



**Republic of the Philippines
Supreme Court
Manila**

THIRD DIVISION

**ARAKOR CONSTRUCTION
AND DEVELOPMENT
CORPORATION,**

Petitioner,

-versus -

**TERESITA G. STA. MARIA,
ALFREDO N. GADDI,
FERNANDO N. GADDI, JR.,
MARILYN G. MALIXI,
EVANGELINE G. GOLICRUZ,
LILIAN G. FRANCISCO,
LILIBETH G. PAGUIO and the
late EFREN N. GADDI, his heirs,
JENNY, ALLAN, JOEFFREY and
FELY all surnamed GADDI,**

Respondents.

G.R. No. 215006

Present:

LEONEN, J.,
Chairperson,

HERNANDO,
INTING,
DELOS SANTOS, and
ROSARIO, JJ.

Promulgated:

January 11, 2021

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DECISION

HERNANDO, J.:

This Petition for Review¹ on *Certiorari* assails the January 13, 2014 Decision² and October 17, 2014 Resolution³ of the Court of Appeals (CA) in CA-G.R. CV No. 98704, affirming the November 16, 2011 Decision⁴ of the Regional Trial Court (RTC) of Dinalupihan, Bataan, Branch 5, in Civil Case No. DH-474-98 which granted the Complaint for Annulment of Deeds of Absolute Sale and Transfer Certificates of Title filed by herein respondents.

¹ *Kollo*, pp. 3-47.

² *Id.* at 48-60; penned by Associate Justice Agnes Reyes-Carpio and concurred in by Associate Justices Noel G. Tijam and Priscilla J. Baltazar-Padilla (now retired members of the Court):

³ *Id.* at 62-63.

⁴ *Id.* at 141-151; penned by Executive Judge Jose Ener S. Fernando.

The Antecedents:

The Spouses Fernando Gaddi, Sr. (Fernando Sr.) and Felicidad Nicdao Gaddi (Felicidad) (collectively Spouses Gaddi) owned the five contested parcels of land located in Hermosa, Bataan and described in TCT Nos. T-92141, T-92142, T-92143, T-92144, and T-100713.⁵

Felicidad died intestate⁶ on November 18, 1985, and was survived by Fernando Sr. and her eight children, herein respondents, namely: Teresita G. Sta. Maria (Teresita), Alfredo N. Gaddi (Alfredo), Fernando N. Gaddi, Jr. (Fernando Jr.), Marilyn G. Malixi (Marilyn), Evangeline G. Golicruz (Evangeline), Efren N. Gaddi (Efren), Lilian G. Francisco (Lilian) and Lilibeth G. Paguio (Lilibeth) (collectively the Gaddis). Felicidad's heirs inventoried her properties but they did not initiate its partition; thus, the parcels of land remained in the name of the Spouses Gaddi.⁷

On February 7, 1996, Fernando Sr. passed away, followed by Efren on May 8, 1998. After the deaths of Fernando, Sr. and Efren, Atty. Greli Legaspi (Atty. Legaspi), the president of petitioner Arakor Construction and Development Corporation (Arakor), informed the Gaddis that their parents had already sold the contested five parcels of land to Arakor for ₱400,000.00 as evidenced by two undated Deeds of Absolute Sale⁸ and that the titles to the properties have already been transferred to Arakor's name.⁹

Thus, the Gaddis¹⁰ filed a Complaint¹¹ for Annulment of Deed[s] of Absolute Sale and Transfer Certificates of Title against Arakor. They alleged that the two contracts of sale were forged and the conveyance of the properties was fraudulent since Felicidad could not have signed the documents and given her consent thereon since she has been dead for seven years before the alleged execution of the said contracts.¹²

Arakor¹³ denied employing fraud. It contended that the Deeds of Absolute Sale were already signed and notarized when Fernando Sr. and Efren delivered them to the office of Atty. Legaspi on September 8, 1992. Atty. Legaspi also disclaimed any knowledge about the death of Felicidad.¹⁴

⁵ Id. at 49, 92-97.

⁶ Id. at 107.

⁷ Id. at 49.

⁸ Id. at 98-101.

⁹ Id. at 102-106.

¹⁰ Efren's heirs, Jenny, Allan, Jeffrey and Fely, were joined as plaintiffs to represent their father.

¹¹ *Rollo*, pp. 65-68.

¹² Id. at 49-50.

¹³ Id. at 70-82.

¹⁴ Id. at 50.

