

JOSEPH & SONS ENTERPRISES, INC., PETITIONER, VS. COURT OF APPEALS, RODOLFO T. LAT, BIENVENIDO LAUREL & PAZ BANAAD-LAUREL, RESPONDENTS.

G.R. No. L-46765. August 29, 1986

Ponente: FERIA, J.

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FERIA, J.:

This is a petition for review on certiorari of a decision of the Court of Appeals which affirmed in full a decision of the former Court of First Instance of Rizal, the dispositive portion of which reads:

"WHEREFORE, Judgment is hereby rendered in favor of the defendants Paz Banaad Laurel and Bienvenido Laurel against the plaintiff Joseph and Sons Enterprises, Inc., ordering the dismissal of the complaint for lack of merit; on the defendants counter-claim, declaring the Deed of Conditional Sale dated April 23, 1966 cancelled and without force and effect; ordering plaintiff to return the premises at No. 33 Sta. Ana Street, Magallanes Village, Makati, Rizal to defendants spouses Laurel; to pay the sum of P1,000.00 a month from February, 1967 until the premises shall have been delivered to Paz Banaad and Bienvenido Laurel in proper condition; the sum of P20,000.00 as liquidated damages; the amount of P6,083.35 taken by plaintiff from the loan proceeds plus the sum of P7,452.22 representing interest and expenses on the loan; the sum of P5,000.00 as reasonable attorney's fees; and the costs of the suit."

The facts as found by the trial court and confirmed by the Court of Appeals are briefly as follows:

On April 1, 1964 respondent Rodolfo T. Lat purchased the lot in question from the Makati Development Corporation. One condition embodied in the Deed of Absolute Sale was that the lot could not be sold, transferred, or conveyed until after the construction of a house thereon was completed. In spite of his having fully paid for the lot, respondent Lat could not have it registered in his name because another condition of the sale was that the deed of sale could not be registered and the title would not be released to the buyer until the house has been completely constructed.

On July 24, 1965, respondent Lat entered into an agreement to purchase and sell the lot with respondent Paz Banaad Laurel. After paying the full consideration of P38,830.00, respondent spouses Laurel, hereinafter referred to as the Laurels, constructed a residential house on the lot.

After completing the construction of the house, the Laurels advertised the house and lot for sale. Petitioner's President and Secretary, Alfredo Joseph and his daughter Alegria Neri, went to see the Laurels at the latter's residence and negotiated for the purchase of the property.

Having agreed on the terms and conditions of the sale, the parties executed a Deed of Conditional Sale on April 23, 1966. Because the house and lot, while already owned by the Laurels, were still registered in the name of respondent Lat, the deed was signed with the latter as vendor and the Laurels as witnesses.

The consideration for the conditional sale was P125,000.00, of which P20,000.00 was payable upon the execution

of the deed and the balance payable in six equal installments of P17,500.00 each at specified dates between June 7, 1966 and January 22, 1967.

Petitioner failed to pay the second and subsequent installments on time. As of October 22, 1966, when petitioner should have paid P90,000.00 under the contract, it had paid only P60,000.00. The July 22, 1966 installment was paid only on September 1, 1966 while the September 7, 1966 installment was paid with a check which bounced.

Because of its difficulties in paying its obligations and to enable it to pay the Laurels in full, petitioner through Mrs. Alegria Neri proposed to the Laurels that a loan be secured from a bank using the property as a collateral. The proceeds of the loan would be applied to the unpaid installments already due while petitioner would assume the payment of the bank loan.

Since the title to the property was still in respondent Lat's name, the People's Bank and Trust Co. advised the parties to have the title transferred to respondent Paz Banaad Laurel. A deed of absolute sale was executed by respondent Bienvenido Laurel as attorney-in-fact of Rodolfo T. Lat in favor of Paz Banaad Laurel on November 7, 1966. On November 9, 1966 a confirmation of the sale was executed by Rodolfo T. Lat and TCT No. 176760 was issued in Paz Banaad's name.

On November 28, 1966, the Laurels mortgaged the disputed property to the bank to secure a P56,000.00 loan. The loan was payable in quarterly installments of P14,000.00 each between February 28, 1967 and November 28, 1967.

