CARMELITA LEAÑO, ASSISTED BY HER HUSBAND GREGORIO CUACHON, PETITIONER, VS. COURT OF APPEALS AND HERMOGENES FERNANDO, RESPONDENTS.

G.R. No. 129018. November 15, 2001

Ponente: PARDO, J.

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PARDO, J.:

The Case

The case is a petition for review on certiorari of the decision[1] of the Court of Appeals affirming that of the Regional Trial Court, Malolos, Branch 7[2] ordering petitioner Leaño to pay respondent Hermogenes Fernando the sum of P183,687.70 corresponding to her outstanding obligations under the contract to sell, with interest and surcharges due thereon, attorney's fees and costs.

The Facts

On November 13, 1985, Hermogenes Fernando, as vendor and Carmelita Leaño, as vendee executed a contract to sell involving a piece of land, Lot No. 876-B, with an area of 431 square meters, located at Sto. Cristo, Baliuag, Bulacan.[3]

In the contract, Carmelita Leaño bound herself to pay Hermogenes Fernando the sum of one hundred seven thousand and seven hundred and fifty pesos (P107,750.00) as the total purchase price of the lot. The manner of paying the total purchase price was as follows:

> "The sum of TEN THOUSAND SEVEN HUNDRED SEVENTY FIVE (P10,775.00) PESOS, shall be paid at the signing of this contract as DOWN PAYMENT, the balance of NINETY SIX THOUSAND NINE HUNDRED SEVENTY FIVE PESOS (P96,975.00) shall be paid within a period of TEN (10) years at a monthly amortization of P1,747.30 to begin from December 7, 1985 with interest at eighteen per cent (18%) per annum based on balances."[4]

The contract also provided for a grace period of one month within which to make payments, together with the one corresponding to the month of grace. Should the month of grace expire without the installments for both months having been satisfied, an interest of 18% per annum will be charged on the unpaid installments.[5]

Should a period of ninety (90) days elapse from the expiration of the grace period without the overdue and unpaid installments having been paid with the corresponding interests up to that date, respondent Fernando, as vendor, was authorized to declare the contract cancelled and to dispose of the parcel of land, as if the contract had not been entered into. The payments made, together with all the improvements made on the premises, shall be considered as rents paid for the use and occupation of the premises and as liquidated damages.[6]

After the execution of the contract, Carmelita Leaño made several payments in lump sum.[7] Thereafter, she constructed a house on the lot valued at P800,000.00.[8] The last payment that she made was on April 1, 1989.

On September 16, 1991, the trial court rendered a decision in an ejectment case[9] earlier filed by respondent Fernando ordering petitioner Leaño to vacate the premises and to pay P250.00 per month by way of compensation for the use and occupation of the property from May 27, 1991 until she vacated the premises, attorney's fees and costs of the suit.[10] On August 24, 1993, the trial court issued a writ of execution which was duly served on petitioner Leaño.

On September 27, 1993, petitioner Leaño filed with the Regional Trial Court of Malolos, Bulacan a complaint for specific performance with preliminary injunction.[11] Petitioner Leaño assailed the validity of the judgment of the municipal trial court[12] for being violative of her right to due process and for being contrary to the avowed intentions of Republic Act No. 6552 regarding protection to buyers of lots on installments. Petitioner Leaño deposited P18,000.00 with the clerk of court, Regional Trial Court, Bulacan, to cover the balance of the total cost of Lot 876-B.[13]

On November 4, 1993, after petitioner Leaño posted a cash bond of P50,000.00,[14] the trial court issued a writ of preliminary injunction[15] to stay the enforcement of the decision of the municipal trial court.[16]

On February 6, 1995, the trial court rendered a decision, the dispositive portion of which reads:

