



Republic of the Philippines  
Supreme Court

Manila

SECOND DIVISION

SPOUSES MAMERTO and ADELIA\*  
TIMADO,

Petitioners,

G.R. No. 201436

Present:

- versus -

CARPIO, J., Chairperson,  
BRION,  
DEL CASTILLO,  
MENDOZA,\*\* and  
LEONEN, JJ.

RURAL BANK OF SAN JOSE, INC.,  
TEDDY MONASTERIO, in his  
capacity as its President/Manager, and  
ATTY. AVELINO SALES,

Respondents.

Promulgated:

11 JUL 2016

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DECISION

BRION, J.:

We resolve the petition for review on *certiorari*<sup>1</sup> assailing the March 30, 2012 decision<sup>2</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 89866 entitled “*Spouses Mamerto Timado and Delia Timado v. Rural Bank of San Jose, Inc., Teddy Monasterio, in his capacity as its Manager, and Gilbert Passion,*” that affirmed with modification the October 31, 2006 Regional Trial Court (RTC) joint decision in Civil Case No. IR-2974 and Special Civil Action No. IR-3187.

The CA decision affirmed the RTC’s decision dismissing the complaint for reformation of instruments and the petition for indirect contempt filed by spouses Mamerto and Delia Timado (*petitioners*) against

\* Delia in some parts of the records.

\*\* On Official Leave.

<sup>1</sup> Petition for Review on *Certiorari*, *rollo*, pp. 8-29.

<sup>2</sup> Penned by Associate Justice Amy C. Lazaro-Javier and concurred in by Presiding Justice Andres B. Reyes, Jr. and Associate Justice Sesinando E. Villon, *rollo*, pp. 22-42.

Rural Bank of San Jose, Inc. (*Rural Bank*) and Teddy Monasterio, in his capacity as Rural Bank's Manager (collectively as *respondents*), and awarded them exemplary damages, attorney's fees, and costs of litigation.

### The Factual Antecedents

On August 15, 1994, the petitioners obtained a loan from Rural Bank amounting to ₱178,000.00<sup>3</sup> As security for the loan, they executed a real estate mortgage over a parcel of land (*subject property*) located in Nabua, Camarines Sur, and a chattel mortgage over one (1) unit of rice mill machinery with accessories and one (1) unit of diesel engine in favor of the bank.<sup>4</sup>

The petitioners eventually failed to pay their loan amortizations. As of August 27, 1997, their outstanding obligation to Rural Bank amounted to ₱125,700.00.<sup>5</sup> Consequently, the bank informed the petitioners of its intention to foreclose the real estate and chattel mortgages to cover the unpaid balance.<sup>6</sup>

On April 1, 1998, the petitioners filed a **complaint for reformation of instruments**<sup>7</sup> with prayer for injunction and temporary restraining order and damages (*reformation of instruments case*) against the respondents before the RTC, Branch 35, Iriga City. *No writ of injunction or temporary restraining order was ever issued by the RTC.*

On April 6, 1998, Rural Bank proceeded with the extrajudicial foreclosure of the real estate mortgage and sold the property at a public auction where it emerged as the highest bidder.<sup>8</sup> The provisional deed of sale was registered with the Office of the Provincial Register of Camarines Sur.<sup>9</sup> The petitioners failed to redeem the property within the one-year redemption period.<sup>10</sup> As a result, the title was consolidated in Rural Bank's name and a definite certificate of sale was issued in its favor.<sup>11</sup>

On November 9, 2000, the petitioners filed a **petition for indirect contempt with damages**<sup>12</sup> (*indirect contempt case*) against the respondents, alleging that the latter had pre-empted judicial authority by foreclosing the mortgages and selling the properties at a public auction during the pendency of the reformation of instruments case.

On February 7, 2002, while the reformation of instruments and indirect contempt cases were pending, Rural Bank filed an *ex-parte* **petition**

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<sup>3</sup> CA rollo, p. 77.

<sup>4</sup> Id. at 77-78.

<sup>5</sup> Id. at 79.

<sup>6</sup> Rollo, p. 11.

<sup>7</sup> Docketed as Civil Case No. IR-2974, rollo, p. 23.

<sup>8</sup> CA rollo, p. 80.

<sup>9</sup> Id.

<sup>10</sup> Id.

<sup>11</sup> Rollo, p. 26.

<sup>12</sup> *Supra* note 7.

**for issuance of writ of possession**<sup>13</sup> over the subject property. Because of this, the petitioners filed their third petition for indirect contempt.<sup>14</sup>

The trial court subsequently ordered<sup>15</sup> the consolidation of the reformation of instruments and the indirect contempt cases, and the dismissal<sup>16</sup> of the second and third petitions for indirect contempt.