Out of the P54,217.47 net proceeds of the bank loan, P48,145.12 was applied to petitioner's unpaid installments already past due, while the balance of P6,063.35 was turned over to it.

Petitioner failed to pay the P17,500.00 final installment under the deed of conditional sale executed on April 23, 1966. It also failed to pay any of the loan amortizations due to the People's Bank and Trust Company, this in spite of its having leased the property to the United States Agency for International Development (USAID) at a monthly rental of P1,000.00.

To stave off foreclosure, the Laurels paid for bank loan, interests and expenses, including the P6,083.35 earlier given to petitioner, in the total sum of P63,452.22.

On July 25, 1967 in view of petitioner's refusal to surrender the house and lot to them, the Laurels filed a complaint for ejectment against the petitioner and USAID with the Municipal Court of Makati. The court decided the case in favor of the Laurels. The record is not clear as to the present status of this case. Petitioner states in its brief that this case was later dismissed on appeal to the Court of First Instance, but respondents state in their brief that the case is still pending.

On December 18, 1967, petitioner filed a complaint for annulment of title and of contract, with damages and preliminary injunction. The Laurels filed a counterclaim for the cancellation and termination of the Deed of Conditional Sale; for the recovery of possession and payment of rentals; and for damages. As earlier stated, both the former Court of First Instance of Rizal and the Court of Appeals decided the case against petitioner. The trial court issued an order of execution pending appeal but it was stayed upon the filing of a supersedeas bond by petitioner.

It is in the light of the foregoing facts that petitioner now comes to this Court with a statement of two reasons for allowance of the writ of certiorari, namely:

(1) The Court of Appeals had decided questions of substance in a way probably not in accord with law or with applicable decisions of the Supreme Court.

(2) The Court of Appeals in its questioned decision sanctioned departures by the lower court from the accepted and usual course of procedure as to call for an exercise of the power of supervision.

The petition is manifestly without merit.

The alleged errors raised in the petition were correctly adjudged unmeritorious by the Court of Appeals when it stated:

"The principal issue, however, relates to the nature of the title of Paz Banaad Laurel to the property in question. Was the deed of absolute sale dated November 7, 1967 executed by Rodolfo Lat, through his attorney-in-fact Bievenido Laurel, in favor of Paz Banaad Laurel illegal and void because it was a second sale, without consideration, of property earlier sold in a deed of conditional sale by the same Mr. Rodolfo Lat to the plaintiffs? Or was the November 7, 1966 deed of absolute sale simply the culminating agreement in a series of transactions - first, the sale of a vacant lot to Paz Banaad Laurel by Rodolfo Lat; second, the construction of a house on the lot by the Laurels; third, the offer by the plaintiff corporation to buy the house and lot; fourth, the deed of conditional sale executed in favor of the plaintiff by the former owner, Mr. Lat, who still retained title to the land under the rules of the Makati Development Corporation that until the house is completed, title to a fully paid lot is not transferred; fifth, the default in payment of installments by the plaintiff corporation; sixth, the securing of a loan by the Laurels from a bank with the property as collateral and the loan proceeds to be used as payments by the plaintiff to the Laurels; and seventh, the Deed of Absolute Sale dated November 7, 1966 so that Paz Banaad Laurel could secure a loan using the property as collateral.

"We see no error in the lower Court's finding of facts. The evidence shows that when defendant Rodolfo T. Lat purchased the parcel of land from the Makati Development Corporation, the deed of absolute sale carried a special condition that there can be no re-sale until complete construction; that the deed shall not be registered, and title shall not be released to the buyer until the house has been completely constructed. When the Laurels purchased the lot from Rodolfo T. Lat, no transfer certificate of title could be issued in their name because of the above condition. When the Laurels completed constructing the house and wanted to sell it with the lot, the title was not yet in their name. Rather than have the title transferred to their name and from them eventually to Joseph and Sons' Enterprises, the three parties involved decided to have Rodolfo T. Lat execute the deed of conditional sale, in behalf of the Laurels, in favor of the plaintiff vendee.

"There is, therefore, no merit to the main assignment of error - that the lower Court should have relied on the certificate of title as conclusive and indefeasible evidence of ownership of the person whose name appears therein. Joseph and Sons cannot claim to be an innocent purchaser for value who relied on the vendor's assurances that the latter was the registered owner and that the title is conclusive evidence of his ownership.

