

Title: Spouses Barredo v. Spouses Leño

Facts:

In 1979, the Spouses Manuel and Jocelyn Barredo acquired a property in Las Piñas, Metro Manila, through loans from the Social Security System (SSS) and Apex Mortgage and Loans Corporation, which they secured with mortgages. On July 10, 1987, they sold this property to Spouses Eustaquio and Emilda Leño through a Conditional Deed of Sale with Assumption of Mortgage, wherein the Leño Spouses would pay P200,000 and assume the mortgage obligations. Despite compliance with the payment of the purchase price, the Barredo Spouses filed a complaint in 1989 seeking rescission due to the Leño Spouses' alleged failure to fulfill the mortgage obligations. This was contested by the Leño Spouses, asserting their up-to-date payments with Apex and that SSS refused their payments on the Barredos' instructions.

The Regional Trial Court of Las Piñas favored the Barredo Spouses, ordering the rescission of the contract. On appeal, the Court of Appeals reversed this decision, dismissing the complaint for lack of cause of action, prompting the Barredo Spouses to file a petition for review on certiorari with the Supreme Court.

Issues:

1. Whether the non-payment of mortgage amortizations to SSS and Apex by the Leño Spouses constituted a substantial breach warranting rescission of the contract.
2. Whether the obligations assumed by the Leño Spouses under the Conditional Deed of Sale with Assumption of Mortgage were collateral matters not affecting the validity of the contract.
3. Whether the parties are bound by the stipulations, clauses, terms, and conditions they agreed upon, and the implications thereof on the contract's enforceability.

Court's Decision:

The Supreme Court denied the petition, upholding the Court of Appeals' decision that deemed the failure to pay the mortgage amortizations a collateral matter and not a substantial breach of the Conditional Deed of Sale with Assumption of Mortgage. The Court clarified that the principal object of the contract was the sale of the property, with the assumption of mortgage obligations being a consequence of such a sale. The agreement did not stipulate that the sale was conditioned on the full payment of the loans with SSS and Apex. The Supreme Court further emphasized that rescission is not permissible for minor or casual breaches but only for substantial ones that defeat the contract's object.

Doctrine:

A contract's rescission will not be permitted for a slight or casual breach but only for such substantial and fundamental breaches as would defeat the very object of the parties in making the agreement.

Class Notes:

1. **Substantial Breach Principle**: Only breaches of contract that are deemed substantial and fundamental - those that defeat the very purpose of the agreement - warrant rescission. Minor or casual breaches do not justify this remedy.
2. **Literal Interpretation of Contractual Terms**: When the terms of a contract are clear and unambiguous, they should be taken at face value without necessitating interpretation. Parties are bound by the express stipulations of their agreement.
3. **Collateral Matters in Contracts**: Obligations that are consequences of or ancillary to the principal objective of a contract may be considered collateral matters. These do not affect the validity of the contract unless they are expressly stipulated as conditions.

Historical Background:

This case reaffirms the long-standing principle in contractual obligations that not all breaches justify rescission, a concept deeply rooted in Philippine jurisprudence for decades. It underscores the importance of the clarity of contractual terms and the necessity for breaches to be substantial to affect the enforceability of contracts, aligning with previous rulings and principles in obligations and contracts.