

Title: Vicente Lim and Michael Lim vs. Court of Appeals and Liberty H. Luna

Facts:

Liberty Luna sold a lot in Quezon City to Vicente and Michael Lim for P3,547,600.00 on September 2, 1988. A receipt outlined terms including a P200,000.00 earnest money payment, balance payment after squatter eviction by Luna within 60 days, and various tax and fees responsibilities. However, Luna crossed out a clause about liquidated damages for not ejecting squatters. Luna failed to evict the squatters, and instead of returning the earnest money as initially demanded by the contract, a renegotiation for a price increase ensued on January 17, 1989, adjusting the total purchase price to P4,000,000.00 to facilitate squatter removal. Luna attempted to return the earnest money, citing an inability to evict squatters and implying contract voidance. She later consigned the earnest money in court after petitioners refused the refund. The trial court sided with the Lims, stating they could opt to proceed with the sale despite Luna's failure. The case escalated to the Supreme Court following a reversal by the Court of Appeals, which allowed Luna's consignment and deemed the contract non-binding due to unmet squatter eviction conditions.

Issues:

1. Whether the failure to evict squatters resulted in the contract's non-binding nature, absolving Luna from her obligations to sell.
2. Whether Luna's effort to evict squatters was earnest and sufficient.
3. The propriety and implications of the consignment of the earnest money by Luna.

Court's Decision:

The Supreme Court reversed the Court of Appeals' decision, reinstating the trial court's findings that there was a perfected contract of sale and that Luna had acted in bad faith by not attempting earnestly to evict the squatters. It clarified the distinction between conditions affecting contract perfection and those affecting performance, emphasizing the Lims' right to proceed with the purchase despite Luna's failure to fulfill her obligation to evict the squatters. The Court adjusted the awarded moral damages to P100,000.00 from P500,000.00, deeming the latter excessive but justified the lower amount due to Luna's bad faith.

Doctrine:

The case reinforced the doctrine concerning the binding nature of perfected contracts and the parties' reciprocal obligations thereof. It highlighted the principle of mutuality in contracts, disallowing one party's unilateral decision to void agreements based on their non-

fulfillment of obligations. Additionally, it clarified that earnest money serves both as part of the purchase price and as evidence of a contract's perfection.

Class Notes:

- ****Perfected Contract of Sale****: Agreement exists if there's consensus on the subject matter and price. Requires no particular form for validity.
- ****Earnest Money****: Considered part of the purchase price and evidence of a contract's perfection (Art. 1482, Civil Code).
- ****Reciprocal Obligations****: Upon contract perfection, parties can demand performance from each other.
- ****Mutuality of Contracts****: Prevents contracts' validity or execution from being subject to one party's will.
- ****Consignation****: Proper only when there's clear debt refusal despite the debtor's willingness and ability to pay.
- ****Moral Damages for Breach of Contract****: Can be awarded for fraudulent or bad faith actions disrupting contract execution.

Historical Background:

This case illustrates the intricacies of carrying out property sales agreements in the Philippines, especially when external conditions like squatter presence are involved. It highlights the legal system's emphasis on mutual agreement, contractual obligations, and the balance between responsibilities and rights of contracting parties.