

LEGARDA HERMANOS AND JOSE LEGARDA, PETITIONERS, VS. FELIPE SALDAÑA AND COURT OF APPEALS (FIFTH DIVISION) RESPONDENTS.

G.R. No. L-26578. January 28, 1974

Ponente: TEEHANKEE, J.

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TEEHANKEE, J.:

The Court, in affirming the decision under review of the Court of Appeals, which holds that the respondent buyer of two small residential lots on installment contracts on a ten-year basis who has faithfully paid for eight continuous years on the principal alone already more than the value of one lot, besides the larger stipulated interests on both lots, is entitled to the conveyance of one fully paid lot of his choice, rules that the judgment is fair and just and in accordance with law and equity.

The action originated as a complaint for delivery of two parcels of land in Sampaloc, Manila and for execution of the corresponding deed of conveyance after payment of the balance still due on their purchase price. Private respondent as plaintiff had entered into two written contracts with petitioner Legarda Hermanos as defendant subdivision owner, whereby the latter agreed to sell to him Lots Nos. 7 and 8 of block No. 5N of the subdivision with an area of 150 square meters each, for the sum of P1,500.00 per lot, payable over the span of ten years divided into 120 equal monthly installments of P19.83 with 10% interest per annum, to commence on May 26, 1948, date of execution of the contracts. Subsequently, Legarda Hermanos partitioned the subdivision among the brothers and sisters, and the two lots were among those allotted to co-petitioner Jose Legarda who was then included as co-defendant in the action.

It is undisputed that respondent faithfully paid for eight continuous years about 95 (of the stipulated 120) monthly installments totalling P3,582.06 up to the month of February, 1956, which as per petitioners' own statement of account, Exhibit "1", was applied to respondent's account (without distinguishing the two lots), as follows:

"To interests

.....

P1,889.78

"To principal

.....

1,682.28

Total

P3,582.06"[1]

It is equally undisputed that after February, 1956 up to the filing of respondent's complaint in the Manila court of first instance in 1961, respondent did not make further payments. The account thus shows that he owed petitioners the sum of P1,317.72 on account of the balance of the purchase price (principal) of the two lots (in the total sum of P3,000.00), although he had paid more than the stipulated purchase price of P1,500.00 for one lot.

Almost five years later, on February 2, 1961 just before the filing of the action, respondent wrote petitioners stating that his desire to build a house on the lots was prevented by their failure to introduce improvements on the subdivision as "there is still no road to these lots," and requesting information of the amount owing to update his account as "I intend to continue paying the balance due on said lots."

Petitioners replied in their letter of February 11, 1961 that as respondent had failed to complete total payment of the 120 installments by May, 1958 as stipulated in the contracts to sell, "pursuant to the provisions of both contracts all the amounts paid in accordance with the agreement together with the improvements on the premises have been considered as rents paid and as payment for damages suffered by your failure,"[2] and "Said cancellation being in order, is hereby confirmed."

From the adverse decision of July 17, 1963 of the trial court sustaining petitioners' cancellation of the contracts and dismissing respondent's complaint, respondent appellate court on appeal rendered its judgment of July 27, 1966 reversing the lower court's judgment and ordering petitioners "to deliver to the plaintiff possession of one of the two lots, at the choice of defendants, and to execute the corresponding deed of conveyance to the plaintiff for the said lot,"[3] ruling as follows:-

"During the hearing, plaintiff testified that he suspended payments because the lots were not actually delivered to him, or could not be, due to the fact that they were completely under water; and also because the defendants-owners failed to make improvements on the premises, such as roads, filling of the submerged areas, etc., despite repeated promises of their representative, the said Mr. Cenon. As regards the supposed cancellation of the contracts, plaintiff averred that no demand has been made upon him regarding the unpaid installments, and for this reason he could not be declared in default so as to entitle the defendants to cancel the said contracts.

"The issue, therefore, is: Under the above facts, may defendants be compelled, or not, to allow plaintiff to complete payment of the purchase price of the two lots in dispute and thereafter to execute the final deeds of conveyance thereof in his favor?

