the arrangement outlined in Exh. "J" was that respondent Valdes would undertake to "take over the total loan of P140,000.00 and pay all of the interests due on the notes" while the heirs of the late Jose Napkil would continue to live in the disputed property for five (5) years without any remuneration save for regular maintenance expenses.[19] This does not mean, however, that if at the end of the five-year period petitioner failed to reimburse Valdes for his advances, which respondent computed to be P375,056.64 as of 31 July 1978 per his letter to petitioner of 17 September 1974, Valdes could already automatically assume ownership of Pulong Maulap. Instead, the remedy of respondents Carlos J. Valdes and Caval Realty Corporation was to proceed against the estate of the late Jose M. Napkil and/or the property itself.

The arrangement entered into between the parties, whereby Pulong Maulap was to be "considered sold to him (respondent) x x x"[20] in case petitioner fails to reimburse Valdes, must then be construed as tantamount to a pactum commissorium[21] which is expressly prohibited by Art. 2088 of the Civil Code.[22] For, there was to be automatic appropriation of the property by Valdes in the event of failure of petitioner to pay the value of the advances. Thus, contrary to respondent's manifestations, all the elements of a pactum commissorium were present: there was a creditor-debtor relationship between the parties; the property was used as security for the loan; and, there was automatic appropriation by respondent of Pulong Maulap in case of default of petitioner.

In fine, we conclude that there was a constructive trust between the parties under Art. 1450 of the New Civil Code. Consequently, petitioner may redeem and compel conveyance of the disputed property but only after reimbursing respondent the sum of P375,056.64, with legal interest from 31 July 1978, the amount advanced by Valdes for the purchase of the Pulong Maulap.

WHEREFORE, the petition is GRANTED. The assailed decision of the then Intermediate Appellate Court which affirmed that of the Regional Trial Court is SET ASIDE.

Private respondents Carlos J. Valdes and Caval Realty Corporation are ordered jointly and severally to RECONVEY Pulong Maulap to petitioner Imelda A. Napkil and the heirs of the late Jose M. Napkil upon reimbursement by the latter of the advances of private respondent Carlos J. Valdes amounting to P375,056.64, with legal interest from 31 July 1978 until fully paid.

Private respondents are further ordered to pay the costs of suit.

SO ORDERED.

Cruz, (Chairman), Griño-Aquino, Davide, Jr., and Quiason, JJ., concur.

[1] Judge Salvador J. Valdez, Jr., RTC, Br. 5, Baguio City.

[2] Decision, RTC, p. 15.

[3] Ibid., p. 22.

[4] Ibid., p. 24.

[5] Penned by Presiding Justice Ramon G. Gaviola, Jr., and concurred in by Associate Justices Eduardo P. Caguioa and Ma. Rosario Quetulio-Losa, First Civil Cases Division.

[6] Decision, Intermediate Appellate Court, p. 7.

[7] Art. 1450. If the price of a sale of property is loaned or paid by one person for the benefit of another and the conveyance is made to the lender or payor to secure the payment of the debt, a trust arises by operation of law in favor of the person to whom the money is loaned or for whom it is paid. The latter may redeem the property and compel a conveyance thereof to him.

[8] O'Laco v. Co Cho Chit, G.R. No. 58010, 30 March 1993, citing 89 C.J.S. 724, and Salao v. Salao, G.R. No. L-26699, 16 March 1976, 70 SCRA 65.

[9] Paras, Edgardo L., Civil Code of the Philippines Annotated, Vol. IV, 11th Ed., 1985, p. 751.

[10] Exhibit "J".

[11] Exh. "L".

[12] Exh. "H".

[13] Tale v. Court of Appeals, G.R. No. 101028, 23 April 1992, 208 SCRA 266.

[14] See Segura v. Segura, G.R. No. L-29320, 19 September 1988, 165 SCRA 369.

[15] Sp. Proc. No. 202564 before the then Court of First Instance of Manila.

[16] The alienation of property to the creditor in satisfaction of a debt in money; Art. 1245, New Civil Code.

[17] See Philippine National Bank v. Pineda, G.R. No. L-46658, 13 May 1991, 197 SCRA 1.

[18] Annex "C-1", Petition; Rollo, p. 65.

[19] See Note 10.

[20] RTC Decision, p. 21.

[21] Pactum commisorium is an additional provision in a pledge, mortgage, antichresis or any similar contract wherein the creditor can automatically appropriate the thing given as security if the debt is not paid within the stipulated period (Art. 2088).

[22] Aquino, Ramon C., Civil Code, Vol. III, 1990 Ed., p. 536, citing, among others, Mahoney v. Tuason, 39 Phil. 952; Puig v. Sellner, 45 Phil. 286; Northern Motors v. Herrera, 49 SCRA 392.

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