> "WHEREFORE, judgment is hereby rendered as follows:
>
> "1. The preliminary injunction issued by this court per its order dated November 4, 1993 is hereby made permanent;
>
> "2. Ordering the plaintiff to pay to the defendant the sum of P103,090.70 corresponding to her outstanding obligations under the contract to sell (Exhibit "A" - Exhibit "B") consisting of the principal of said obligation together with the interest and surcharges due thereon as of February 28, 1994, plus interest thereon at the rate of 18% per annum in accordance with the provision of said contract to be computed from March 1, 1994, until the same becomes fully paid;
>
> "3. Ordering the defendant to pay to plaintiff the amount of P10,000 as and by way of attorney's fees;
>
> "4. Ordering the defendant to pay to plaintiff the costs of the suit in Civil Case No. 1680 aforementioned.
>
> "SO ORDERED.
>
> "Malolos, Bulacan, February 6, 1995.
>
> "(sgd.) DANILO A. MANALASTAS
> Judge"[17]

On February 21, 1995, respondent Fernando filed a motion for reconsideration[18] and the supplement[19] thereto. The trial court increased the amount of P103,090.70 to P183,687.00 and ordered petitioner Leaño ordered to pay attorney's fees.[20]

According to the trial court, the transaction between the parties was an absolute sale, making petitioner Leaño the owner of the lot upon actual and constructive delivery thereof. Respondent Fernando, the seller, was divested of ownership and cannot recover the same unless the contract is rescinded pursuant to Article 1592 of the Civil Code which requires a judicial or notarial demand. Since there had been no rescission, petitioner Leaño, as the owner in possession of the property, cannot be evicted.

On the issue of delay, the trial court held:

> "While the said contract provides that the whole purchase price is payable within a ten-year period, yet the same contract clearly specifies that the purchase price shall be payable in monthly installments for which the

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> corresponding penalty shall be imposed in case of default. The plaintiff certainly cannot ignore the binding effect of such stipulation by merely asserting that the ten-year period for payment of the whole purchase price has not yet lapsed. In other words, the plaintiff has clearly defaulted in the payment of the amortizations due under the contract as recited in the statement of account (Exhibit "2") and she should be liable for the payment of interest and penalties in accordance with the stipulations in the contract pertaining thereto."[21]

The trial court disregarded petitioner Leaño's claim that she made a downpayment of P10,000.00, at the time of the execution of the contract.

The trial court relied on the statement of account[22] and the summary[23] prepared by respondent Fernando to determine petitioner Leaño's liability for the payment of interests and penalties.

The trial court held that the consignation made by petitioner Leaño in the amount of P18,000.00 did not produce any legal effect as the same was not done in accordance with Articles 1176, 1177 and 1178 of the Civil Code.

In time, petitioner Leaño appealed the decision to the Court of Appeals.[24] On January 22, 1997, Court of Appeals promulgated a decision affirming that of the Regional Trial Court in toto.[25] On February 11, 1997, petitioner Leaño filed a motion for reconsideration.[26] On April 17, 1997, the Court of Appeals denied the motion.[27]

Hence, this petition.[28]

The Issues

The issues to be resolved in this petition for review are (1) whether the transaction between the parties is an absolute sale or a conditional sale; (2) whether there was a proper cancellation of the contract to sell; and (3) whether petitioner was in delay in the payment of the monthly amortizations.

The Court's Ruling

Contrary to the findings of the trial court, the transaction between the parties was a conditional sale not an absolute sale. The intention of the parties was to reserve the ownership of the land in the seller until the buyer has paid the total purchase price.

Consider the following:

First, the contract to sell makes the sale, cession and conveyance "subject to conditions" set forth in the contract to sell.[29]

Second, what was transferred was the possession of the property, not ownership. The possession is even limited by the following: (1) that the vendee may continue therewith "as long as the VENDEE complies with all the terms and conditions mentioned," and (2) that the buyer may not sell, cede, assign, transfer or mortgage or in any way encumber any right, interest or equity that she may have or acquire in and to the said parcel of land nor to lease or to sublease it or give possession to another person without the written consent of the seller.[30]