In addition, Arakor alleged that Teresita, Evangeline, Marilyn and Lilibeth had already assigned their rights to Fernando Sr. through the two Joint Waiver of Claim and/or Right¹⁵ dated February 1992. Efren, Alfredo, Lilian and Fernando Jr. likewise executed a Joint Waiver of Claims and/or Right¹⁶ on October 28, 1992. Thus, full ownership and title over the contested properties had been consolidated in favor of Fernando Sr. at the time of the sale. Thus, the signature of Felicidad in the Deeds of Absolute Sale is no longer material in determining the sale's validity.¹⁷

Moreover, Arakor averred that the Gaddis' claims are barred by prescription since the company has been in open, continuous and lawful possession of the properties as the owner thereof since September 1992.¹⁸

During trial, Atty. Legaspi recounted that after giving the payment to Fernando Sr. and Efren,¹⁹ he (Atty. Legaspi) took possession of the properties and even hired two watchers but he still allowed Fernando Sr. and Efren to harvest the crops therein.²⁰ Sometime in the early part of 1993, Fernando Sr. and Efren gave him copies of the waivers of the Gaddis²¹ which they executed purportedly for taxation purposes.²² He insisted that he had no idea about the demise of Felicidad passing and that he only found out about her death when the waivers were delivered to him.²³

On rebuttal, Fernando Jr. insisted that during the lifetime of Felicidad, the Gaddis formed a family corporation in order to consolidate the properties under the said company through the waivers. However, only one property was transferred since Efren sold all the others.²⁴ He maintained that the family company did not authorize Fernando Sr. and Efren to sell the properties.²⁵

Ruling of the Regional Trial

Court:

In its November 16, 2011 Decision,²⁶ the RTC declared the Deeds of Absolute Sale as void for being fictitious because Felicidad had already passed away when the documents were executed.²⁷ Additionally, it ruled that Arakor, represented by Atty. Legaspi, was not a buyer in good faith.²⁸ It thus ordered the Gaddis to return to Arakor the amount of ₱400,000.00 with

¹⁵ Id. at 120-121, 123-124.

¹⁶ Id. at 125.

¹⁷ Id. at 50.

¹⁸ Id.

¹⁹ TSN, May 17, 2006, p. 8.

²⁰ Id. at 8-9.

²¹ Id. at 10.

²² Id. at 13.

²³ Id. at 30.

²⁴ TSN, February 23, 2010, pp. 4-5, 7-8.

²⁵ TSN, August 10, 2010, p. 7.

²⁶ *Rolio*, pp. 141-151.

²⁷ Id. at 148-149.

²⁸ Id. at 150-151.

interest, chargeable to Fernando Sr.'s estate.²⁹ The dispositive portion of the trial court's Decision reads:

WHEREFORE, premises considered, judgment is hereby rendered as follows:

1. Ordering the annulment of the sale in (sic) executed between defendant Arakor Construction and Development Corporation and Spouses Gaddi of the properties in litigation;

2. Ordering the Register of Deeds for the Province of Bataan to cancel Transfer Certificate of Title Nos. T-154980; T-154981; T-154982; T-154983; and 154979 registered in the name of Arakor Construction and Development Corporation;

3. Ordering the Register of Deeds for the Province of Bataan to reinstate Transfer Certificate of Title Nos. T-92141; T-92142; T-92143; and T-92144 in the name of Spouses Fernando Q. Gaddi and Felicidad N. Gaddi and Transfer Certificate of Title No. T-100713 in the name of Spouses Fernando Q. Gaddi and Felicidad Nicdao;

4. Ordering the defendant Arakor Construction and Development Corporation to cause the reconveyance of the properties to herein plaintiffs;

5. Ordering the plaintiffs to return to the defendant the amount of P400,000.00 representing the total amount of consideration in the two (2) Deeds of Sale executed by Spouses Gaddi and *Arakor*, which were declared void by the Court, with interest at 6% per annum from the time of the filing of the complaint until the finality of this Decision and 12% per annum thereafter until full payment, chargeable to the Estate of Fernando Gaddi[,] Sr.; and

6. Ordering the defendant to pay the costs of suit.

SO ORDERED.³⁰

Arakor asked for reconsideration³¹ but it was denied by the trial court in its Order³² dated March 8, 2012. Aggrieved, *Arakor* appealed³³ to the CA.

Ruling of the Court of Appeals:

The CA, in its assailed January 13, 2014 Decision,³⁴ affirmed the RTC's ruling that the Deeds of Absolute Sale were null and void for being simulated and forged.

²⁹ Id. at 151.

³⁰ Id.

³¹ Id. at 152-167.

³² Id. at 169.

³³ Id. at 170-208; *records*, pp. 400-401, 406.

³⁴ *Rollo*, pp. 48-60.