In its joint decision<sup>17</sup> dated October 31, 2006, the RTC dismissed the complaint for reformation of instruments and petition for indirect contempt filed by the petitioners and ordered the Clerk of Court to issue a writ of possession in favor of the respondents. It also awarded damages as follows:<sup>18</sup>

WHEREFORE, premises considered, a joint decision is hereby rendered, as follows:

- I. In Civil Case No. IR-2974 – against plaintiffs spouses Mamerto Timado and Delia Timado and in favor of defendants Rural Bank of San Jose, Inc., and Teddy Monasterio, in his capacity as its manager, to wit:
  1. Dismissing the amended complaint;
  2. On defendants' counterclaim, condemning plaintiff spouses:
    - a. To pay defendant Teddy Monasterio the amount of **₱500,000.00 as moral damages, and ₱300,000.00 as exemplary damages;**
    - b. To pay defendants Rural Bank of San Jose, Inc. and Teddy Monasterio the amount of **₱50,000.00 for legal counsel's acceptance fee and ₱1,500.00 per appearance of counsel;** and,
    - c. To pay defendants Rural Bank of San Jose, Inc., and Teddy Monasterio other expenses of litigation and/or cost of suit.
- II. In Spec. Civil Action No. IR-3187 – against petitioners spouses Mamerto Timado and Delia Timado and in favor of respondents Rural Bank of San Jose, Inc., Teddy Monasterio, and Atty. Avelino V. Sales, Jr., to wit:
  1. Dismissing the petition;
  2. Condemning petitioners spouses Mamerto Timado and Delia Timado:
    1. To pay respondent Teddy Monasterio the amount of **₱200,000.00 as moral damages and ₱50,000.00 as exemplary damages;** and,

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<sup>13</sup> SPL. Proc. No. IR-1789, id. at 27.

<sup>14</sup> Rural Bank filed two previous *ex-parte* petitions for issuance of writ of possession which were erroneously docketed as Nos. IR-1781 and IR-1782. Both were *dismissed* due to some defects. Despite the dismissals, the petitioners filed a **second petition for indirect contempt** against the respondents. IR-1781 and IR-1782 were re-filed, now docketed as IR-1789, which triggered the filing of the **third petition for indirect contempt**. Id. at 6.

<sup>15</sup> Id.

<sup>16</sup> Id.

<sup>17</sup> Penned by Judge Rosario B. Torrecampo.

<sup>18</sup> CA *rollo*, pp. 81-82.

2. To pay respondents Rural Bank of San Jose, Inc., and Teddy Monasterio the amount of **₱50,000.00 for the services of counsel**.<sup>19</sup>

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On appeal, the CA affirmed with modification the October 31, 2006 RTC decision. In its decision dated March 30, 2012, the appellate court found the dismissal of the case proper, as well as the RTC's issuance of a writ of possession in favor of the respondents. However, it *deleted the award of moral damages for lack of legal justification and reduced the amount of exemplary damages awarded in Civil Case No. IR-2974 to ₱100,000.00*.<sup>20</sup>

The petitioners raise the following issues for this Court's resolution: 1) whether the award of exemplary damages is proper, considering the CA's deletion of the award of moral damages; and 2) whether the award of attorney's fees is supported by the factual and legal premises in the text of the RTC decision.

### The Court's Ruling

#### We find the petition partly meritorious.

Exemplary or corrective damages are imposed by way of example or correction for the public good, *in addition to* moral, temperate, liquidated, or compensatory damages.<sup>21</sup> The award of exemplary damages is allowed by law as a warning to the public and as a deterrent against the repetition of socially deleterious actions.<sup>22</sup>

The requirements for an award of exemplary damages to be proper are as follows:<sup>23</sup>

*First*, they may be imposed by way of example or correction **only in addition**, among others, to compensatory damages, and cannot be recovered as a matter of right, their determination depending upon the amount of compensatory damages that may be awarded to the claimant.

*Second*, the claimant must **first establish his right to moral, temperate, liquidated, or compensatory damages**.

And *third*, the wrongful act must be accompanied by bad faith; and the award would be allowed only if the guilty party acted in a wanted, fraudulent, reckless, oppressive, or malevolent manner.

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<sup>19</sup> Emphasis ours.

<sup>20</sup> *Rollo*, pp. 41-42.

<sup>21</sup> CIVIL CODE, Article 2229.

<sup>22</sup> *Tan v. OMC Carriers, Inc.*, G.R. No. 190521, January 12, 2011, 639 SCRA 471, 485.

<sup>23</sup> *Octot v. Ybañez*, G.R. No. L-48643, January 18, 1982, 111 SCRA 79-80.

