

95 Phil. 875

[G.R. No. L-5295. September 29, 1954]

CARLOS IÑIGO, ET AL., PLAINTIFFS AND APPELLEES, VS. NATIONAL ABACA & OTHER FIBERS CORPORATION AND PHILIPPINE NATIONAL BANK, DEFENDANTS AND APPELLANTS.

D E C I S I O N

REYES, J.B.L., J.:

The National Abaca and Other Fibers Corporation (NAFCO for short) and the Philippine National Bank pray for the reversal of the decision rendered by the Court of First Instance of Davao, in Civil Case No. 558, the dispositive part whereof reads as follows:

“In view of the foregoing considerations, judgment is hereby rendered in favor of the plaintiffs declaring them owners of the Bago Iñigo Estate, with full rights of possession from November 15, 1949, with the solidary obligation to pay the Philippine National Bank the sum of P22,663.29 within 15 years in, equal annual installments, with interest on the unpaid principal at the rate of 6 1/2 per cent per annum from the date of the issuance of the Transfer Certificate of Title in their names, and with the further solidary obligation to pay the NAFCO the sum of P6,191.61, with interest at the rate of 6 per cent per annum on the unpaid balance, payable in 9 equal installments from November 15, 1951, and ordering the Register of Deeds of the City of Davao to cancel Transfer Certificate of Title No. 1197, and to issue, upon payment of his legal fees by the plaintiffs, a new Transfer Certificate of Title in its stead, in the name of the plaintiffs, with costs to both defendants. (Rec. on App. p. 238.)

Appeal is likewise interposed against the order of March 2, 1951, for the immediate execution of the foregoing judgment (Rec. on App. pp. 242-246).

The following facts are clear from the record: that the father of the plaintiffs, Feliciano Iñigo, was the original owner of the property here in litigation, known as the Bago Iñigo Estate in Davao, now covered by Certificate of Title No. 1197. Being indebted to the Philippine National Bank, and unable to pay off the obligation, Feliciano Iñigo and his wife conveyed the estate aforesaid to the Bank in 1932, with right to repurchase, and remained in possession as lessee. On January 3, 1934, the Bank resold the property to a Japanese named Yoshizo Furukawa, for the price of P60,000, of which only P3,000 were paid in cash, the balance being payable in installments, secured by a mortgage on the properties sold. The sale and mortgage were duly recorded, and Furukawa obtained a transfer certificate in his name, with No. 1197. The debt was still unpaid at the outbreak of the last war, and when the Islands were reoccupied by the allied forces, the property was confiscated by the United States Government. Subsequently, it was conveyed to the Philippine Republic, in accordance with the Philippine Property Act of 1946, subject to the Bank's mortgage. By Executive Order No. 29 series of 1946, the late President Roxas turned over the property to the National Abaca and Other Fibers Corporation (NAFCO), for administration and disposition in accordance with existing laws.

The heirs of the original owner of the Bago Iñigo Estate, appellees herein, sought to be allowed to reacquire the property, mainly on the ground that neither they nor their father had been given adequate opportunity to repurchase the property (as had been the Bank's practice), before it was sold to Furukawa; and in January 31, 1948, they secured from the management of the NAFCO, after consulting its counsel (Exhibits L-1 to L-3), a memorandum to the President of the Philippines (Exhibit C), recommending that the estate be conveyed to the Philippine National Bank, for the latter to retransfer to the heirs of Feliciano Iñigo, subject to the payment of the Furukawa obligations. Upon the death of President Roxas, the Iñigo heirs petitioned President

Quirino to the same effect; and their petition was endorsed to the Bank's president with the notation: "Mr. Carmona: Please see if you can expedite this Q." (Exhibit C-5).

On October 26, 1949, the Bank Directors passed Resolution No. 716 (Exhibit C-6), approving the management's recommendation:

"(1) That we acquire the said property either by cession or foreclosure of the mortgage whichever is safer to protect the interests of the Bank;

(2) That in case the property is reacquired by cession, the NAFCO shall not claim to deduct any expenses it might have incurred to date from the present claim of the Bank against Yoshizo Furukawa;

(3) That the Bank sell the said property to the heirs of Mr. Iñigo for the full amount of our claim of P73,036.71 as of June 15, 1949 against Yoshizo Furukawa; and

(4)
That the property be sold 'as is and that the heirs shall take care of making the necessary arrangements with the tenants in connection with their occupation of any portion or portions thereof,

subject to the following conditions:

(1) That full title to the property be first vested in the Philippine National Bank by securing a Deed of Assignment from the Republic of the Philippines;

(2) That reimbursement of expenses incurred for improvements on the property which may be claimed by the NAFCO, be made by the "heirs to the said corporation;

(3)
That the selling price of P73,036.71 be reduced to P60,000 upon the

execution of the contract, and the balance be paid in 15 equal annual installments instead of 20 years as requested; and

(4) That the sale be made to conform to the Administration's policy and shall be subject to the conditions customarily imposed by the Bank in transactions of this kind." (Exhibits on Appeal, Exhibit C-6, pp. 25-26.)

