

****Title:**** Margarita Suria and Gracia R. Joven vs. Hon. Intermediate Appellate Court, Hon. Jose Mar Garcia, and Spouses Herminio A. Crispin and Natividad C. Crispin

****Facts:****

On June 20, 1983, the Crispins filed a complaint in the RTC of Laguna for rescission of contract and damages against Suria and Joven, alleging the latter failed to pay the stipulated installments for a land sale under a Deed of Sale with Mortgage dated March 31, 1975. Only one installment was made, with subsequent demands for payment being ignored or unmet by Suria and Joven.

On November 14, 1983, the defendants filed their answer with a counterclaim. Later, on July 16, 1984, a motion to dismiss was filed by Suria and Joven, stating that foreclosure was the appropriate remedy rather than rescission, and that the requirements for rescission were not met. The motion to dismiss was denied by the RTC, leading to a series of legal maneuvers including an offer to pay the outstanding balance by Suria and Joven, which was rejected. After a denied motion for reconsideration by the RTC, the case was elevated to the Intermediate Appellate Court, which also rejected the petitioners' contentions.

****Issues:****

1. Whether rescission under Article 1191 of the Civil Code is an appropriate remedy in a Deed of Sale with Mortgage.
2. Whether the seller can demand rescission without offering to restore what was paid or complying with the requirements of the Maceda Law.

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

The Supreme Court granted the petition, reversing the decision of the Intermediate Appellate Court. It ruled that rescission under Article 1191 of the Civil Code is not applicable to cases where the contract is secured by a mortgage. The Court identified the relationship between the parties as that of mortgagor and mortgagee rather than buyer and seller due to the consummation of the sale and the existence of a mortgage to secure the obligation. As such, foreclosure, not rescission, was deemed the proper recourse, in accordance with the specific provisions of the contract and Article 1384 of the Civil Code. Furthermore, the Court acknowledged that the petitioners offered to pay the past due accounts, directing them to settle their indebtedness with interest, or else the respondents might resort to foreclosure.

****Doctrine:****

The Supreme Court elucidated the distinction between rescission under Article 1191 and foreclosure in contracts secured by a mortgage, emphasizing that rescission is a subsidiary remedy not available when other legal remedies, such as foreclosure, exist within the terms of the contract. The Court reiterated the principle from *Villaruel v. Tan King* emphasizing that the adequate remedy in cases of nonpayment under a contract secured by a mortgage is foreclosure rather than rescission.

****Class Notes:****

1. ****Reciprocal Obligations (Art. 1191, Civil Code):**** Implied power to rescind obligations in case one of the obligors does not comply with what is incumbent upon them. Central to reciprocal contracts, allowing for the choice between fulfillment and rescission with damages either way.
2. ****Subsidiary Nature of Rescission (Art. 1384, Civil Code):**** Rescission is subsidiary and available only in the absence of any other legal remedy.
3. ****Foreclosure:**** The legal process where a lender attempts to recover the balance of a loan from a borrower who has stopped making payments by forcing the sale of the asset used as the collateral for the loan.
4. ****Maceda Law (R.A. 6552):**** Outlines the rights of buyers on installment payments, including the right to a grace period and, in case of cancellation of sale due to non-payment, requirements for the seller to refund certain amounts.

****Historical Background:****

This case reflects the intricate application of contract law principles, especially in transactions involving real estate where contracts of sale are often secured by mortgages. The judiciary's role in interpreting these agreements involves a balance between strict adherence to contractual stipulations and the equitable considerations underpinning consumer protection laws such as the Maceda Law. This decision reinforces the specific legal nature of contracts secured by mortgages and distinguishes between the remedies applicable to breaches of obligations therein.