

Title:

Cavite Development Bank and Far East Bank and Trust Company vs. Spouses Cyrus Lim and Lolita Chan Lim

Facts:

1. **Initial Loan and Mortgage**:

- On June 15, 1983, Rodolfo Guansing obtained a P90,000 loan from Cavite Development Bank (CDB) and secured it by mortgaging a parcel of land at No. 63 Calavite Street, La Loma, Quezon City, covered by TCT No. 300809.
- Due to Guansing's default, CDB foreclosed the property and acquired it as the highest bidder at the sale on March 15, 1984.
- Guansing failed to redeem the property, leading to CDB's consolidation of title on March 2, 1987, and the issuance of TCT No. 355588 in CDB's name.

2. **Offer to Purchase**:

- On June 16, 1988, Lolita Chan Lim offered to purchase the property from CDB for P300,000, paying P30,000 as option money.

3. **Complication and Discovery**:

- Lim discovered that the property was initially registered to Perfecto Guansing, Rodolfo's father, under TCT No. 91148.
- Civil Case No. Q-39732 resulted in Perfecto's title being restored and Rodolfo's being canceled, as Rodolfo had fraudulently secured his title.

4. **Litigation Begins**:

- Aggrieved by CDB's misrepresentation, the Lim spouses filed for specific performance and damages in RTC, Branch 96, Quezon City (Civil Case No. Q-89-2863) on August 29, 1989.
- On March 10, 1993, RTC ruled in favor of the Lims, recognizing a perfected sale and ordering CDB and its mother company, Far East Bank and Trust Company (FEBTC), to pay damages.

5. **Appeal and Supreme Court Petition**:

- CDB and FEBTC appealed to the Court of Appeals, which affirmed the RTC decision on October 14, 1997.
- After the CA denied their motion for reconsideration, petitioners sought a review by the Supreme Court.

Issues:

1. **Whether CDB and FEBTC were aware of the RTC decision (Civil Case No. Q-39732) canceling Guansing's title before accepting Lim's option money**.
2. **Whether the sum of P30,000 paid by Lim should accrue interest from the date of payment in 1988 or from the filing of the complaint in 1989**.
3. **Whether the awards for moral damages, exemplary damages, attorney's fees, and costs of the suit were appropriate and correctly computed**.

Court's Decision:

1. **Awareness of Prior Decision**:
 - The Supreme Court affirmed that CDB was negligent, lacking the due diligence expected of banking institutions. Evidence suggested the property title was questionable, which CDB should have verified before proceeding with the sale.
2. **Accrual of Interest on P30,000**:
 - Interest should accrue from August 29, 1989, when the action for damages was filed, following the principle in *Castillo v. Abalayan* and Art. 1412(2) of the Civil Code. The Court adjusted the RTC's computation accordingly.
3. **Damages and Attorney's Fees**:
 - **Moral Damages**: The award of P250,000 was reduced to P50,000 since moral damages seek to alleviate suffering, not unjustly enrich the complainant.
 - **Exemplary Damages**: Reduced from P50,000 to P30,000.
 - **Attorney's Fees**: Reduced to P20,000 from P30,000 based on Art. 2208, par. 1, 2, 5, and 11 of the Civil Code.

Doctrine:

1. **Contract of Sale vs. Option Contract**: A sum designated as "option money" can be considered earnest money or a down payment indicating a perfected contract of sale under Art. 1482 of the Civil Code when no further condition beyond balance payment exists.
2. **Nemo dat quod non habet**: Applying *nemo dat quod non habet* (one cannot give what one does not have), the sale by CDB to Lim was null since CDB did not have valid title at the delivery stage.
3. **Banking Diligence**: Banks must exercise due diligence beyond relying on title certificates due to public trust and interest.

Class Notes:

- **Contract of Sale Perfection**: A contract of sale is perfected with the meeting of minds upon an object and its price (Art. 1475, Civil Code).
- **Seller's Transfer Obligation**: At delivery, the seller must possess the right to transfer ownership (Art. 1459, Civil Code).
- **Void Contracts**: Void if affected by impossible service or stemming from an earlier invalid contract (Art. 1409, Civil Code).
- **Banking Due Diligence**: Banks must investigate the validity of titles thoroughly when dealing with mortgaged properties.
- **Civil Code on Fault**: Art. 1412(2) - non-faulty parties in void contracts can recover what was given and are not obliged to fulfill their promises.

Historical Background:

- **Context**: The case reflects the challenges in property transactions involving fraudulent titles and the accountability of financial institutions to maintain diligence and trustworthiness in their dealings.
- **Legal Principles**: Reinforces the doctrine of "nemo dat quod non habet" and stringent due diligence requirements for banks, vital for maintaining public confidence in banking and land registration systems.