"Joseph and Sons was aware that the house and lot belonged to the Laurels and not to Rodolfo T. Lat, the registered owner. The Laurels bought the land as early as July 24, 1965. The only reason the sale could not be registered and the title transferred was the condition imposed by the Makati Development Corporation. The Laurels had the house constructed by Alfredo Torrijos the building contractor. The building contract, the checks paid to Torrijos, the receipts of payment, and other documents clearly show that the Laurels own the house. The Laurels also borrowed money from the People's Bank and Trust Company to pay the contractor. When the president and secretary of the plaintiff corporation decided to buy the house and lot, they dealt with the Laurels. The Laurels, who are the real owners told them only the title was still in the name of Rodolfo T. Lat. When the sale in favor of the plaintiff was effected, there was an agreement that it would appear as a direct transaction between Rodolfo T. Lat and the plaintiff. There are letters from Mrs. Neri and Betty Q. Joseph indicating that the officials of the plaintiff had dealings with the Laurels on the house and lot."

Petitioner argues that TCT No. 17670 in the name of Paz Banaad Laurel was only a token title to enable the Laurels to obtain a loan from the People's Bank and Trust Company based upon a simulated contract of sale and that the "Agreement to Purchase and to Sell" dated July 24, 1965 was not really a deed of sale in favor of Paz

Banaad Laurel. This argument is without merit.

The Laurels bought the lot from respondent Lat on July 24, 1986 and paid him the full consideration of P38,830.00. The only reason why the sale could not be registered and the title released to the buyer was the condition imposed upon respondent Lat by the Makati Development Corporation that a house should first be completely constructed on the lot. Consequently, in the "Agreement to Purchase and to Sell" executed on July 24, 1965, respondent Paz Banaad Laurel assumed the obligation of constructing a house on the lot purchased by her and respondent Lat bound himself to execute a Deed of Absolute Sale in favor of the vendee as soon as the house was constructed and the Transfer Certificate of Title of the lot was delivered to him.

After the Laurels had completed the construction of the house and the title to the lot was transferred to respondent Lat, the latter had the obligation of executing a Deed of Absolute Sale in favor of respondent Paz Banaad Laurel. The execution of the Deed of Absolute Sale on November 7, 1966 by respondent Lat, through his attorney-in-fact, Bienvenido Laurel, in favor of Paz Banaad Laurel and the execution of the Confirmation of Sale on November 9, 1966 by respondent Lat himself were in fulfillment of his obligation. The TCT No. 17670 covering the property in question which was issued in the name of Paz Banaad Laurel was, therefore, not a token title. Even if no loan were obtained from the bank on the security of said title, the Laurels had the right to obtain said transfer certificate of title.

Indeed, it is difficult to understand how petitioner could subsequently question these agreements and transactions which were entered into with its full knowledge and at its urgings. Although they were under no obligation to do so, the Laurels mortgaged their lot and house at the request of petitioner to secure a loan in the amount of P56,000.00 for the latter's benefit in order to save it from the unfortunate consequences of purchasing a house and lot when it had no means of complying with its undertaking. As above stated, the net proceeds of the loan were partly applied to the payment of installments in arrears and the balance was even taken by petitioner which assumed the obligation of paying the loan. Petitioner not only failed to pay the final installment under the Deed of Conditional Sale, but it failed to pay any of the monthly amortizations of the loan when they fell due. To prevent foreclosure, the Laurels had to pay the bank the total sum of P63,452.22.

Petitioner further argues that inasmuch as respondent Lat was the registered owner of the property when the Deed of Conditional Sale was executed in its favor on April 23, 1966, respondent Lat's ownership was conclusive and indefeasible, and the Laurels could not claim that they were the owners thereof. This argument is untenable because petitioner was fully aware of the fact that the property belonged to the Laurels. However, since the property was still registered in the name of respondent Lat, the parties agreed that the Deed of Conditional Sale would be signed by Lat as vendor and the Laurels as witnesses.

