

A. Francisco Realty and Development Corporation vs. Court of Appeals and Spouses Romulo S.A. Javillonar and Erlinda P. Javillonar

Facts:

The case involves a petition for review on certiorari filed by A. Francisco Realty and Development Corporation (petitioner) against the Court of Appeals' decision, which reversed the Regional Trial Court of Pasig City's judgment in favor of the petitioner and against the spouses Romulo and Erlinda Javillonar (respondents).

The genesis of this legal battle was when the petitioner extended a loan of P7.5 million to the respondents, for which the latter executed a promissory note with a 4% per month interest rate. To secure the loan, respondents mortgaged a property to the petitioner and also executed an undated deed of sale for the same property in favor of the petitioner as an additional security. According to the conditions, failure to pay the interest would lead to the transfer of full possession and the registration of the deed of sale to the petitioner. Subsequently, the respondents obtained an additional loan of P2.5 million from the petitioner.

When the respondents failed to pay the interest, the petitioner registered the sale of the land in its name, prompting the issuance of a new title (TCT No. PT-85569). The respondents refused to vacate the property despite the petitioner's demands, leading the latter to file an action for possession before the Regional Trial Court in Pasig City. The respondents argued that the undated deed of sale was merely for additional security and that they had been paying interest even after the sale was registered. They also contended that the trial court had no jurisdiction as the case was essentially for ejectment.

The Regional Trial Court ruled in favor of the petitioner, declaring its ownership of the property legal and valid. However, upon appeal, the Court of Appeals reversed the decision and held that the trial court lacked jurisdiction because the case was essentially for unlawful detainer. It also found the deed of sale void for being a pactum commissorium—a provision prohibited by Art. 2088 of the Civil Code.

Issues:

1. Whether the Court of Appeals erred in ruling that the Regional Trial Court lacked jurisdiction over the complaint filed by the petitioner.
2. Whether the Court of Appeals erred in ruling that the contractual documents in the

instant case constitute a pactum commissorium under Article 2088 of the Civil Code of the Philippines.

Court's Decision:

The Supreme Court affirmed the appellate court's decision on the nature of the deed of sale as a pactum commissorium but reversed its finding on the trial court's lack of jurisdiction. The Supreme Court emphasized that the issues raised in the complaint involved more than simple possession. It dealt with the validity of the transfer of ownership, the liability for interest and surcharges, and the nature of the contractual arrangements. Thus, jurisdiction was proper with the Regional Trial Court.

On the issue of pactum commissorium, the Supreme Court agreed with the appellate court that the promissory notes and related agreements amounted to an automatic transfer of ownership upon failure to pay, without foreclosure proceedings. This stipulation was declared void as a pactum commissorium.

Doctrine:

This case reiterates the prohibition against pactum commissorium stipulations, where a mortgage or pledge automatically transfers property ownership to the creditor upon default, without due process of law.

Class Notes:

- **Jurisdiction**: The Supreme Court clarified that jurisdiction in cases involving possession of property extends beyond mere physical possession (possession de facto) and encompasses questions of legal rights and contractual obligations.
- **Pactum Commissorium**: A legal principle under Article 2088 of the Civil Code, prohibiting any agreement that allows the creditor to appropriate the mortgaged property without foreclosure in the event of non-payment.

Historical Background:

This decision underscores the strict enforcement of legal protections against overreaching by creditors and ensures that dispossession processes conform to due process standards. It illustrates the judiciary's role in interpreting contracts' legality, especially regarding real property and loan agreements, within the context of evolving jurisprudence on consumer protection and creditor-debtor relationships.