

Title:

****Cannu vs. Galang and National Home Mortgage Finance Corporation****

Facts:

The legal conflict initiated when spouses Felipe and Leticia Cannu filed a complaint for Specific Performance and Damages against spouses Gil and Fernandina Galang and the National Home Mortgage Finance Corporation (NHMFC) in Branch 135 of the RTC of Makati City, labeled as Civil Case No. 93-2069 on June 24, 1993.

Spouses Gil and Fernandina Galang had obtained a loan from Fortune Savings & Loan Association to purchase a property in Las Piñas, securing the loan with a real estate mortgage on the property. NHMFC later purchased this mortgage loan. The Galangs, represented by Adelina R. Timbang as attorney-in-fact, agreed to sell the property to the Cannus for P120,000, alongside the assumption of the mortgage obligations with NHMFC and a second mortgage with CERF Realty. The Cannus paid a total of P75,000, leaving a balance.

A Deed of Sale with an Assumption of Mortgage Obligation was drawn, stipulating the transfer of rights to the Cannus—who then took possession of the property and made payments totaling P55,312.47 to NHMFC. However, the formal assumption of mortgage was not approved by NHMFC due to non-submission of requirements by the Cannus.

Fernandina Galang eventually paid off the mortgage loan with NHMFC, prompted by the Cannus' failure to complete their obligations. This prompted a legal battle that ascended through the judicial hierarchy, leading to the petition for review by the Supreme Court.

Issues:

1. Whether the breach of obligation by the Cannus was substantial enough to justify rescission.
2. Whether the Cannus substantially complied with their obligation to pay monthly amortizations with NHMFC.
3. Whether the action for rescission is subsidiary considering the sequence of events and legal steps made by the parties.
4. Whether the Court of Appeals erred in its interpretation of the payment obligations and the resulting decision on rescission.

Court's Decision:

The Supreme Court affirmed the decision of the Court of Appeals with modifications. The

Court clarified the misinterpretation of the trial's consideration amount, setting it at P120,000 plus mortgage obligations, contrary to the P250,000 referred to in previous Court statements. The Court found the Cannus' breach to be substantial because they failed to pay the remaining balance and to update their mortgage amortizations with the NHMFC. Thus, the Galangs had the rightful ground for rescission.

Doctrine:

The ruling reiterates the doctrine that obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith. Additionally, it highlights the principle that rescission of a reciprocal obligation is predicated on a substantial breach that warrants such action.

Class Notes:

- **Essential Elements for Rescission:** A substantial breach of contractual obligations; the inability or failure to comply with the terms agreed upon by the parties; and the injured party's right to seek judicial rescission.
- **Doctrine Cited:** Article 1191 of the Civil Code on the power to rescind obligations is implied in reciprocal ones, in case one of the obligators should not comply with what is incumbent upon him.
- **Relevant Legal Statutes:** Articles 1191, 1381, and 1383 of the Civil Code, distinguishing between rescission as a principal action due to breach and subsidiary action.

Historical Background:

In the broader context of Philippine jurisprudence, this case exemplifies the strict interpretations of contractual obligations, the sanctity of agreements, and the judicial processes involved in dispute resolution regarding real property transactions and the fulfillment of mortgage obligations. The case underscores the importance of faithfully fulfilling contractual obligations and the legal recourses available for breaches of such agreements.