In view of the petitioner's failure to pay the amortizations on the loan as well as the final installment under the Deed of Conditional Sale, the Laurels had the right to cancel and terminate the same. Petitioner, however, contends that the Laurels did not comply with Article 1592 of the Civil Code of the Philippines which provides as follows:

"In the sale of immovable property, even though it may have been stipulated that upon failure to pay the price at the time agreed upon the rescission of the contract shall of right take place, the vendee may pay, even after the expiration of the period, as long as no demand for rescission of the contract has been made upon him either judicially or by a notarial act. After the demand, the court may not grant him a new term."

This contention is without merit. Article 1592 (formerly Article 1504) of the Civil Code of the Philippines is not applicable to a contract to sell or a deed of conditional sale as in the case at bar. As this Court held in the case of *Caridad Estates, Inc. vs. Santero*:

"Appellant, however, gives full reliance on Article 1504 of the Civil Code, and vigorously argues that whatever be the provision of the contract, resolution may not be declared in the absence of a demand upon the vendee 'either judicially or by a notarial act.' A cursory reading of the provision would be the best refutation of the appellant's argument, as it leaves no doubt as to its inapplicability in the present instance. The contract (Exhibit A) is a sale in installment, in which the parties have laid down the procedure to be followed in the event the vendee failed to fulfill his obligation. There is, consequently, no occasion for the application of the requirements of article 1504." (71 Phil. 114, 120-121. See also *Manuel vs. Rodriguez*, 109 Phil. 1, 9.)

This ruling was reiterated in the case of *Luzon Brokerage Co., Inc. vs. Maritime Building Co., Inc.* thus:

"Assuming arguendo that Article 1592 is applicable, the cross claim filed by Myers against Maritime in the court below constituted a judicial demand for rescission that satisfies the requirements of said article.

"But even if it were not so, appellant overlooks that its contract with appellee Myers is not the ordinary sale envisaged by Article 1592, transferring ownership simultaneously with the delivery of the real property sold, but one in which the vendor retained ownership of the immovable object of the sale, merely undertaking to convey it provided the buyer strictly complied with the terms of the contract (see paragraph [d], ante, page 5). In suing to recover possession of the building from Maritime, appellee Myers is not after the resolution or setting aside of the contract and the restoration of the parties to the status quo ante, as contemplated by Article 1592, but precisely enforcing the provisions of the agreement that it is no longer obligated to part with the ownership or possession of the property because Maritime failed to comply with the specified condition precedent, which is to pay the installments as they fell due.

"The distinction between contracts of sale and contracts to sell with reserved title has been recognized by this Court in repeated decisions (*Manila Racing Club vs. Manila Jockey Club*, 69 Phil. 57; *Caridad Estates vs. Santero*, 71 Phil. 114; *Miranda vs. Caridad Estates*, L-2077, 3 October 1950; *Jocson vs. Capitol Subdivision*, L-6573, 28 February 1955; *Manuel vs. Rodriguez*, 109 Phil. 1. See also *Sing Yee Cuan, Inc. vs. Santos* [C. App.] 47 OG 6372.) upholding the power of promisors under contracts to sell in case of failure of the other party to complete payment, to extrajudicially terminate the operation of the contract, refuse conveyance and retain the sums or installments already received, where such rights are expressly provided for, as in the case at bar." (43 SCRA 93, 104-105)

Finally, petitioner claims that because the property was delivered to it after the execution of the Deed of Conditional Sale, the ownership thereof was transferred to it in accordance with Articles 1477 and 1496 of the Civil Code of the Philippines. This claim is without basis. Petitioner fails to distinguish between a contract of sale and a contract to sell, between a deed of absolute sale and a deed of conditional sale. In a contract of sale or in a deed of absolute sale, ownership is transferred simultaneously with the delivery of the real property sold; whereas in a contract to sell or in a deed of conditional sale, ownership is transferred after the full payment of the installments of the purchase price or the fulfillment of the condition and the execution of a definite or absolute deed of sale. In the case at bar, ownership could have been transferred to petitioner only after it had fully paid the installments of the purchase price and a deed of absolute sale had been executed in its favor.

WHEREFORE, the petition is hereby dismissed for lack of merit and the decision appealed from is affirmed, with costs against petitioner.

SO ORDERED.

Fernan, Alampay, Cruz, and Paras, JJ., concur.
Gutierrez, Jr., J., * no part,

* Justice Gutierrez, Jr. took no part. Justice Cruz was designated to sit in the Second Division.

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