

Title: Pilipinas Bank vs. Intermediate Appellate Court and Diokno, G.R. No. L-69897 (1984)

Facts: The dispute began on April 18, 1961, when Hacienda Benito, Inc. (predecessor-in-interest to Pilipinas Bank) and Jose W. Diokno and Carmen I. Diokno entered into a Contract to Sell No. VV-18 (a) regarding a 5,936-square-meter parcel in Antipolo, Rizal. The contract price was P47,488.00, with an initial partial payment reducing the balance to P35,306.00, payable over 8.5 years. The contract stipulated automatic rescission if the vendees failed to pay three consecutive installments or comply with any other terms.

However, between July 1965 and March 1974, the Dioknos regularly defaulted or delayed payments but frequently made some partial funds and requested extensions, which the vendor accepted or granted multiple times. On March 25, 1974, the bank formally notified the Dioknos of the contract's rescission.

Subsequently, the Dioknos filed a Complaint for Specific Performance with Damages, aiming to compel the bank to execute a deed of sale in their favor. The trial court initially judged in favor of the Dioknos, arguing the bank had waived its right to automatic rescission due to repeatedly granting extensions and requesting payments. The bank contested, leading to an appeal.

Issues:

1. Was the contract to sell properly rescinded under the automatic rescission clause?
2. Did the actions of the bank constitute a waiver of the right to automatic rescission?
3. What are the legal consequences of the extended period without timely rescission?

Court's Decision:

1. Automatic Rescission: The Supreme Court confirmed that automatic rescission clauses are generally valid. However, it ruled that the bank's continuous acceptance of delayed payments and extensions resulted in waiving its right to enforce the automatic rescission clause strictly. Consequently, the Dioknos could not be summarily declared in default.

2. Waiver of Rights: The court emphasized that by repeatedly extending the payment deadlines and communicating with the Dioknos regarding their balances, the bank essentially waived its automatically enforceable right to rescind the contract. The bank's conduct implied tolerance of the Dioknos' delayed compliance rather than an intention to trigger immediate rescission upon initial default.

3. Legal Consequences: The bank's failure to assert its automatic rescission rights timely

and consistently weakened its position. By waiting until March 25, 1974, to notarially execute the rescission without adequately notifying the Dioknos or acting upon their continuing payments and requests meant undermining automatic rescission enforcement. The court fundamentally agreed with the trial and appellate courts in affirming the Dioknos' right, albeit with adjusted monetary damages.

Doctrine: Clauses stipulating automatic rescission upon defaults are legally enforceable. Nonetheless, such rights can be waived by the acts of tolerance, repeating granting extensions, and continuous engagement for balance settlements. Consequently, mere invocation of abstract legal clauses without practical adherence to stipulated processes, given the waiver occurrences, does not hold judicial ground.

Class Notes:

- Contract Law: Automatic Rescission Clause

**\*\*Key Elements\*\***: Existence of clause, default trigger, explicit operation without judicial intervention.

**\*\*Doctrinal Interpretation\*\***: Luzon Brokerage Co., Inc. vs. Maritime Building Co., Inc. upheld automatic rescission provisions.

**\*\*Waiver of Right\*\***: Persistent conduct implying tolerance nullifies non-contextual rescission rights.

**\*\*Practical Application\*\***: Consistent extensions/payments acceptance signifies implied waiver - failing strict contract law observance.

Historical Background: During 1961-1974, real estate transactions in the Philippines often encountered compliance challenges aggravated by economic volatility, impacting stakeholders' agreement processes. This decision foregrounded legal standards demanding balanced adherence to contractual stipulations vs. practical conduct, reinforcing reciprocity in real estate obligations amidst evolving economic landscapes and parties' actions suggesting implicit contractual amendments.