The appellate court explained that “[s]ince it has been established that Felicidad died as early as 1985, there is no way for her to affix her signature to the deeds; neither could she have secured the Residence Certificate Nos. 79465823 and 81476375 from Quezon City on February 5 and 12, 1992, respectively, and worse, she could not have possibly personally appeared before Notary Public Cornelio G. Montesclaros on September 8, 1992 and acknowledged that the deeds were executed as her (and Fernando Sr.’s) voluntary act and deed.”³⁵ It likewise noted that the acknowledgment portion of the deeds indicated the names “Felicitas N. Gaddi/Felicitas Nicdao” instead of “Felicidad.”³⁶

The CA opined that Atty. Legaspi who is knowledgeable in law, should have inquired about the personal circumstances of Felicidad and not merely relied on the representations of Fernando Sr. and Efren, particularly since the titles of the properties were still registered in the name of the Spouses Gaddi.³⁷

The appellate court concluded that the parties must revert to their respective positions prior to the execution of the Deeds of Absolute Sale,³⁸ as follows:

1. As for Arakor, the five parcels of land located in the Municipality of Hermosa, Bataan, described in TCT Nos. T-92141, T-92142, T-92143, T-92144 and TCT No. T-100713; and

2. Initially, the Gaddis tried to establish that there was no sale that actually transpired between their parents and Arakor and that the subject lots were actually payment for the P400,000.00 Efren owed to Atty. Legaspi. However, since the Gaddis failed to adduce evidence proving such claim, their bare allegation will not suffice, hence, the amount of P400,000.00 representing the purchase price in the two Deeds of Sale must be returned, plus interests, chargeable to the estate of Fernando Sr.³⁹

Arakor filed a motion for reconsideration⁴⁰ which was denied in a Resolution⁴¹ dated October 17, 2014. Discontented, Arakor elevated⁴² this case before the Court on the following grounds:

I. THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN NOT HOLDING THAT THE DEEDS OF ABSOLUTE SALE ARE NOT VOID PER SE IN SO FAR AS THE DISPOSITION OF THE RIGHTS AND INTERESTS OF FERNANDO GADDI, SR. ON THE DISPUTED PROPERTIES [ARE CONCERNED].

³⁵ Id. at 57.

³⁶ Id. at 57-58.

³⁷ Id. at 58-59.

³⁸ Id.

³⁹ Id. at 59-60.

⁴⁰ Id. at 235-262.

⁴¹ Id. at 62-63.

⁴² Id. at 3-46.

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II. THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN NOT HOLDING THAT AT THE TIME OF THE DEMISE OF FELICIDAD GADDI, FERNANDO GADDI, SR. WAS ALREADY THE OWNER OF THE PROPERTIES IN LITIGATION BY OPERATION OF LAW TO THE EXTENT OF ½ PORTION THEREOF AS HIS SHARE IN THE CONJUGAL PROPERTY, AND BY THE WAIVERS/RENUNCIATION OF RIGHTS EXECUTED BY THE RESPONDENTS HE HAS THEREBY CONSOLIDATED FULL TITLE AND OWNERSHIP OF THE PROPERTIES UNDER LITIGATION BEFORE AND AFTER THE SALE OF THE PROPERTY TO DEFENDANT ARAKOR.

III. THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN NOT HOLDING THAT BY THE WAIVER OF RIGHTS OF THE RESPONDENTS IN FAVOR OF THEIR FATHER, PRIOR TO AND/OR AFTER THE DATE OF THE DEEDS OF ABSOLUTE SALE, THEY HAVE NO MORE INTEREST ON THE PROPERTY AND ARE THEREFORE ESTOPPED FROM QUESTIONING THE VALIDITY OF THEIR FATHER'S DISPOSITION OF THE PROPERTIES IN FAVOR OF ARAKOR.

IV. THE HONORABLE COURT OF APPEALS COMMITTED SERIOUS ERRORS IN NOT HOLDING THAT THERE BEING A CONSOLIDATION OF OWNERSHIP AND TITLE IN THE SOLE PERSON OF FERNANDO GADDI, SR., THERE EXIST[S] NO LEGAL OBSTACLE IN THE TRANSMISSION OF HIS TITLE AND OWNERSHIP TO ARAKOR WITH RESPECT TO HIS ½ PORTION OF THE PROPERTY IN LITIGATION BY OPERATION OF LAW, AND TO THE OTHER ½ PORTION OF THE LITIGATED PROPERTY BY REASON OF THE WAIVERS OF THE RESPONDENTS AS HEIRS OF FELICIDAD GADDI.

V. THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN NOT HOLDING THAT ARAKOR CONSTRUCTION AND DEVELOPMENT CORPORATION IS A PURCHASER IN GOOD FAITH AND FOR VALUE.

VI. THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN NOT HOLDING THAT THE RESPONDENTS HAVE NO CAUSE OF ACTION AGAINST THE DEFENDANT.

VII. THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN NOT HOLDING THAT THE RESPONDENTS ARE IN ESTOPPEL TO QUESTION THE DEED OF ABSOLUTE SALE EXECUTED BY FERNANDO GADDI, SR.

VIII. THE HONORABLE COURT OF APPEALS COMMITTED SERIOUS ERRORS IN NOT HOLDING THAT UNDER THE PRINCIPLE OF 'IN PARI DELICTO', THE COMPLAINT SHOULD HAVE BEEN DISMISSED BY THE COURT A QUO.⁴³

The main issue is whether or not the appellate court correctly affirmed the findings of the trial court that the Deeds of Absolute Sale are null and void

⁴³ Id. at 13-14.

for being forged and fictitious.

Petitioner's Arguments:

Arakor maintains that the contract was valid since there was valuable consideration and the object of the sale was identified. It contends that at the time of the sale on September 8, 1992 (which happened after Felicidad's death), Fernando Sr. owned the properties in his own right and through the waivers executed by the Gaddis in his favor.⁴⁴ Arakor or Atty. Legaspi had no participation in the preparation and notarization of the Deeds of Absolute Sale as they were the exclusive handiwork of Fernando Sr. and Efren.⁴⁵ It asserts that the deeds should be considered as relatively simulated contracts; thus, the transfer of the properties to Arakor's name should be deemed as valid and binding.⁴⁶

Moreover, there were no circumstances which could have impelled Arakor or Atty. Legaspi to go beyond the titles of the properties and the deeds. The certificates of title did not show any cloud or irregularity hence Arakor was not required to go beyond the what the titles indicated on its face. Atty. Legaspi properly relied on the assurances of Fernando Sr. and Efren that the contracts were valid, hence he should not be considered as a buyer in bad faith.⁴⁷

Felicidad's demise terminated her conjugal partnership with Fernando Sr. Consequently, half of the properties would be reserved to Fernando Sr. and the other half would be transmitted to Felicidad's heirs, which included Fernando Sr. and all of the Spouses Gaddi's children.⁴⁸ Yet, because of the Gaddis' unconditional waiver of their rights in favor of Fernando Sr., they no longer have any claims on the properties⁴⁹ and are estopped from impugning the sale.⁵⁰

In any event, Fernando Sr. and Efren were the ones who forged Felicidad's signatures and not Atty. Legaspi who solely relied on the titles and the assurance of Fernando Sr. that Felicidad's signatures were genuine.⁵¹

Additionally, Arakor contends that the Gaddis no longer have any material interest in the properties in view of their waivers in favor of Fernando Sr.; hence, they did not have a cause of action against it.⁵² Even assuming that Arakor was in bad faith, the principle of *in pari delicto* bars the Gaddis from

⁴⁴ Id. at 15.

⁴⁵ Id. at 19.

⁴⁶ Id. at 21.

⁴⁷ Id. at 23.

⁴⁸ Id. at 25.

⁴⁹ Id. at 26-27.

⁵⁰ Id. at 28.

⁵¹ Id. at 30.

⁵² Id. at 35-37.

recovering the properties.⁵³ It posits that Article 1411 of the Civil Code should apply as the contract of sale was entered into for the purpose of evading the payment of estate taxes.⁵⁴ The Gaddis' inaction over Arakor's possession of the properties for six years, in addition to their waivers, should be considered against their favor.⁵⁵

Respondents' Arguments:

The Gaddis counter that Arakor raised questions of fact which should warrant the outright dismissal of its petition.⁵⁶ The issues are mere rehash and already passed upon by the appellate court.⁵⁷ The Gaddis argue that a buyer who did not investigate when circumstances impelled a reasonably cautious man to make an inquiry is deemed to have acted in *mala fide* and will not make him/her an innocent purchaser for value.⁵⁸ They posit that since Arakor failed to authenticate the Deeds of Absolute Sale, these documents did not confer any right upon it. Finally, they question the validity of the waivers as the said documents were not notarized.⁵⁹

Our Ruling

At the outset, the Court finds that the instant Petition for Review merely reiterates the arguments and issues raised before and already passed upon by the appellate court.

