

Case Title:

Spouses Rolando and Herminia Salvador vs. Spouses Rogelio and Elizabeth Rabaja and Rosario Gonzales, G.R. No. 90296

Facts:

1. **Initial Transaction:**

- **1994-2002:** Spouses Rabaja were leasing an apartment on the subject property at Merryland Village, Mandaluyong City.
- **July 1998:** Spouses Rabaja learned Spouses Salvador were selling the property. Herminia Salvador introduced Rosario Gonzales as the property administrator and provided Gonzales with the owner's duplicate certificate of title.
- **July 3, 1998:** Spouses Rabaja made an initial payment of PHP 48,000 to Gonzales with Herminia present.
- **July 24, 1998:** Rolando Salvador executed a Special Power of Attorney (SPA) in favor of Gonzales who signed a Contract to Sell on behalf of Spouses Salvador.

2. **Payments and Subsequent Dispute:**

- **Payments:** Spouses Rabaja paid a total of PHP 950,000 to Gonzales, evidenced by check vouchers and receipts.
- **June 1999:** Spouses Salvador claimed they hadn't received any payment and initiated an ejectment action, leading Spouses Rabaja to file for rescission of the sale contract.

3. **Ejectment Case:**

- **Metropolitan Trial Court (MeTC), Branch 60:** Ruled in favor of Spouses Salvador on grounds of non-payment.
- **Appeal to RTC Branch 212:** Overturned MeTC ruling, but further appealed.
- **Court of Appeals (CA) ruling in CA-G.R. SP No. 89259:** Reinstated MeTC ruling, became final and executory on May 12, 2006.

4. **Rescission Case Timeline:**

- **July 7, 2003:** Spouses Rabaja filed for rescission of contract, demanding the return of PHP 950,000 and damages.
- **RTC Branch 212:** After recusal, the case was transferred to RTC Branch 214.
- **Spouses Salvador filed an answer:** They contested the validity of the SPA and receipt of payments.
- **RTC Branch 214 Pre-Trial Order:** Spouses Salvador declared in default for failing to attend, allowing ex parte presentation of evidence.

- **March 28, 2005:** Spouses Salvador moved for reconsideration, which was denied.

5. **RTC Branch 214 Decision:**

- **March 29, 2007:** Declared the contract rescinded, holding that Spouses Salvador and Gonzales were jointly liable to return PHP 950,000, among other damages.

6. **Appeals:**

- **CA ruling date:** Affirmed RTC decision but exempted Gonzales from liability.

- **Followed by:** Spouses Salvador's unsuccessful motion for reconsideration.

Issues:

1. **Order of Default:**

- Whether the Court of Appeals erred in upholding the default declaration by the RTC for Spouses Salvador's failure to attend the pre-trial conference.

2. **Receipts and SPA Validity:**

- The authenticity of payment receipts and the SPA, questioning the validity of the contract to sell.

3. **Garnished Amount:**

- Whether the CA erred in affirming that the garnished amount of PHP 593,400 should be returned by Spouses Salvador from an ejectment case.

4. **Damages Award:**

- The propriety of awarding moral, exemplary damages and attorney's fees to Spouses Rabaja and Gonzales.

Court's Decision:

1. **Order of Default:**

- **Upholding RTC's Declaration:** Court maintained that the failure of Spouses Salvador to attend pre-trial warranted the ex parte presentation of evidence by Spouses Rabaja.

2. **Receipts, SPA, and Contract Validity:**

- **Affirmed Validity:** Recognized Gonzales's authority under the SPA and upheld the contract as valid. Merged the identification of the contract as a sale, dismissing claims of payment misappropriation by Gonzales.

3. **Garnished Amount:**

- **Ruling Against Return:** The CA ruling was overturned on this matter, noting the

finality of the garnishment ruling from the separate ejectment case.

4. **Damages Award:**

- **Moral, Exemplary Damages, Attorney's Fees:** The Supreme Court struck down these awards due to lack of factual and legal basis.

Doctrine:

1. **Failure to Attend Pre-Trial:** Results in allowing the plaintiff to present evidence ex parte, not the defendant's default.
2. **Scope of Agency Authority:** Acts within the terms of SPA are valid vis-à-vis third parties. Principals must comply with obligations contracted by their agents within their authority.
3. **Finality of Judgments:** Courts cannot alter final and executory judgments. Compensation of debts between the parties can occur only by operation of law and set-off mechanism.

Class Notes:

Key Concepts:

1. **Rule on Default:** Failure to attend pre-trial allows ex parte evidence presentation (Rule 18, Sec. 5).
2. **Agency Authority Limits:** Article 1900 and 1902 (New Civil Code) – Scope of agency as per written SPA binds principals.
3. **Finality of Judgments:** Once final and executory, judgments are immutable and must be respected.

Civil Code Provisions:

- **Article 1278-1279, 1290:** Legal compensation or set-off when reciprocal principal obligations exist.
- **Article 2220:** Moral damages for fraudulent act or bad faith.
- **Article 2229:** Exemplary damages require the basis of moral, temperate, liquidated or compensatory damages.
- **Article 2208:** General rule on attorney's fees – It must be proven by specific conditions.

Historical Background:

The case reflects the nuances in property contracts where principles of agency and contract law intersect. It showcases judicial consistency in maintaining procedural rules and upholding the binding nature of final judgements, reinforcing the importance of due

diligence and adherence to procedural requirements in real property transactions.