Finally, the ownership of the lot was not transferred to Carmelita Leaño. As the land is covered by a torrens title, the act of registration of the deed of sale was the operative act that could transfer ownership over the lot.[31] There is not even a deed that could be registered since the contract provides that the seller will execute such a deed "upon complete payment by the VENDEE of the total purchase price of the property" with the stipulated interest.[32]

In a contract to sell real property on installments, the full payment of the purchase price is a positive suspensive condition, the failure of which is not considered a breach, casual or serious, but simply an event that prevented the

obligation of the vendor to convey title from acquiring any obligatory force.[33] The transfer of ownership and title would occur after full payment of the price.[34]

In the case at bar, petitioner Leaño's non-payment of the installments after April 1, 1989, prevented the obligation of respondent Fernando to convey the property from arising. In fact, it brought into effect the provision of the contract on cancellation.

Contrary to the findings of the trial court, Article 1592 of the Civil Code is inapplicable to the case at bar.[35] However, any attempt to cancel the contract to sell would have to comply with the provisions of Republic Act No. 6552, the "Realty Installment Buyer Protection Act."

R. A. No. 6552 recognizes in conditional sales of all kinds of real estate (industrial, commercial, residential) the right of the seller to cancel the contract upon non-payment of an installment by the buyer, which is simply an event that prevents the obligation of the vendor to convey title from acquiring binding force.[36] The law also provides for the rights of the buyer in case of cancellation. Thus, Sec. 3 (b) of the law provides that:

> "If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to fifty percent of the total payments made and, after five years of installments, an additional five percent every year but not to exceed ninety percent of the total payments made: Provided, That the actual cancellation of the contract shall take place after thirty days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act and upon full payment of the cash surrender value to the buyer." [Emphasis supplied]

The decision in the ejectment case[37] operated as the notice of cancellation required by Sec. 3(b). As petitioner Leaño was not given the cash surrender value of the payments that she made, there was still no actual cancellation of the contract. Consequently, petitioner Leaño may still reinstate the contract by updating the account during the grace period and before actual cancellation.[38]

Should petitioner Leaño wish to reinstate the contract, she would have to update her accounts with respondent Fernando in accordance with the statement of account[39] which amount was P183,687.00.[40]

On the issue of whether petitioner Leaño was in delay in paying the amortizations, we rule that while the contract provided that the total purchase price was payable within a ten-year period, the same contract specified that the purchase price shall be paid in monthly installments for which the corresponding penalty shall be imposed in case of default. Petitioner Leaño cannot ignore the provision on the payment of monthly installments by claiming that the ten-year period within which to pay has not elapsed.

Article 1169 of the Civil Code provides that in reciprocal obligations, neither party incurs in delay if the other does not comply or is not ready to comply in a proper manner with what is incumbent upon him. From the moment one of the parties fulfills his obligation, delay by the other begins.

In the case at bar, respondent Fernando performed his part of the obligation by allowing petitioner Leaño to continue in possession and use of the property. Clearly, when petitioner Leaño did not pay the monthly amortizations in accordance with the terms of the contract, she was in delay and liable for damages.[41] However, we agree with the trial court that the default committed by petitioner Leaño in respect of the obligation could be compensated by the interest and surcharges imposed upon her under the contract in question.[42]

It is a cardinal rule in the interpretation of contracts that if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulation shall control.[43] Thus, as there is no ambiguity in the language of the contract, there is no room for construction, only compliance.

The Fallo

IN VIEW WHEREOF, we DENY the petition and AFFIRM the decision of the Court of Appeals[44] in toto.

No costs.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Kapunan, and Ynares-Santiago, JJ., concur.

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[1] In CA-G. R. CV No. 50502, promulgated on January 22, 1997, Petition, Annex "A", Rollo, pp. 15-27, Minerva P. Gonzaga-Reyes, J., ponente, Ramon U. Mabutas, Jr. and Portia Alino-Hormachuelos, JJ., concurring.

[2] Decision, Original Record, Civil Case No. 768-M-93, pp. 146-158.

[3] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106.

[4] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106, at p. 105.

[5] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106, at p. 105.

[6] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106.

