

Title:

****Velarde vs. Court of Appeals: Grounds and Consequences of Rescission on Failure to Pay Purchase Price in a Contract of Sale****

Facts:

The case revolves around a property sale in August 1986. The Velardes agreed to buy a property in Dasmariñas Village, Makati, from David Raymundo for P800,000, assuming an existing mortgage of P1.8 million with the Bank of the Philippine Islands (BPI). An “Undertaking” was also signed, detailing the Velardes’ obligations regarding the mortgage payments until their assumption was approved by BPI. The arrangement was that if the application was disapproved, the Velardes were to pay the balance in full. Following a three-month payment to BPI and the disapproval of their mortgage assumption, the Velardes ceased payments. In response to a notice from the Raymundos about the non-payment, the Velardes offered to pay the balance by January 21, 1987, presenting new conditions not stipulated in the original agreement. Subsequently, the Raymundos, through a notarial notice, rescinded the contract.

A complaint for specific performance, nullity of cancellation, writ of possession, and damages was filed by the Velardes, leading to a trial at the Regional Trial Court of Makati. Initially dismissed by Judge Consuelo Ynares-Santiago, the Velardes’ motion for reconsideration was later granted by Judge Salvador S.A. Abad Santos, mandating the continuation of the sale. The Raymundos appealed to the CA, which annulled Judge Abad Santos’ order and reinstated the original decision, justifying the rescission due to the Velardes’ breach of contract.

Issues:

1. ****Breach of Contract****: Whether the Velardes’ non-payment constituted a breach of contract, given their argument that this obligation ceased with the disapproval of their mortgage assumption.
2. ****Validity of Rescission****: Whether the Raymundos’ rescission of the contract was justified due to the Velardes’ breach.
3. ****Attempt to Novate****: Whether the Velardes’ letter with new conditions for payment constituted an attempt to novate the original contract.

Court’s Decision:

The Supreme Court ruled the appeal partially meritorious, emphasizing the breach of contract by the Velardes as they failed to pay the balance of the purchase price as agreed,

which was a significant component of their obligation under the contract. The Court affirmed the CA's decision but modified it to order the Raymundos to return payments made by the Velardes amounting to P874,150, with legal interest.

Doctrine:

The case reiterates the doctrine that substantial breach of a reciprocal obligation, such as failure to pay the purchase price in the manner prescribed by the contract, entitles the injured party to rescind the obligation, subject to mutual restitution of benefits received.

Class Notes:

- ****Essential Elements in Rescinding a Sales Contract****: A substantial breach of a reciprocal obligation is critical for rescission, with mutual restitution required post-rescission.
- ****Reciprocal Obligations in Sales Contract****: The obligation of the buyer to pay the purchase price is reciprocal to the seller's obligation to deliver the property; non-compliance by one party entitles the other to rescission (Art. 1191, Civil Code).
- ****Payment Disputes and Rescission****: An offer to pay under new conditions not originally agreed upon does not fulfill the buyer's obligation to pay, and may constitute grounds for the seller to rescind the contract.

Historical Background:

This case underscores the legal implications and the enforcement of contract terms within the Philippine real estate context, particularly when it involves the assumption of existing mortgage obligations by the buyer. The resolution of disputes around contracts of sale with assumption of mortgage highlights the importance of clear terms and adherence to agreed conditions for both parties in property transactions.