

SIXTH DIVISION

[CA-G.R. CV NO. 80263, September 06, 2006]

**LILIA Y. FINGLETON, PLAINTIFF-APPELLEE, VS. HENRY D.
RAMOS AND CAPITAL INSURANCE AND SURETY COMPANY, INC.
DEFENDANTS-APPELLANTS,**

D E C I S I O N

COSICO, J.:

A construction contract necessarily involves reciprocal obligations, as it imposes upon the contractor, the obligation to build the structure subject of the contract, and upon the owner, the obligation to pay for the project upon its completion. The violation of such reciprocity by the contractor gives the owner the right to rescind or cancel the contract, under Article 1191 of the Civil Code.

The Case

On appeal is the Decision, dated July 24, 2003, of the Regional Trial Court (RTC) of Baguio City, Branch 3, rendered in Civil Case No. 4483-R. Under the said decision, the lower court granted the plaintiff Lilia Y. Fingleton's complaint for damages arising from breach of contract, and ordered the defendants Henry D. Ramos and Capital Insurance and Surety Company, Inc. to pay damages to the plaintiff, as follows:

"WHEREFORE, by preponderance of evidence, the Court rules in favor of plaintiff Lilia Fingleton. Defendant Henry Ramos is hereby ordered to pay Actual Damages of One Million Five Hundred Thousand Pesos (P1,500,000.00); Moral Damages of One Hundred Fifty Thousand Pesos (P150,000.00); Nominal Damages of Fifty Thousand Pesos (P50,000.00); Exemplary Damages of Thirty Thousand Pesos (P30,000.00); and Attorney's Fees of Two Hundred Fifty Thousand Pesos (P250,000.00), plus costs of suit. Likewise, co-defendant Capital Insurance Company is hereby ordered to pay plaintiff Lilia Fingleton One Million Five Hundred Thousand Pesos (P1,500,000.00) representing the Performance Bond as part of Liquidated Damages in favor of said plaintiff. Costs of suit against both defendants.

"IT IS SO ORDERED." (p.857-858 IV Records)

The Facts

In a complaint filed with the Baguio City RTC on August 11, 1999, complainant Lilia Fingleton sued defendants Henry Ramos and Capital Insurance & Surety Company, Inc. (Capital Insurance, for brevity) for damages, arising from the uncompleted construction of her and her husband's residential house in Baguio City. Complainant recounts that she and defendant Henry Ramos entered into a construction contract in May 1997, whereby Ramos obligated himself to construct plaintiff's two storey

residential house, for the agreed price of P2,919,000.00. To guarantee the faithful compliance of his obligation, defendant Ramos secured from Defendant Capital Insurance a performance bond in the amount of P1,500,000.00. Defendant insurance company bound itself to be jointly and severally liable to plaintiff in the event of noncompliance by defendant of his obligation under the construction contract.

Later on, defendant Ramos abandoned the project, and thus failed to comply with his obligation to build plaintiff's house. At the time he left the project, the house was only 60% completed, although defendant had already collected P2,206,140.00 from the plaintiff. There was allegedly an overpayment of P366,412.00 by plaintiff to defendant.

As a result of the non-completion of the house, plaintiff had to spend an additional P1,157,769.00 for labor and materials for the completion of the same. Thus, plaintiff instituted the instant suit to recover various damages from the defendants.

Defendant Henry Ramos, for his part, claimed that he and the Fingletons entered into a building contract on May 6, 1997. Pursuant to the contract, Ramos secured the necessary permits and immediately started construction of plaintiff's house. Defendant Ramos had already accomplished more than sixty percent (60%) of the total project as of October 1997, even though plaintiff had defaulted and had been remiss in her obligations to pay for the additional works requested by her and her husband during the progress of the construction, and for which defendant had to advance payment for costs and labor, in the amount of P358,753.00. Defendant waited in vain for plaintiff to pay her overdue financial obligations and to defray the cost of labor and materials needed on the project.

In November, 1997, plaintiff, in violation of the building contract, and in utter bad faith, allowed other contractors and workers to take over and proceed with the remaining construction works of the project, without the knowledge and approval of defendant Ramos. Because of this, defendant made several demands to plaintiff about her outstanding obligations amounting to P353,753.00. His requests were however unheeded. Thus, it was the plaintiff who violated her contract with the defendant, and she should be the one ordered to pay damages to him.

Defendant Capital Insurance, on the other hand, claimed that the performance bond it issued in favor of the plaintiff is limited only to guaranteeing the faithful performance of the contract on the supply of labor and materials for the construction of plaintiff's house and not on the workmanlike manner of building the house and/or its accomplishment within the term stipulated in the construction contract.

At the close of pre-trial proceedings, the parties agreed on the witnesses and exhibits that they will present, as well as the schedule of trial dates. The parties also advanced the following issues for resolution:

For the plaintiff:

1. Whether or not defendant Henry Ramos is relieved of his obligation under the contract of work?

2. Whether or not defendant Henry Ramos should be held liable for the damages sustained by the plaintiff in this case?

3. Whether or not defendant Capital Insurance should be held liable based on the performance bond executed by the plaintiff and the defendant Ramos in this particular case?

