

Title: William Ong Genato vs. Benjamin Bayhon et al.

Facts:

The case originated from the consolidation of two civil actions filed before the Regional Trial Court (RTC) in Quezon City, namely, Civil Case No. Q-90-7012 initiated by respondents Benjamin Bayhon and others seeking the nullity of a dacion en pago; and Civil Case No. Q-90-7551 lodged by petitioner William Ong Genato for specific performance concerning a real estate transaction.

In the first case, Benjamin Bayhon claimed he obtained a ₱1,000,000.00 loan from Genato and secured it with a real estate mortgage. He argued that the dacion en pago executed was forged as neither he nor his deceased wife signed it. In the second case, Genato contends that Bayhon failed to fulfill the payment for the loan, resulting in a dacion en pago in Genato's favor, which Bayhon subsequently refused to honor by not executing the transfer documents.

The RTC consolidated these cases and, in its decision, acknowledged the loan and payments made by Bayhon but deemed the real estate mortgage ineffective since it involved a property owned in common by the respondents. The trial court ordered Bayhon to pay ₱5,647,130.00, inclusive of principal, interests, and penalties.

Bayhon appealed to the Court of Appeals (CA), which reversed the RTC's decision, citing the void nature of the mortgage and dacion en pago due to the pre-mortem status of Bayhon's wife, thus nullifying the contracts under Article 1409 of the Civil Code. Following Bayhon's death amid the appeal, the CA concluded the obligation extinguished with him, clearing his heirs of liabilities.

Issues:

1. Whether Benjamin Bayhon is liable for the loan amount including principal and interest as decided by the RTC.
2. If the real estate mortgage and dacion en pago are null and void.
3. The transmissibility of obligations upon death in relation to contracted debts.
4. The enforceability of the stipulated interest rate.

Court's Decision:

The Supreme Court upheld the CA's finding that the dacion en pago is void due to the simulation of contract but clarified that obligational ties from contract are inheritable, subject to estate settlement laws. It stressed that heirs are not liable beyond the estate's

value but recognized the decedent's obligation persists against his estate.

It also ruled the interest of 5% per month (60% per annum) exorbitant, reducing it to 12% per annum following "Eastern Shipping Lines v. CA" doctrine, recalculating Bayhon's estate's liability to ₱3,050,682.00, incorporating principal and revised interest.

Doctrine:

- Obligations derived from contracts are transmissible to assigns and heirs, provided they are not extinguished by the debtor's death and do not exceed the estate's value.
- An exorbitant interest rate may be revised to a legally acceptable benchmark to ensure fairness in obligations.

Class Notes:

- ****Transmissibility of Obligations****: Art. 1311 of the Civil Code - obligations from contracts bind the heirs except when nature, stipulation, or law dictates otherwise.
- ****Void Contracts****: Art. 1409 of the Civil Code lists conditions under which contracts are void, including those based on fictitious or simulated terms.
- ****Interest Regulation****: Eastern Shipping v. CA establishes 12% p.a. as the reasonable interest rate for loans unpaid upon demand.
- ****Estate Obligation****: Obligations of a deceased person bind the estate, not beyond the asset's value inherited by heirs.

Historical Background:

This case elucidates the nuances of contract law, especially the effects of death on contractual obligations and the voidability of contracts due to simulation. It reflects the court's balancing act between ensuring equitable treatment of parties in contract enforcement and protecting heirs from undue burdens exceeding their inheritance.