Section 2, Rule 2 of the Rules of Court defines a cause of action as "that act or omission by which a party violates a right of another."⁶⁰ As Felicidad's heirs,⁶¹ the Gaddis definitely have the right to assail the alleged fictitious and forged sale of the properties. Their alleged waivers could not serve as basis to conclude that they have completely relinquished their rights to the contested properties. To recall, the Gaddis consistently posited that they executed the waivers in favor of Fernando Sr. merely to facilitate the transfer of ownership of the properties to the family corporation.

Besides, a perusal of these waivers suggests that the Gaddis did not fully intend to relinquish their rights to dispose any of the properties.

The Joint Waiver of Claim and/or Right⁶² in favor of Fernando Sr. signed by Teresita and Evangeline was dated February 1992 but notarized on March

⁵³ Id. at 37.

⁵⁴ Id. at 38-40.

⁵⁵ Id. at 40.

⁵⁶ Id. at 279-280.

⁵⁷ Id. at 280-282.

⁵⁸ Id. at 287.

⁵⁹ Id. at 290.

⁶⁰ RULES OF COURT, Rule 2, § 2.

⁶¹ See: CIVIL CODE, Arts. 782, 886-888, 980-982.

⁶² *Rollo*, p. 120.

4, 1992. The waiver only pertained to their respective shares in the property at Hermosa, Bataan covered by TCT No. T-100713. The Addendum⁶³ to such waiver included other agricultural properties in Hermosa, Bataan covered by TCT Nos. T-92141, T-92142, T-92143, T-92144, as well as residential/commercial properties in Quezon City covered by TCT Nos. 228163 and 279636. However, this Addendum, although signed by Teresita and Evangeline, was undated and not notarized. Hence, there is doubt as to the assignment of rights with respect to the majority of the properties.

Similarly, the Joint Waiver of Claim and/or Right⁶⁴ signed by Marilyn and Lilibeth dated February 1992 was not notarized. However, the Acknowledgement⁶⁵ dated March 6, 1992 annexed to it stated that they executed the document freely. The said waiver referred to their respective shares in the property at Hermosa, Bataan covered by TCT No. T-100713. The Addendum⁶⁶ attached to it included agricultural properties in Hermosa, Bataan covered by TCT Nos. T-92141, T-92142, T-92143, T-92144, as well as residential/commercial properties in Quezon City covered by TCT Nos. 228163 and 279636. Notably, this Addendum was not notarized and bore the date November 1992, which was after the sale of the properties. Again, these circumstances cast doubt upon the validity of the waiver of rights to most of the properties in favor of Fernando Sr.

Meanwhile, the Joint Waiver of Claim and/or Right⁶⁷ signed by Efren, Fernando Jr., Alfredo, and Lilian dated October 28, 1992 pertained to the properties in Hermosa, Bataan covered by TCT Nos. T-92141, T-92142, T-92143, T-92144, and T-100713 as well as those in Quezon City covered by TCT Nos. 228163 and 279636. Again, this waiver was not notarized and was executed after the Deeds of Absolute Sale were executed and/or notarized in September 1992. Ergo, this waiver cannot likewise be conclusive as to the assignment of rights to the properties in favor of Fernando Sr.

In fine, the waivers which were not notarized and bore dates incompatible with the sale which fell short of the requirement of preponderant evidence⁶⁸ to support Arakor's claim that the Gaddis effectively waived their rights to the contested properties.

As regards the validity of the Deeds of Absolute Sale, We note that Arakor acknowledged Gaddis' allegation that Felicidad's signatures in the Deeds of Absolute Sale were forged since her death occurred prior to the execution of the said contracts. In fact, Arakor alleged that Fernando Sr. and Efren also sold a property to Matulac⁶⁹ in spite of Felicidad's death, stressing

⁶³ Id. at 121.

⁶⁴ Id. at 123.

⁶⁵ Id. at 122.

⁶⁶ Id. at 124.

⁶⁷ Id. at 125.

⁶⁸ RULES OF COURT, Rule 133, § (1).

⁶⁹ *Rollo*, pp. 126-128.

that it was also a victim of fraud.

Case law provides that “forgery cannot be presumed and must be proved by clear, positive and convincing evidence by the party alleging the same.”⁷⁰ In this case, the Gaddis satisfactorily discharged this burden by submitting in evidence the Certificate of Death of Felicidad to prove that her demise preceded the execution of the contracts of sale. This is in addition to Arakor’s admission that Felicidad’s death occurred before the sale transpired. Obviously, she could not have signed any document which leads to no other conclusion than that her signatures in the deeds were forged.

