

**\*\*Title: Tolentino & Manio v. Gonzalez Sy Chiam\*\***

**\*\*Facts:\*\***

1. **\*\*Initial Purchase Agreement (Pre-28 November 1922):\*\*** Severino Tolentino and Potenciana Manio purchased a property from Luzon Rice Mills, Inc. for P25,000, with payments scheduled in three installments: P2,000 by 2nd May 1921, P8,000 by 31st May 1921, and the balance of P15,000 by 30th November 1922. Failure to pay on time would result in reversion of the property to the vendor.
2. **\*\*Timely Payment of Installments (May 1921):\*\*** The first two installments totaling P10,000 were paid on due dates.
3. **\*\*Letter of Demand (7th November 1922):\*\*** Luzon Rice Mills notified the appellants about impending legal action for non-payment if the balance wasn't settled by 30th November.
4. **\*\*Seeking Financial Assistance:\*\*** Under pressure, Tolentino and Manio sought a loan to clear their debt, eventually approaching Benito Gonzalez Sy Chiam.
5. **\*\*Agreement with Gonzalez Sy Chiam:\*\*** Sy Chiam agreed to lend P17,500 under a pacto de retro arrangement. On 28th November 1922, P16,965.09 was paid to the appellants via check and P354.91 in cash. Additionally, P180 was paid for drafting the sale contract.
6. **\*\*Pacto de Retro Contract Execution (28th November 1922):\*\*** The contract included a sale of the property with a five-year right to repurchase for P17,500. During this period, the appellants would lease back the property at P375 per month, with failure to pay rent for two consecutive months terminating the lease and forfeiture of repurchase rights.

**\*\*Procedural History:\*\***

- Plaintiffs filed a case to declare the contract a mortgage rather than pacto de retro, arguing it was a method to charge usurious interest.
- The trial court upheld the contract as a valid pacto de retro sale.
- Plaintiffs appealed to the Supreme Court.

**\*\*Issues:\*\***

1. Whether the contract was a pacto de retro or a mortgage.
2. Whether the monthly rent was usurious interest.
3. Whether parol evidence was admissible to modify the contract terms.

**Court's Decision:**

1. **Contract Nature (Pacto de Retro vs. Mortgage):**

- **Court Ruling:** The Supreme Court ruled the contract was clearly a pacto de retro, not a mortgage. The clear language indicated an absolute sale with the right to repurchase.
- **Rationale:** The plaintiffs signed a document acknowledging a sale with the right to repurchase, and there was no ambiguity in the contract or conduct of the parties indicating otherwise.

2. **Usurious Interest:**

- **Court Ruling:** The rent did not constitute usurious interest because the transaction was not a "loan" as defined by law.
- **Rationale:** A lease-back arrangement does not transform rent into interest on a loan. The Usury Law applies to loans, not rental agreements.

3. **Parol Evidence:**

- **Court Ruling:** Parol evidence was inadmissible to alter the unambiguous terms of the written contract.
- **Rationale:** The contract plainly expressed the parties' intention, negating the need for external evidence to interpret contractual intent.

**Doctrine:**

- Contracts with clear, explicit terms need to be enforced as written without parol evidence to vary or interpret them unless there's proof of mutual mistake or fraud.
- Usury laws pertain to loans and not to rental arrangements, and rental value calculations are independent of the property's value.

**Class Notes:**

- **Pacto de Retro vs. Mortgage:** A clear intent is key; contracts with a definite sale clause constitute pacto de retro unless clarified otherwise by contract terms or surrounding conditions.
- **Usury in Rental Contexts:** Rental agreements aren't subjected to usury laws even if rental payments might suggest higher valuation based on property worth.
- **Parol Evidence Rule:** Courts uphold the literal terms of a contract when they are clear, requiring strong evidence for any claimed deviation due to misdefinition or fraud.

**Historical Background:**

- During this period in Philippine history under U.S. administration, contracts like pacto de

retro bore stringent implications, often distinguished from mortgages to protect parties from misuse. The case reflects financial and real estate pressures in colonial Philippines, where legislative reforms aimed to regulate interest on loans and prevent exploitative practices.