

**\*\*Title:\*\*** Dao Heng Bank, Inc., now Banco de Oro Universal Bank vs. Spouses Lilia and Reynaldo Laigo

**\*\*Facts:\*\*** Spouses Lilia and Reynaldo Laigo secured loans from Dao Heng Bank, Inc. amounting to P11 Million with three real estate mortgages on two parcels of land. Unable to fulfill their loan obligations, the Laigos orally offered one of the lots as dacion en pago, leading Dao Heng to appraise the properties. Dao Heng, thereafter, demanded payment and proceeded with foreclosure and public auction, where Banco de Oro (petitioner), following a merger with Dao Heng, emerged as the highest bidder.

The Laigos attempted to negotiate for the redemption of the properties but failed to meet the conditions set by the petitioner, leading to their filing a complaint for Annulment and Injunction with the Regional Trial Court (RTC) of Quezon City, alleging a verbal agreement on dacion en pago. The RTC dismissed the complaint based on the Statute of Frauds, a decision reversed by the Court of Appeals (CA) which found a cause of action, leading the petitioner to appeal to the Supreme Court.

**\*\*Issues:\*\***

1. Whether the Complaint states a sufficient cause of action despite the alleged absence of a perfected dacion en pago contract.
2. Whether the alleged dacion en pago is unenforceable under the Statute of Frauds due to the absence of a written and binding contract.
3. Whether the Complaint sufficiently stated a cause of action.

**\*\*Court's Decision:\*\***

The Supreme Court reversed the Court of Appeals' decision, reinstating the Regional Trial Court's dismissal of the complaint. The Court emphasized that dacion en pago requires common consent similar to a contract of sale, including the essential elements of consent, object, and cause. Without concrete proof of the petitioner's approval of the dacion en pago after the property appraisal, and given the delivery of the titles was incidental to the mortgage and not evidence of an agreement, the Court found no perfected agreement for dacion en pago. The partial execution of a sale takes a transaction out of the Statute of Frauds, but this was not applicable as there was no satisfactory evidence of such execution regarding the dacion en pago proposition by the Laigos.

**\*\*Doctrine:\*\***

- Dacion en pago is akin to a contract of sale requiring consent, object, and cause. It is an

objective novation of the obligation necessitating common consent of the parties to extinguish the debt.

- The partial performance of a contract can remove an agreement from the limitations of the Statute of Frauds when the essential elements are clearly present, dictated by the nature of dacion en pago, which also follows the law governing sales.

**\*\*Class Notes:\*\***

1. **\*\*Dacion en Pago:\*\*** A method of extinguishing an obligation where property is transferred to the creditor in satisfaction of a debt. Essential elements include common consent, identifiable subject matter, and lawful cause or consideration.
2. **\*\*Statute of Frauds:\*\*** Requires certain contracts to be in writing to be enforceable, including agreements for the sale of real property or interests therein.
3. **\*\*Elements of a Valid Contract:\*\*** Consent of the contracting parties, a definite object, and lawful cause or consideration.
4. **\*\*Case Context Application:\*\*** Despite allegations of partial performance in a dacion en pago arrangement, evidence of mutual consent and conformity to the agreed terms must be clearly demonstrated to validate such a claim outside the Statute of Frauds.

**\*\*Historical Background:\*\*** The case emerged in the context of financial obligations and the procedures for settling unpaid loans. It underscores the legal boundaries of agreements like dacion en pago within the Philippine legal framework, emphasizing the importance of written agreements and mutual consent for such special modes of payment to be recognized and enforceable.