More importantly, “[i]f any one party to a supposed contract was already dead at the time of its execution, such contract is undoubtedly simulated and false, and, therefore, null and void by reason of its having been made after the death of the party who appears as one of the contracting parties therein.”⁷¹ Indeed, “no one can give what one does not have; *nemo dat quod non habet*. One can sell only what one owns or is authorized to sell, and the buyer can acquire no more right than what the seller can transfer legally.”⁷² Considering that Felicidad’s signatures were forged, the Deeds of Absolute Sale are null and void and convey no title to Arakor. Thus, the TCTs which were issued in favor of Arakor “by virtue of the said spurious and forged document are also null and void.”⁷³ In fact, “all the transactions subsequent to the alleged sale are likewise void.”⁷⁴

Even with the null and void nature of the contracts, Arakor insists that it was a buyer in good faith as it purchased and paid the fair price for the properties absent any notice that the sellers, Fernando Sr. and Efren, did not have the full capacity to sell.⁷⁵ In relation to this, *Spouses Aggabao v. Spouses Parulan, Jr.*⁷⁶ instructs that:

In *Bautista v. Silva*, the Court erected a standard to determine the good faith of the buyers dealing with a seller who had title to and possession of the land but whose capacity to sell was restricted, in that the consent of the other spouse was required before the conveyance, declaring that in order to prove good faith in such a situation, the buyers must show that they inquired not only into the title of the seller *but also into the seller’s capacity to sell*. Thus, the buyers of conjugal property must observe two kinds of requisite diligence, namely: (a) the diligence in verifying the validity of the title covering the property; and (b)

⁷⁰ *Tolentino v. Spouses Latagan*, 761 Phil. 108, 131 (2015) citing *Heirs of Luga v. Sps. Arciaga*, 670 Phil. 294 (2011).

⁷¹ *Heirs of Arao v. Heirs of Eclipse*, G.R. No. 211425, November 19, 2018 citing *Heirs of Ingjug-Tiro v. Spouses Casals*, 415 Phil. 665, 673-674 (2001).

⁷² *Tolentino v. Spouses Latagan*, supra note 70 at 132, citing *Consolidated Rural Bank, Inc. v. Court of Appeals*, 489 Phil. 320-339 (2005).

⁷³ *Heirs of Arao v. Heirs of Eclipse*, supra, citing *Gambito v. Bacena*, G.R. No: 225929 (Resolution), January 24, 2018.

⁷⁴ *Id.*, citing *Pabalan v. Santarin*, 441 Phil. 462, 471 (2002).

⁷⁵ *Malabanan v. Malabanan, Jr.*, G.R. No. 187225, March 6, 2019 citing *Hemedes v. Court of Appeals*, 374 Phil. 692 (1999).

⁷⁶ 644 Phil. 26 (2010).

the diligence in inquiring into the authority of the transacting spouse to sell conjugal property in behalf of the other spouse.⁷⁷

In the case at bench, Arakor cannot claim to be an innocent purchaser for value since Atty. Legaspi did not diligently ascertain the genuineness of the signatures of the owners, Spouses Gaddi, especially that of Felicidad's. He merely relied on Fernando Sr.'s representations that Felicidad's signature was genuine. As aptly pointed out by the trial court, Atty. Legaspi, being a lawyer, should have been more circumspect to determine if Spouses Gaddi both had the capacity to sell and if they voluntarily and validly signed the deeds of sale. Atty. Legaspi could have requested or even demanded to personally talk to Felicidad in order to affirm if she consented to the disposition of the properties. He could have investigated further, considering Fernando Sr.'s age and the seeming enthusiastic attitude of Fernando Sr. and Efren in delivering the contracts and causing its notarization even without Atty. Legaspi's presence. If only Atty. Legaspi did his due diligence, he would have discovered that Felicidad was already dead, if his claim that he had no idea about her death prior to the sale is to be believed.

In the same way, Arakor cannot insist on the due execution of the Deeds of Absolute Sale simply because these were notarized. "Time and again, we have ruled that 'while it is true that a notarized document carries the evidentiary weight conferred upon it with respect to its due execution, and has in its favor the presumption of regularity, this presumption, however, is not absolute.' It may be rebutted by clear and convincing evidence to the contrary."⁷⁸

A reading of the acknowledgment portion of the deeds shows that Felicidad's name was not even written correctly, as it indicated "Felicitas." Moreover, Arakor did not present the notary public as a witness to affirm that the deeds were executed in accordance with the law, precisely because Felicidad cannot possibly be physically present to confirm with the notary public that she voluntarily signed. It is evident that the presumption of regularity as regards the due execution of the contracts cannot stand in this instance.

