LAURENCIO C. RAMEL, SOCORRO B. RAMEL AND RENE LEMAR B. RAMEL,PETITIONERS, VS. DANIEL AQUINO AND GUADALUPE ABALAHIN,RESPONDENTS. BENJAMIN AQUINO AND VIRGINIA AQUINO,RESPONDENTS-I...

G.R. NO. 133208. July 31, 2006

Ponente: PUNO, J.

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PUNO, J.:

At bar is a Petition for Review on Certiorari of the Decision and Resolution of the Court of Appeals in CA-G.R. CV No. 28654 dated April 16, 1997 and March 25, 1998, respectively, affirming the decision of the Regional Trial Court of Santiago, Isabela, Branch 21, in Civil Case No. 0302.

The instant case originated from a suit filed by petitioners Laurencio C. Ramel, Socorro B. Ramel and Rene Lemar B. Ramel against respondent Daniel Aquino, married to respondent Guadalupe Abalahin, for Specific Performance with Preliminary Injunction and Damages.

Daniel Aquino is the registered owner of Lot No. 2080, a 14.1825-hectare land situated in Tanggal, Cordon, Isabela under Transfer Certificate of Title (TCT) No. T-36937. On October 21, 1975, Aquino mortgaged the property to the Development Bank of the Philippines (DBP), Ilagan Branch, Ilagan, Isabela for P50,000.00. In 1983, the property was in danger of being foreclosed as respondents had no means to pay for the loan. Thus, on August 7, 1983, they offered to sell to petitioners 8.2030 hectares of the mortgaged property.

Petitioners agreed to purchase the property but the agreement was not reduced into writing. Petitioners were to buy the 8.2030 hectares at P13,500.00 per hectare or at a total sum of around P110,700.00. Petitioners would assume the remaining mortgage obligation of respondents with DBP as of July 31, 1983 in the amount of P85,543.00 and the balance of about P25,000.00 shall be paid to respondents on installment.[1]

On the same day that the offer was made and accepted, petitioners gave respondents an earnest money of P5,000.00.[2] Further additional partial payments were made on September 7, 1983 in the sum of P15,000.00[3] and P4,800.00[4] on February 12, 1984. All three payments were duly receipted by respondents.

Petitioners also made the following payments to DBP:[5] P10,000.00 on September 7, 1983; P3,097.00 on November 18, 1983; and, P10,000.00 on April 2, 1984, for a total of P23,097.00.

Respondents also sold to petitioners 2,484 square meters of the southern portion of the mortgaged property for P2,700.00. Petitioners paid the full amount on September 7, 1983.[6] On even date, petitioners were allowed by respondents to take possession of the parcels of land sold. Since then, they allegedly introduced improvements[7] to the property, such as rice paddies, drainage canal, fence and a house.

On November 18, 1983, petitioners applied for a re-structuring of the mortgage loan with the DBP for a period of ten years, allegedly with the conformity of respondents. The bank approved the loan re-structuring.[8] Under the

new scheme, the loan was to be paid with a semi-annual amortization of P8,634.15 beginning May 21, 1984 for five years. Thereafter, the loan shall be paid with a semi-annual amortization of P4,904.60 starting on the 6th to the 10th year.[9]

On October 1, 1984, petitioners went to DBP to pay for the amortization but they found out that respondents had paid the bank P72,703.06. Petitioners offered to return to respondents the said sum but the latter refused to accept the offer. Instead, respondents told petitioners that they would return whatever they have paid for the land, and threatened to withdraw the certificate of title of the land from the bank. The manager of the bank accepted the money tendered by respondents as "deposit" and gave the parties time to settle the matter on their own, but to no avail. On October 9, 1984, petitioners filed with the trial court for Specific Performance with Preliminary Injunction and Damages. On October 12, 1984, the trial court restrained the respondents from withdrawing the certificate of title and the Release of Mortgage. The bank was also enjoined from releasing the title to respondents. On even date, respondents withdrew the amount of P72,703.06 which they had paid to the bank.