"xxx xxx xxx

"Whether or not plaintiff's explanation for his failure to pay the remaining installments is true, considering the circumstances obtaining in this case, we elect to apply the broad principles of equity and justice. In the case at bar, we find that the plaintiff has paid the total sum of P3,582.06 including interests, which is even more than the value of the two lots. And even if the sum applied to the principal alone were to be considered, which was of the total of P1,682.28, the same was already more than the value of one lot, which is P1,500.00. The only balance due on both lots was P1,317.72, which was even less than the value of one lot. We will consider as fully paid by the plaintiff at least one of the two lots, at the choice of the defendants. This is more in line with good conscience than a total denial to the plaintiff of a little token of what he has paid the defendant Legarda Hermanos."[4]

Hence, the present petition for review, wherein petitioners insist on their right of cancellation under the "plainly valid written agreements which constitute the law between the parties" as against "the broad principles of equity and justice" applied by the appellate court. Respondent on the other hand while adhering to the validity of the

doctrine of the Caridad Estates cases[5] which recognizes the right of a vendor of land under a contract to sell to cancel the contract upon default, with forfeiture of the installments paid as rentals, disputes its applicability herein, contending that here petitioners-sellers were equally in default as the lots were "completely under water" and "there is neither evidence nor a finding that the petitioners in fact cancelled the contracts previous to receipt of respondent's letter." [6]

The Court finds that the appellate court's judgment finding that of the total sum of P3,582.06 (including interests of P1,889.78) already paid by respondent (which was more than the value of two lots), the sum applied by petitioners to the principal alone in the amount of P1,682.28 was already more than the value of one lot of P1,500.00 and hence one of the two lots as chosen by respondent would be considered as fully paid, is fair and just and in accordance with law and equity.

As already stated, the monthly payments for eight years made by respondent were applied to his account without specifying or distinguishing between the two lots subject of the two agreements under petitioners' own statement of account, Exhibit "1". [7] Even considering respondent as having defaulted after February 1956, when he suspended payments after the 95th installment, he had as of then already paid by way of principal (P1,682.28) more than the full value of one lot (P1,500.00). The judgment recognizing this fact and ordering the conveyance to him of one lot of his choice while also recognizing petitioners' right to retain the interests of P1,889.78 paid by him for eight years on both lots, besides the cancellation of the contract for one lot which thus reverts to petitioners, cannot be deemed to deny substantial justice to petitioners nor to defeat their rights under the letter and spirit of the contracts in question.

The Court's doctrine in the analogous case of J.M. Tuason & Co. Inc. vs. Javier [8] is fully applicable to the present case, with the respondent at bar being granted lesser benefits, since no rescission of contract was therein permitted. There, where the therein buyer-appellee identically situated as herein respondent-buyer had likewise defaulted in completing the payments after having religiously paid the stipulated monthly installments for almost eight years and notwithstanding that the seller-appellant had duly notified the buyer of the rescission of the contract to sell, the Court upheld the lower court's judgment denying judicial confirmation of the rescission and instead granting the buyer an additional grace period of sixty days from notice of judgment to pay all the installment payments in arrears together with the stipulated 10% interest per annum from the date of default, apart from reasonable attorney's fees and costs, which payments, the Court observed, would have the plaintiff-seller "recover everything due thereto, pursuant to its contract with the defendant, including such damages as the former may have suffered in consequence of the latter's default."

In affirming, the Court held that "Regardless, however, of the propriety of applying said Art. 1592 thereto, We find that plaintiff herein has not been denied substantial justice, for, according to Art. 1234 of said Code: 'If the obligation has been substantially performed in good faith, the obligor may recover as though there had been a strict and complete fulfillment, less damages suffered by the obligee,'" and "that in the interest of justice and equity, the decision appealed from may be upheld upon the authority of Article 1234 of the Civil Code." [9]

ACCORDINGLY, the appealed judgment of the appellate court is hereby affirmed. Without pronouncement as to costs.

Makalintal, C.J., Ruiz Castro, Makasiar, Esguerra, and Muñoz Palma, JJ., concur.

* Composed of Julio Villamor, Jesus Y. Perez and Ramon O. Nolasco, H.

[1] Petitioners' brief, p. 3.

[2] Decision, Court of Appeals, Rollo at p. 36.

[3] *Idem*, at p. 40.

[4] *Idem*, at pp. 36-40, italics supplied.

[5] *Caridad Estates vs. Santero*, 71 Phil. 114; *Miranda vs. Caridad Estates*, L-2077, Oct. 3, 1950.

[6] Respondent's brief, pp. 16-17.

[7] *Supra*, see fn. 1.

[8] 31 SCRA 829 (Feb. 27, 1970), per Concepcion, C.J., cit. *Sevilla vs. CA*, 27 SCRA 1170 (Apr. 28, 1969).

[9] *Idem*, at pp. 832-833, italics supplied.

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