Also, it is apt to mention that Article 1410 of the Civil Code states that "[t]he action or defense for the declaration of the inexistence of a contract does not prescribe."⁷⁹ Simply put, "an action that is predicated on the fact that the conveyance complained of was null and void *ab initio* is imprescriptible."⁸⁰ Hence, the Gaddis could assail the validity of the Deeds of Absolute Sale and they rightly did so, in spite of Arakor's claim that they failed to question the sale several years after Arakor secured the titles to the

⁷⁷ Id. at 39, citing *Bautista v. Silva*, 533 Phil. 627 (2006).

⁷⁸ *Mendoza v. Fermin*, 738 Phil. 429, 444 (2014) citing *Meneses v. Venturozo*, 675 Phil. 641, 586 (2011).

⁷⁹ CIVIL CODE, Article 1410.

⁸⁰ *Heirs of Arao v. Heirs of Eclipse*, supra note 71.

properties. Lack of immediate challenge on the part of the Gaddis did not negate the fact that the contracts were null and void and assailable anytime due to the imprescriptibility of the action. Similarly, Arakor cannot invoke laches as a defense given that the action is imprescriptible.⁸¹ The Gaddis cannot be estopped from assailing the validity of the deeds precisely because Felicidad's signatures were forged and therefore produced no legal effect.⁸²

Arakor maintains that the Gaddis were *in pari delicto*, hence, their prayer should not be granted. Yet, Arakor was not able to prove that the Gaddis had knowledge of the fraud committed by Fernando Sr. and Efren, especially when a few of them are living in the United States as shown by their waivers. Similarly, Arakor did not prove that the waivers were executed for the purpose of evading payment of estate taxes, as this was contrary to the Gaddis' allegation that the properties were intended to be transferred under the name of the family corporation. In any case, "[t]he doctrine of *in pari delicto*, which stipulates that the guilty parties to an illegal contract are not entitled to any relief, cannot prevent a recovery if doing so violates the public policy against unjust enrichment."⁸³ To allow Arakor to retain ownership over the properties notwithstanding the void nature of the contracts of sale would amount to unjust enrichment as the petitioner would continue to benefit from the lands to the detriment of the Gaddis.

Jurisprudence teaches that "the declaration of nullity of a contract which is void *ab initio* operated to restore things to the state and condition in which they were found before the execution thereof."⁸⁴ As such, the trial court and the CA ordered the return of the certificates of title to the name of the Spouses Gaddi. Moreover, to prevent unjust enrichment,⁸⁵ the Gaddis should return the amount of ₱400,000.00 with legal interest to Arakor, although the total amount should be deducted from the estate of Fernando Sr. as there is an assumption that he received the consideration as the remaining living owner of the properties at the time. There was no sufficient proof offered to show that Efren also received part of the money, amidst the Gaddis' allegation that he procured a loan from Atty. Legaspi. In other words, "the restitution of what each party has given is a consequence of a void and inexistent contract."⁸⁶

Withal, the legal interest on the amount of ₱400,000.00 shall commence to run from the time judicial demand⁸⁷ was made, or the date when the Gaddis

⁸¹ *Id.*

⁸² *See Garcia v. Guimoc*, G.R. No. 237315, April 23, 2018.

⁸³ *Gonzalo v. Tarnate, Jr.*, 724 Phil. 198, 200 (2014).

⁸⁴ *Delos Santos v. Abejon*, 807 Phil. 720, 731 (2017) citing *Development Bank of the Philippines v. CA*, 319 Phil. 447, 454-455 (1995).

⁸⁵ *See Tan, Jr. v. Hosana*, 780 Phil. 258, 272 (2016) citing *Gonzalo v. Tarnate, Jr.*, 724 Phil. 198-209 (2014).

"Unjust enrichment exists 'when a person unjustly retains a benefit at the loss of another, or when a person retains money or property of another against the fundamental principles of justice, equity, and good conscience.' The prevention of unjust enrichment is a recognized public policy of the State and is based on Article 22 of the Civil Code."

⁸⁶ *Tan, Jr. v. Hosana*, supra at 268.

