

Title: Jaime G. Ong vs. The Honorable Court of Appeals and Spouses Miguel K. Robles and Alejandra M. Robles

Facts:

In a step-by-step progression, petitioner Jaime Ong entered into an “Agreement of Purchase and Sale” with respondents, spouses Miguel and Alejandra Robles, on May 10, 1983, for two parcels of land in Quezon. Under the agreement, the purchase price was set at P2,000,000.00, with an initial payment agreed upon and further payments scheduled over quarterly installments. Upon taking possession of the property, Ong fulfilled the initial payment and partially paid off the Robleses’ loan with BPI as agreed. However, post-dated checks for the remaining balance were dishonored due to insufficient funds, leading to Ong’s failure to complete payment. Consequentially, faced with foreclosure threats from BPI, the Robleses sold property transformers to cover their outstanding loan, with Ong’s consent but obligation to reimburse them.

Due to Ong’s continued payment failure and unauthorized property improvements, the Robleses demanded the property’s return in 1985 and filed a complaint for rescission of contract and recovery of properties with damages when their demand was unmet. The trial court, subsequently upheld by the Court of Appeals, decided in favor of the Robleses, leading to Ong’s appeal to the Supreme Court on the matters of rescission under Article 1191 of the New Civil Code and alleged novation of the contract.

Issues:

1. Whether the “Agreement of Purchase and Sale” could be rescinded under Article 1191 of the New Civil Code due to non-fulfillment of the payment condition.
2. Whether the contract between the parties was novated concerning the time and manner of payment.

Court’s Decision:

The Supreme Court distinguished between rescission and resolution, clarifying that the case involved a contract to sell where full payment was a suspensive condition. Ong’s failure to complete the payment did not constitute a breach under Article 1191 but prevented the vendor’s obligation to convey title. Thus, the non-fulfillment of the condition allowed for the contract’s setting aside, albeit not due to a breach on Ong’s part. Concerning alleged novation, the Court found no explicit nor implicitly irreconcilable agreement to modify the original contract terms, thus ruling out novation.

Doctrine:

The ruling reiterates the distinction between a contract to sell and a contract of sale, highlighting that in a contract to sell, full payment of the price is a suspensive condition whose non-fulfillment prevents the obligation to convey title but is not considered a breach of contract warranting rescission under Article 1191 of the New Civil Code. Additionally, it emphasizes that novation requires explicit terms or complete incompatibility between the old and new obligations, which was not present in the case.

Class Notes:

- **Contract to Sell vs. Contract of Sale:** In a contract to sell, ownership is reserved until full payment. Non-payment prevents the obligation to convey title but is not a breach.
- **Article 1191 vs. Article 1381 (NCC):** Article 1191 pertains to reciprocal obligations and their resolution due to breach, while Article 1381 covers rescissible contracts for specific cases of lesion or damage.
- **Novation Requirements:** Novation requires a previous valid obligation, a new contract agreement, the old contract's extinguishment, and the new contract's validity.
- **Key Statutory Provisions:**
 - Art. 1191, NCC: Rescission for non-fulfillment in reciprocal obligations.
 - Art. 1292, NCC: Conditions for obligation extinguishment via novation.

Historical Background:

This case exemplifies the legal intricacies involved in real estate transactions, particularly the implications of failing to meet the suspensive conditions of a contract to sell and the stringent requirements for contract novation. It emphasizes the protective mechanisms in Philippine contract law to prevent unjust enrichment at another's expense and ensure equitable resolution for contractual disputes.