

Title: Fidela Del Castillo Vda. De Mistica vs. Spouses Bernardino Naguiat and Maria Paulina Gerona-Naguiat

Facts:

In April 1979, Eulalio Mistica entered into a contract to sell a 200-square-meter portion of his land in Malhacan, Meycauayan, Bulacan, to the Naguiats for PHP 20,000. An initial payment of PHP 2,000 was made upon the agreement's execution, with an additional PHP 1,000 paid in 1980. The balance was to be settled within ten years, subject to a 12% annual interest for delay. However, after making only PHP 3,000 in payments and failing to settle the balance, the Naguiats ceased payments.

Eulalio Mistica passed away in October 1986. In December 1991, Fidela Del Castillo Vda. De Mistica initiated a complaint for rescission due to the Naguiats' failure to fully pay, alleging contract violation and seeking possession return, rental payment for land use, and litigation expenses. The Naguiats countered, arguing that the contract allowed late payment with interest, and claimed ownership through a Free Patent Title from the Bureau of Lands. The RTC dismissed Mistica's complaint but ordered the Naguiats to settle the balance with interest, revising the land area involved. The CA affirmed the RTC, modifying that rescission was not warranted and advised payment for the balance and the extra 58-square-meter lot included in the Naguiats' title.

Issues:

1. Did the CA err in its interpretation of Art. 1191 of the New Civil Code by ruling no contract breach occurred despite payment failure?
2. Was the CA correct in holding that contract rescission is not feasible because a certificate of title had been issued in the Naguiats' favor?
3. Did the CA err in deciding reconveyance of the extra 58 sq. m. portion covered by the Naguiats' certificate of title was not viable, and therefore, payment for its value was proper?

Court's Decision:

The Supreme Court found the petition without merit, affirming the CA's decision with a modification regarding the extra land lot's payment. The Court ruled that the failure to pay the full price within ten years did not constitute a substantial breach to warrant rescission, especially where the agreement allowed deferred payment with interest. The Court also clarified that the issuance of a title in the Naguiats' names did not directly determine the rescission's propriety and that the dispute over the extra 58 sq. m. is to be settled in a direct proceeding for title cancellation, not in an action for contract rescission.

Doctrine:

The failure to pay the full purchase price in a sale does not automatically entitle the seller to rescind the agreement unless the breach is substantial and fundamental to the obligation's fulfillment. Rescission is a remedy allowed only when contractual reciprocity is violated through a significant breach.

Class Notes:

- Rescission under Article 1191 is contingent on a substantial breach.
- Contract stipulations constitute the law between parties and should be enforced as such.
- Ownership cannot be established or transferred merely through registration of property.
- Article 1182 pertains to void obligations if conditions depend solely on the will of the debtor.
- Direct proceedings are required for challenges against a certificate of title, not collateral attacks.

Historical Background:

This case illustrates the judicial approach to contract enforcement and property rights in the Philippines, emphasizing the balance between strict adherence to contract provisions and equitable considerations in property disputes. It underscores the transition from mutual agreements to formal legal disputes concerning property ownership and contractual obligations.