The conditions were embodied in a letter (Exhibit C-7) to the Iñigo heirs, who transmitted it to the NAFCO on November 3, 1949. The NAFCO directorate then approved a resolution (No. 150) on November 11 (Exhibit C-9), referring to Resolution No. 716 of the Philippine National Bank, and "resolved to recommend to His Excellency, the President, the assignment of the Bago Iñigo Estate to the Philippine National Bank so that the latter can legally execute a deed of sale covering said property to the heirs of the late Feliciano Iñigo, provided that the NAFCO be reimbursed of all its expenses incurred in the way of new improvements, payment thereof to be made in annual installments, not to exceed 10 years with interest at 6 per cent per annum on the unpaid balance."

On November 14, 1949, the appellees Iñigo heirs were notified by the General Manager of the NAFCO of the tenor of the resolution adopted by the latter and of the fact that the resolution had been forwarded to Malacañang; and on the same date, Carlos Iñigo, for himself and his co-heirs, signed an acceptance "of the terms of the NAFCO...obligating ourselves to reimburse the NAFCO for all its expenses incurred in the way of new improvements" as stipulated in the NAFCO resolution (Exhibit C-9). On the same date, the bank received from Dr. Roque Monfort, husband of Remedios Iñigo, one of the heirs, "for application to Iñigo property" the sum of P13,036.71, the amount required to reduce the outstanding balance of the Furukawa account to P60,000, as required by the Resolution 712 of the Bank (Exhibit H-1).

The next day, November 15, the General Manager of the NAFCO executed

a notarial deed transferring and assigning the Bago Iñigo Estate to the Philippine National Bank, for 1 peso and other good and valuable consideration (Exhibit E). At the foot of the last page, the document bears the notation:

“APPROVED:

By authority of the President:

Executive Secretary”

Attorney Juan B. Francisco, the notary before whom the NAFCO deed (Exhibit E) was ratified, and concurrently Secretary and Officer in charge of the NAFCO testified that the deed was approved by the Directors and forwarded to Malacañang,

On November 16, the Iñigo heirs were placed by the NAFCO in possession of the Estate; the NAFCO tractor and hemp stripper were removed and new machinery was installed by the heirs; they also erected buildings and made other improvements, and made contracts with the guards and laborers. But, subsequently, some tenants signed complaints at the instance of NAFCO officials; trouble arose and the Estate was placed under receivership (Case No. 13, Davao Court of First Instance) (Exhibit X). The case is still pending.

On May 25, 1950, Secretary of Justice Nepomuceno rendered an opinion (No. 60, Ser. 1950) (Exhibit L-3) to the effect that the outright sale of the Estate in favor of the Iñigo heirs, “may not be allowed under existing law” because “the procedure prescribed by section 24 (of the Public Land Law) must be followed in its alienation.”

On August 21, 1950, the Iñigo heirs petitioned the Bank to execute the conveyance in their favor pursuant to Resolution No. 712; and such step was favorably recommended by the Bank’s legal department (Exhibit Y). However, on September 12, 1950, the adverse opinion of Secretary Nepomuceno was sustained by the Cabinet; and it also resolved that in the disposition of the property, preference be given to squatters who are veterans or guerrillas, as provided in section B of Republic Act

No. 477. (Exhibit 8, NAFCO.)

This resolution of the Cabinet notwithstanding, the Iñigo heirs offered to pay the Bank 1/15 of the outstanding balance (Exhibit K), but the Bank declined, for the reason that the sale had not been approved by the President. Thereupon this case was instituted on October 30, 1950, to compel the Bank to execute conveyance of the Estate, to obtain its delivery from the NAFCO, and for settlement of accounts.

The Iñigo heirs, now appellees, further asked the Court below to determine the correct amount owed by them to the NAFCO for “new improvements” and that their obligation to the Bank for the purchase price of the Estate be reduced by deducting therefrom the interests accrued during the occupation on the Furukawa account, on the ground that such interests had been condoned by Republic Act 401, enacted August 28, 1949.

