

Title: Power Commercial and Industrial Development Corporation vs. Court of Appeals, Spouses Reynaldo and Angelita R. Quiambao, and Philippine National Bank

Facts:

The detailed facts of this case revolve around a contract of sale with assumption of mortgage entered into on January 31, 1979, between Power Commercial & Industrial Development Corporation (Petitioner) and spouses Reynaldo and Angelita R. Quiambao (Respondent Spouses). The property in question was a parcel of land in Makati City, mortgaged to the Philippine National Bank (PNB). Apart from paying a down payment to the Respondent Spouses, the Petitioner also assumed the existing mortgage on the land and agreed to pay an additional loan taken by the Respondents from PNB. Despite executing a Deed of Absolute Sale with Assumption of Mortgage, issues arose when Petitioner failed to secure approval from PNB for the mortgage assumption and discovered the property was occupied by lessees. Upon learning of Petitioner's failure to comply with PNB's requirements for the mortgage assumption, PNB deemed the loan fully due and demandable. Petitioner attempted to take possession of the property but faced difficulties due to the occupants, leading to a series of communications with PNB and the eventual filing of a rescission and damages case against the Respondent Spouses. PNB foreclosed the mortgage during the pendency of the case, prompting the Petitioner to amend its complaint to include PNB as a defendant. The trial court ruled in favor of rescission and ordered the return of payments made by Petitioner. Upon appeal, the Court of Appeals reversed the trial court's decision, sustaining the validity of the contract and absolving PNB from returning the amortization payments, leading to the Petitioner's appeal to the Supreme Court.

Issues:

1. Whether the failure of the Respondent Spouses to eject the lessees from the lot constitutes a substantial breach of contract warranting rescission.
2. Whether the payments made by the Petitioner to PNB were made under a mistake, necessitating a return of said payments by PNB under the principle of solutio indebiti.

Court's Decision:

The Supreme Court denied the petition, affirming the decision of the Court of Appeals. The Court clarified the distinction between a condition and a warranty in a contract and ruled that:

1. The failure to eject the lessees was not stipulated as a condition for the sale; rather, it was part of the warranty against eviction, which was not breached in this case. The Court found no substantial breach of the contract as the existence of lessees does not constitute

an encumbrance of the land that would impede its control or possession by the Petitioner.

2. The payments made by the Petitioner to PNB were obligations arising from the contract of sale and the deed of real estate mortgage, thereby eliminating the application of solutio indebiti since there was no mistake in payment. The payments were made to fulfill contractual obligations, and not under a mistake or without legal duty.

Doctrine:

This case reiterates the distinction between a condition and a warranty in contracts of sale and the legal implications of each. It also provides clarity on the application of solutio indebiti, emphasizing that payments made in fulfillment of a contractual obligation cannot be considered made by mistake.

Class Notes:

- Conditions vs. Warranties in Contracts: A condition is a stipulation essential to the main purpose of the contract, the non-fulfillment of which allows for rescission of the contract. A warranty is an assurance or guarantee regarding the state of the sold product or property, the breach of which may give rise to a claim for damages but not necessarily to rescission.
- Doctrine of Symbolic Delivery: Execution of a deed of sale constitutes symbolic delivery of the property, transferring ownership, provided the vendor had control over the property.
- Solutio Indebiti Principles: Applies when a payment is made where there is no due obligation, and the payment is made through mistake. It requires an absence of legal duty to pay at the time of payment and a mistake in making the payment.

Historical Background:

This case exemplifies the legal challenges involved in property transactions, particularly when assumptions of mortgage and third-party occupants are involved. It demonstrates the critical importance of clear contractual terms and the responsibilities of parties in upholding their contractual obligations.