⁸⁷ *Pineda v. Zuñiga Vda. de Vega*, G.R. No. 233774, April 10, 2019, citing Jurado, Desiderio P., COMMENTS AND JURISPRUDENCE ON OBLIGATIONS AND CONTRACTS (1987 Ninth Revised Edition), p. 54.

actually filed the Complaint against Arakor, specifically on July 20, 1998.⁸⁸ However, the Court modifies the appealed Decision of the appellate court with regard to the interest on the monetary awards following the guidelines laid down by the Court in *Nacar v. Gallery Frames*⁸⁹ to wit:

[I]n the absence of an express stipulation as to the rate of interest that would govern the parties, the rate of legal interest for loans or forbearance of any money, goods or credits and the rate allowed in judgments shall no longer be twelve percent (12%) *per annum* — as reflected in the case of *Eastern Shipping Lines* and Subsection X305.1 of the Manual of Regulations for Banks and Sections 4305Q.1, 4305S.3 and 4303P.1 of the Manual of Regulations for Non-Bank Financial Institutions, before its amendment by BSP-MB Circular No. 799 — but will now be six percent (6%) *per annum* effective July 1, 2013. It should be noted, nonetheless, that the new rate could only be applied prospectively and not retroactively. Consequently, the twelve percent (12%) *per annum* legal interest shall apply only until June 30, 2013. Come July 1, 2013 the new rate of six percent (6%) *per annum* shall be the prevailing rate of interest *when applicable*.

x x x x

Nonetheless, with regard to those judgments that have become final and executory prior to July 1, 2013, said judgments shall not be disturbed and shall continue to be implemented applying the rate of interest fixed therein.

To recapitulate and for future guidance, the guidelines laid down in the case of *Eastern Shipping Lines* are accordingly modified to embody BSP-MB Circular No. 799, as follows:

I. When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on “Damages” of the Civil Code govern in determining the measure of recoverable damages.

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 6% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated

⁸⁸ *Rollo*, p. 65.

⁸⁹ 716 Phil. 267, 280 (2013). See Bangko Sentral ng Pilipinas Monetary Board Circular No. 799, Series of 2013.

claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 6% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

And, in addition to the above, judgments that have become final and executory prior to July 1, 2013, shall not be disturbed and shall continue to be implemented applying the rate of interest fixed therein.⁹⁰ (Citations omitted.)

Based on the foregoing, the amount of ₱400,000.00 shall be subject to interest at the rate of twelve percent (12%) per *annum* from the date of the filing of the Complaint or on July 20, 1998 until June 30, 2013, and thereafter, six percent (6%) per *annum* from July 1, 2013 until finality of this judgment. Moreover, once the judgment in this case becomes final and executory, the monetary awards discussed above shall be subject to legal interest at the rate of six percent (6%) per *annum* from such finality until its satisfaction.

WHEREFORE, the Petition for Review is **DENIED**. The assailed January 13, 2014 Decision and October 17, 2014 Resolution of the Court of Appeals in CA-G.R. CV No. 98704 are **AFFIRMED** with **MODIFICATIONS**, *viz.*:

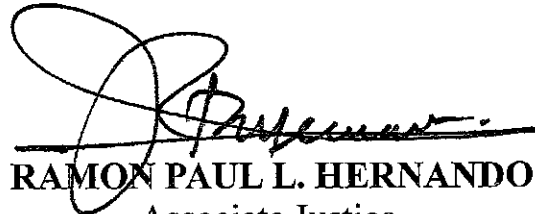
(i) The amount of ₱400,000.00 shall be subject to interest at the rate of twelve percent (12%) per *annum* from July 20, 1998 until June 30, 2013, and at the rate of six percent (6%) per *annum* from July 1, 2013 until the date of finality of this judgment; and

(ii) All the monetary awards shall be subject to interest at the rate of six percent (6%) per *annum* from the date of finality of this judgment until full satisfaction of the same.

⁹⁰ Id. at 280-283.

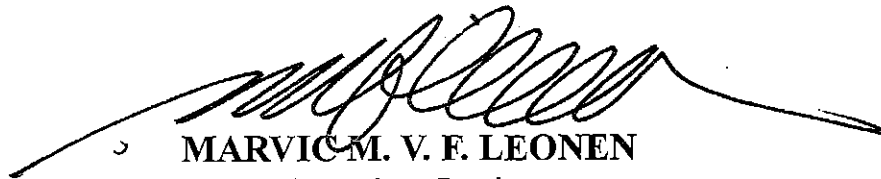
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SO ORDERED.



RAMON PAUL L. HERNANDO
Associate Justice


WE CONCUR:




MARVIC M. V. F. LEONEN
Associate Justice
Chairperson



HENRI JEAN PAUL B. INTING
Associate Justice



EDGARDO L. DELOS SANTOS
Associate Justice



RICARDO R. ROSARIO
Associate Justice

ATTESTATION

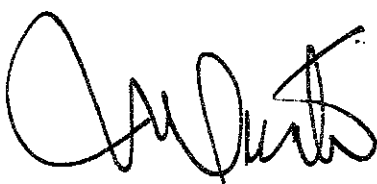
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARVIC M. V. F. LEONEN
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I hereby 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.



DIOSDADO M. PERALTA
Chief Justice