[7] Exhibits B, B-1, B-2, B-3, B-4, B-5, B-6, B-7, and B-8, Original Record, Civil Case No. 768-M-93, pp. 100-102.

[8] Petition for Review, Rollo, pp. 3-13 at p. 5.

[9] Docketed as Civil Case No. 1680.

[10] Exhibit 4, Original Record, Civil Case No. 768-M-93, pp. 8-10.

[11] Docketed as Civil Case No. 768-M-93.

[12] In Civil Case No. 1680.

[13] Annex C, Original Record, Civil Case No. 768-M-93, p. 12.

[14] Receipt, Original Record, Civil Case No. 768-M-93, p. 57.

[15] Order, Original Record, Civil Case No. 768-M-93, pp. 48-49.

[16] In Civil Case No. 1680.

[17] Decision, Original Record, Civil Case No. 768-M-93, pp. 146-158, at p. 157.

[18] Motion for Reconsideration, Original Record, Civil Case No. 768-M-93, pp. 160-164.

[19] Supplement to Motion for Reconsideration, Original Record, Civil Case No. 768-M-93, pp. 166-168.

[20] Order, Original Record, Civil Case No. 768-M-93, pp. 169-170, at p. 170.

[21] Decision, Original Record, Civil Case No. 768-M-93, pp. 146-158, at p. 155.

[22] Exhibit 2, Original Record, Civil Case No. 768-M-93, p. 107.

[23] Exhibit 2-A, Original Record, Civil Case No. 768-M-93, p. 108.

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[24] Docketted as CA-G. R. CV No. 50202.

[25] Petition, Annex "A", Court of Appeals Decision, Rollo, pp. 15-27.

[26] Motion for Reconsideration, CA Rollo, pp. 88-90.

[27] Resolution, CA Rollo, p. 95.

[28] Petition, Rollo, pp. 3-13. On December 1, 1999, we gave due course to the petition (Rollo, pp. 59-60).

[29] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106, at p. 105.

[30] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106, at p. 106.

[31] Manuel v. Rodriguez, et al., 109 Phil. 1, 11 (1960), citing Worcester v. Ocampo, 34 Phil. 646 (1916); Tuason v. Raymundo, 28 Phil. 635 (1914); Buzon v. Lichauco, 13 Phil. 354 (1909).

[32] Exhibit A, Original Record, Civil Case No. 768-M-93, pp. 105-106, at p. 106.

[33] Rillo v. Court of Appeals, 340 Phil. 570, 577 (1997), citing Roque v. Lapuz, 96 SCRA 741 (1980) and Brick-town Development Corporation v. Amor Tierra Development Corp., 239 SCRA 126 (1994).

[34] Rillo v. Court of Appeals, 340 Phil. 570, 577 (1997).

[35] Rillo v. Court of Appeals, 340 Phil. 570, 577 (1997); Spouses Pangilinan v. Court of Appeals, 345 Phil. 93, 99 (1997); People's Industrial and Commercial Corporation v. CA, 346 Phil. 189, 204 (1997); and Valarao v. Court of Appeals, 363 Phil. 495, 504 (1999).

[36] Rillo v. CA, 340 Phil. 570, 577 (1997), citing Luzon Brokerage Co., Inc. v. Maritima Bldg. Co., Inc., 86 SCRA 305 (1978).

[37] Petition, Annex "A", Court of Appeals Decision, Rollo, pp. 15-27.

[38] Republic Act No. 6552, Section 5.

[39] Exhibit 2, Original Record, Civil Case No. 768-M-93, p. 107.

[40] Order, Original Record, Civil Case No. 768-M-93, pp. 169-170, at p. 170.

[41] Article 1170, Civil Code.

[42] Decision, Original Record, Civil Case 768-M-93, pp. 146-158, at p. 157.

[43] Palmares v. Court of Appeals, 351 Phil. 664, 679 (1998), citing Abella v. Court of Appeals, 327 Phil. 270 (1996).

[44] In CA-G. R. CV No. 50202.

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