Appellants (defendants below) answered denying the validity and operative effect of Resolution No. 712 of the Philippine National Bank’s Board of Directors, claiming that the deed of assignment, Exhibit D, was conditioned on the President’s approval of the same, and that it was never given. After trial, the Court of First Instance of Davao rendered judgment in favor of the plaintiff Iñigo, in the terms previously quoted, and the case was regularly appealed to this Court.

A preliminary procedural question is raised by appellants that the plaintiffs’ claim is virtually one against the Republic of the Philippines, and hence that the latter should be made a party, as demanded by counsel for appellants in their motion of December 28, 1950, after the trial had ended. Upon objection of plaintiffs, the trial Court denied the motion and it is alleged that such denial constituted error. The point thus raised is untenable because plaintiffs-appellees, in their complaint, sought no remedy against the Republic of the Philippines, their position, so disclosed by their pleading’s, is that the Republic, through the NAFCO, had conveyed the Iñigo Estate to the appellant Bank, and that the latter, having become its owner, was under

obligation to re-transfer the property to the appellees herein in accordance with the trilateral agreement had between the Iñigos, the NAFCO and the bank. Moreover, the two appellants being government controlled corporations with interests identical to those of the Republic, the latter's side was adequately represented and its joinder was not, therefore, indispensable.

The main issue is the effect of the deed of assignment executed by the NAFCO in favor of the Philippine National Bank (Exhibit D). Both appellant corporations contend that the deed was subject to the suspensive condition that it should be approved by the President of the Philippines; that it was not approved and, therefore, its execution did not satisfy the condition set by the Bank for the conveyance of the Bago Iñigo Estate to the plaintiffs-appellees, to wit: that the Republic should first transfer the Estate to the National Bank (Resolution No. 712).

We agree with the appellees that the circumstances surrounding the transaction belie the claim that the assignment by the NAFCO was conditional. While originally the resolution of the NAFCO directorate had been only to "recommended the assignment of the estate to the Iñigo heirs", the Directors subsequently approved the direct assignment to the Bank (Exhibit D) which contained in its text not mention of previous Presidential approval; and the subsequent action of the NAFCO, in transferring possession of the Estate to the Iñigo heirs, and withdrawing its own hemp-stripping machinery from the land, and requiring the Iñigo heirs to signify their assent to reimbursing NAFCO for the expenses of new improvements (all of it done without waiting for the Presidential approval), are proof that the NAFCO considered the transfer to the National Bank actually in force and operative since its execution. If any condition was attached at all, it must have been a resolatory one, instead of suspensive: i.e., that the transaction would be nullified if disapproved by the President. Considering the note of President Quirino to President Carmona of the Bank to expedite the transaction, none of the parties, the NAFCO, the Bank or the Iñigo heirs, had reason to doubt that the president approved the transaction.

Although the assignment was executed by the NAFCO, it was in fact one by the Republic of the Philippines, since by the Executive Order No. 29 (1946), the NAFCO had been given authority both to *administer* the estate and other properties transferred by the United States to the Republic of the Philippines under the 1946 Property Act (sec. 1, Ex. O. No. 29), as well as to *dispose* of them according to existing laws (Ex. O. cit., sec. 2).

The real defect that prevented the conveyance, Exhibit D, from taking effect on the date of its execution lay in the failure to observe the sales application, publication, and auction requirements of the Public Lands Act (Comm. Act 141, as amended). In fact, the opinion of Secretary of Justice Nepomuceno called attention to these objections. But they were cured and the sale validated when Republic Act 477 was approved, for its section 3 expressly stated the following:

“Provided, however, That sales of such lands heretofore made by the National Abaca and Other Fibers Corporation without the sales application, publication and public auction as provided in the above mentioned sections of the Public Land Law are hereby authorized, ratified and confirmed.”

The appellants aver that by the words “such lands” the Act referred to lands subdivided for sale by the NAFCO. This position is unwarranted, because the subdivision and sales referred to in the Act are all designed for the future. Section 1 of Act 477 provided as follows:

“SEC. 1. All lands which have been or may hereafter be transferred to the Republic of the Philippines in accordance with the Philippine Property Act of 1946 (Act of Congress of the United States of July 3, 1946) and Republic Act Numbered Eight and all the public lands and improvements thereon transferred from the Bureau of Lands to the National Abaca and Other Fibers Corporation under the provisions of Executive Order No. 29, dated October 25, 1946 and of Executive Order No. 99, dated October 22, 1947 shall be subdivided by

the National Abaca and Other Fiber Corporation into convenient-sized lots, except such portions thereof as the President of the Philippines may reserve for the use of the National or local governments, or for the use of corporations or entities owned or controlled by the Government. Subdivision lots primarily intended for, or devoted to, agricultural purposes shall not exceed an area of five hectares for coconut lands, ten hectares for improved abaca lands, and twelve hectares for unimproved lands, urban homesite or residential lots shall not exceed an area of one thousand square meters nor less than one hundred fifty square meters.”