In the light of the appellate court's finding that the respondents are not entitled to moral damages, **the award of exemplary damages, too, must be deleted for lack of legal basis.**

As regards the attorney's fees, the law is clear that in the absence of stipulation, attorney's fees may be awarded as actual or compensatory damages under any of the circumstances provided for in Article 2208 of the Civil Code.<sup>24</sup>

The general rule is that attorney's fees cannot be recovered as part of damages because of the policy that no premium should be placed on the right to litigate. They are not to be awarded every time a party wins a suit. **The power of the court to award attorney's fees under Article 2208 demands factual, legal, and equitable justification.** Even when a claimant is compelled to litigate with third persons or to incur expenses to protect his rights, still attorney's fees may not be awarded where no sufficient showing of bad faith could be reflected in a party's persistence in a case other than an erroneous conviction of the righteousness of his cause.<sup>25</sup>

The award of attorney's fees to the winning party lies *within the discretion of the court*, taking into account the circumstances of each case. This means that such an award should have factual, legal, and equitable basis, not founded on pure speculation and conjecture. In addition, the court should *state the reason for the award of attorney's fees in the body of the decision*. Its unheralded appearance in the dispositive portion, as a rule, is not allowed.<sup>26</sup>

In the present case, the RTC expressly stated in the body of its decision its basis for awarding attorney's fees:

On the other hand, the **vexatious and baseless action filed by plaintiffs-petitioners** gave rise to a cause of action for damages against them in favor of respondents for unnecessarily dragging the latter to Court and compelling them to defend themselves as well as for causing them to suffer anxiety and embarrassment.<sup>27</sup>

The RTC's findings of fact also support the award of attorney's fees: *first*, the petitioners knew that they had executed two mortgages in favor of Rural Bank to secure their loan; *second*, they failed to pay their loan amortizations; *third*, they instituted the complaint for reformation of instruments to stop the foreclosure proceedings of the two mortgages; *fourth*, they filed a complaint for indirect contempt against the respondents with full awareness that no writ of injunction or TRO was ever issued to stay the foreclosure proceedings; and *fifth*, they even tried to deceive the court by changing their signatures in their submissions in an attempt to support their

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<sup>24</sup> *ABS-CBN Broadcasting Corporation v. Court of Appeals*, 361 Phil. 528, 529 (1999).

<sup>25</sup> *Id.* at 529.

<sup>26</sup> *Alcatel Philippines, Inc. v. I.M. Bongar & Co., Inc.*, G.R. No. 182946, October 5, 2011, 658 SCRA 741, 744.

<sup>27</sup> *CA rollo*, p. 80. Emphasis ours.

claim. Clearly, the petitioners' filing of unfounded actions forced the respondents to litigate to protect their interests.


For these reasons, we find the award of attorney's fees proper under Article 2208(4)<sup>28</sup> of the Civil Code, but we modify the amount to ₱100,000.00 which would be just and reasonable under the circumstances.

**WHEREFORE**, the petition is **PARTIALLY GRANTED**. The March 30, 2012 decision of the Court of Appeals in CA-G.R. CV No. 89866 is **AFFIRMED** with the **MODIFICATION** as follows: the award of exemplary damages is deleted and the amount of attorney's fees is fixed at ₱100,000.00. Costs against spouses Mamerto and Delia Timado.

**SO ORDERED.**

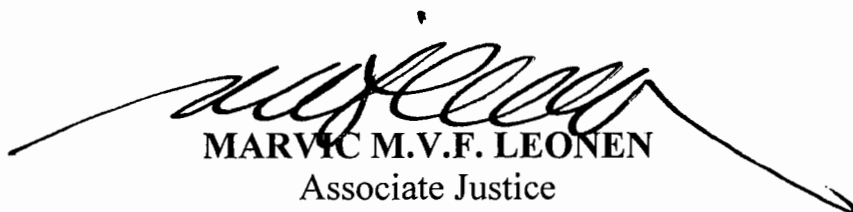
  
**ARTURO D. BRION**  
Associate Justice

**WE CONCUR:**

  
**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson

  
**MARIANO C. DEL CASTILLO**  
Associate Justice

(On Official Leave)  
**JOSE CATRAL MENDOZA**  
Associate Justice

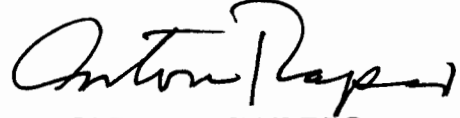
  
**MARVIC M.V.F. LEONEN**  
Associate Justice

<sup>28</sup> Art. 2208. In the absence of stipulation, attorney's fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

4. in case of a **clearly unfounded civil action** or proceeding against the plaintiff.

**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**MARIA LOURDES P. A. SERENO**  
Chief Justice