For Defendant Henry Ramos:

1. Whether or not the plaintiff was the one who breached the contract?

2. Whether or not plaintiff is liable for outstanding obligation in the amount of P356,753.00 to defendant Ramos?

3. Whether or not the defendant insurance company should be the one held liable for damages claimed by the plaintiff and not defendant Ramos?

For Defendant Capital Insurance;

1. Whether or not defendant Ramos violated his building contract with the plaintiff?

2. If there exists a violation, whether or not the violation is covered by the performance bond issued by defendant Capital Insurance as bondsman?

At the trial, plaintiff presented as her witnesses, herself (TSNs February 8, 2001, February 15, 2001, February 22, 2001, February 28, 2001, March 7, 2001, March 8, 2001 and March 14, 2001); her husband, Donald Fingleton, (TSNs March 14, 2001, March 21, 2001, and June 13, 2001, Manuel Robert Domondon, (TSNs September 6, 2001, September 13, 2001, September 20, 2001 and September 26, 2001), and Josefino Realina, (TSNs September 26, 2001, October 2, 2001, December 13, 2001 and December 19, 2001). Plaintiff also offered in evidence Exhibits "A" to "P", with sub-markings.

Defendant Henry Ramos, on the other hand, presented himself, (TSNs, March 7, 2002, March 13, 2001, April 4, 2002, April 11, 2002, April 12, 2002, April 25, 2002 and April 26, 2002). Ramos also offered exhibits marked "1" to "5", with sub-markings.

Defendant Capital Insurance's only witness was Teofilo Malapit (TSNs, May 6, 2002 and May 30, 2002), who identified Capitol Insurance's documentary Exhibits "1" to "3" (TSN, May 30, 2002, pp. 15-17).

The RTC's Decision

Eventually, the lower court rendered its ruling in the case, granting the plaintiff's complaint. The RTC ordered the defendants Henry Ramos and Capitol Insurance to pay actual damages of P1,500,000.00 each to the plaintiff. Defendant Ramos was also ordered to pay plaintiff moral damages of P150,000.00, nominal damages of P50,000.00, exemplary damages of P30,000.00 and attorney's fees of P250,000.00, plus costs of suit.

The RTC justified its ruling in this manner:

"Firstly, the Court believes that defendant Henry Ramos presented himself to Lilia Fingleton, Filipino citizen, and her husband Paddy Fingleton, an Irish citizen. at Q.M., Baguio City in the Fingletons' rented house, as an architect. According to Lilia Fingleton, she recalls immediately that even over the phone when defendant Henry Ramos called up, she asked him if he is an architect, because they were building their dream house and to which defendant Henry Ramos declared that he is an architect and defendant Henry Ramos went to the house of the Fingletons. He was asked by both spouses if he is an architect and in both the phone conversation and at the house of the Fingletons, defendant Henry Ramos declared that he is an architect, and a US-licensed at that. He also told the Fingletons that he is the owner of the HD Ramos And Associates, thus giving the impression further to the Fingletons that he is an architect and such conglomerate HD Ramos and Associates could only be established by an architect.

"Defendant Henry Ramos denies that he told the Fingletons that he is an architect and stated that what he told the Fingletons is that he is like an architect. The demeanor of Henry Ramos on the witness stand does not convince the Court of his sincerity. This Court believes that defendant Henry Ramos misrepresented himself as an architect to the Fingletons, coupled with mention of the many buildings he has completed under the HD Ramos and Associates. In fact, when defendant Henry Ramos abandoned the project, Lilia Fingleton had to write the Professional Regulatory Commission or PRC if there is a Henry D. Ramos in the roll of architects to which the PRC replied in a letter that no Henry D. Ramos appears in their list of architects. As to the PRC Number of the architect used by Henry D. Ramos in his plans, the same belongs to a certain Architect Rolando C. Calma and not to Henry Ramos. Why would Henry D. Ramos be using the Architect PRC Number of another architect, if not to defraud or deceive the Fingletons?

"Clearly, there is an element of deceit on the part of defendant Henry Ramos in misrepresenting himself as an architect, considering the Fingletons, particularly paddy Fingleton, husband of Lilia Fingleton is an Irish, and he would not settle for a non-architect to build his house.

"Secondly, in many receipts, plaintiff Lilia Fingleton enumerated the amounts spent by defendant Henry Ramos. Plaintiff is not anymore claiming the whole amount of P2,000,100.00, but the amount of P1.5 Million representing the defective structure of defendant Henry Ramos. According to Lilia Fingleton, the original plan of the house is supposed to be on top of a hill, but because of the mistake of defendant Henry Ramos, who is an architect in building columns within the prohibited area, the columns had to be moved backward for about three (3) meters away, resulting in the house to be behind the hill.

"Defendant Henry Ramos' construction was defective considering the house which should have been on top of a hill, now behind the hill with a