Manifestly, the Act could not have intended to ratify and confirm a subdivision and sale *in futuro*.

And if the Legislature had intended to ratify only sales of subdivided lands, it would have so stated. The generality of the terms of the proviso appears to cover any and all sales by the NAFCO, including Exhibit D and other sales of large tracts theretofore made, like the Garcia estate (Exhibit M).

Hence, the objection raised by the Secretary of Justice in his opinion of May 25, 1950, and which were correct as of that date, became no longer tenable upon the approval of Republic Act No. 477 on June 9, 1950, and constituted thereafter no obstacle to the validity and effectiveness of the conveyance. As of September 12, 1950, over ninety days after its confirmation by said Act, the deed Exhibit D could no longer be nullified and the Cabinet’s adverse resolution of said date contains plain indications that the validating effect of Republic Act 477 was never called to its attention.

That the assignment has not been recorded does not militate against the obligatory force between the parties to the transaction, including the transferee, Philippine National Bank, which was at liberty to cause the recording of the document. It is inequitable for a vendee to make use of its own failure to record a conveyance in its favor as a pretext to escape its obligations thereunder. Both article 1315 of the new Civil Code, and article 1258 of the old one, prescribe that perfected

contracts bind the parties not only to the fulfillment of what has been stipulated but also to all the consequences which are “in keeping with good faith, usage and law.”

One of the conditions imposed by Resolution No. 150 of the NAFCO and accepted by the Iñigos, was that “it be reimbursed of all its expenses incurred in the way of new improvements, payment thereof to be made in annual installments not to exceed 10 years with interest at 6 per centum per annum on the unpaid balance” (Exhibit C-9; Exhibit E). Accordingly, the NAFCO submitted two statements of such expenses, one for P24,671.39 (Exhibit E-1), and another for additional expenses in the sum of P1,282.22 (Exhibit E-2). The heirs of Iñigo objected, and the Court below expressly found that several items totaling P14,757.00 did not represent expenses for new improvements but were ordinary operating expenses incurred in the normal exploitation and offset by the income derived from it; wherefore, the trial Court reduced the Iñigos’ outstanding indebtedness to the NAFCO to P11,191.61 for new improvements, less the P5,000 paid on account, leaving an actual balance of P6,191.61.

The appellants nowhere question the correctness of the findings that the items stricken out were not for new improvements; but aver in their brief (eleventh assignment of error) that the Iñigos “expressly agreed to pay to the NAFCO the sum of P16,929.61.” This averment is contrary to the terms of the NAFCO resolution and the heirs acceptance, appended to Exhibit E, “in so far as obligating ourselves to reimburse the NAFCO for all its expenses incurred in the way of new improvements”, and is further contradicted by the letters of protest of Carlos Iñigo, Exhibit E-3 and E-4. Hence, the appellants’ stand on this point must be overruled.

We must agree with appellants, though, in their stand that the Court below erred in ruling that the amount to be paid by the plaintiff—appellees to the National Bank as price for the Bago Iñigo Estate should be limited to the unpaid balance of the principal owed by Furukawa, on the ground that the accrued interest from January 1, 1942 to June 15, 1949, had been remitted by Republic Act No. 401. The

documents clearly prove that the Bank agreed to sell the Estate, and the Iñigos agreed to purchase it, for the lump sum of P73,036.71. As between the Bank and the Iñigos, there could be no question of subdividing that amount into principal and interest, for the Iñigos were buyers and not debtors of the Bank. The Iñigos were not at any time subrogated in the place of Furukawa; they came in as independent purchasers, and voluntarily agreed to pay the P73,036.71 stipulated. How that amount was arrived at is immaterial; the Bank fixed the price and it was unqualifiedly accepted; hence the Iñigos were thereafter bound to pay the price as agreed upon. Just as article 1315 of the new Civil Code and article 1258 of the Code of 1889 bind the Bank to convey the Estate to the Iñigos, so are the latter obligated to pay the Bank the stipulated price. Obligations arising from contract have the force of law between the parties.

Wherefore, the judgment appealed from is affirmed, with the sole modification that the appellees shall pay the appellant Philippine National Bank the sum of P60,000, in installments, and with the interest adjudged in the decision of the Court below. Without costs in this instance.

Paras, C.J., Bengzon, Padilla, Montemayor, Reyes, A., Jugo, Bautista Angelo, and Concepcion, JJ., concur.