Meanwhile, during the pendency of the case, petitioners made the following payments to DBP in full settlement of the loan: P30,000.00 on November 29, 1984; P50,000.00 on April 30, 1986; and P5,118.42 on May 2, 1986, or a total of around P108,216.00. The DBP then deposited the Release of Mortgage to the Clerk of Court.

Respondent spouses alleged that petitioners agreed to pay them P35,000.00, not P25,000.00. They further alleged that petitioners agreed to assume in full the then remaining mortgage loan with DBP and to withdraw the certificate of title of the land not later than December 31, 1983. Respondents allegedly set this period because they needed the title to claim the area taken by the NIA for an irrigation canal. However, petitioners defaulted to pay the bank within the period agreed upon and re-structured the loan without their consent. Upon learning of petitioners re-structuring the loan, respondents decided to revoke the sale, sold a portion of Lot No. 2080 and tendered P72,703.06 from its proceeds to DBP on October 1, 1984 in full settlement of the loan.

Respondents-Intervenors Benjamin Aquino and Virginia Aquino are the siblings of respondent Aquino and intervened as co-owners of Lot No. 2080. An amicable settlement[10] was entered into between respondent Aquino and the intervenors on March 2, 1985.

The trial court issued an Order dated March 11, 1986 stating the following material parts of the stipulations of the parties during the pre-trial conference:

> STIPULATIONS OF FACTS
>
> x x x
>
> - That the 8.2030 hectares of riceland located at Cordon, Isabela is covered by Transfer Certificate of Title No. 36937, Isabela Registry, in the name of Daniel Aquino;
>
> x x x
>
> - That the payments made by Rene Lemar R. Ramel and duly receipted are:
>
> (1) On Feb. 12, 1983,[11] the amount of P4,800.00 xxx;
> (2) On August 7, 1983, the amount of P5,000.00 xxx;
> (3) On Sept. 7, 1983, the amount of P15,000.00 xxx;
> (4) On Sept. 7, 1983, the amount of P2,700.00 xxx;
>
> and admitted by all the parties.[12]

On June 28, 1990, the trial court decided as follows, viz.:

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> WHEREFORE, in light of the foregoing considerations[,] judgment is hereby rendered:
>
> - ORDERING the spouses Daniel Aquino and Guadalupe Aquino to execute a deed of sale over a portion of lot 2080 located and bounded by Ilut Creek on the south, Juan Mariano's lot on the east, portion of lot 2080 on the north and Castillo's lot on the west, containing an area of [2,484] square meters more or less, in favor of Rene Lemar Ramel.
>
> - DECLARING that the oral contract of sale between the plaintiff Rene Lemar Ramel and the defendants spouses Daniel and Guadalupe Aquino as rescinded.
>
> - ORDERING the defendants spouses Daniel and Guadalupe Aquino to pay to the plaintiff Rene Lemar Ramel the sums of P29,800.00 representing the amount received by said defendants for the land, plus P108,216.00 representing the amount paid by the plaintiffs to the bank.
>
> - ORDERING the plaintiffs to return the peaceful possession of the land, lot 2080[,] after they shall have been paid the aforesaid amount by the defendants.
>
> - ORDERING the intervenors Benjamin Aquino and Virginia Aquino to reimburse to the defendant Daniel Aquino their one-third share each of the amount of P138,016[.00] which the latter paid to the plaintiff.
>
> - DECLARING that the intervenors Benjamin Aquino and Virginia Aquino are the co-owners of the 8.2030 southern portion of lot 2080 in equal shares.[13]

Petitioners appealed to the Court of Appeals which affirmed the decision of the trial court and denied their Motion for Reconsideration. Hence, this petition assailing the decision of the appellate court, viz.:

> I.A. BASED NOT ONLY ON MISAPPREHENSION AND APPRECIATION OF FACTS, BUT ALSO ON THE FINDINGS WHICH MANIFESTLY OVERLOOKED CERTAIN RELEVANT FACTS NOT DISPUTED BY THE PARTIES AND WHICH, IF PROPERLY CONSIDERED, WOULD JUSTIFY A DIFFERENT CONCLUSION, AS WELL AS ON AN INFERENCE WHICH IS MANIFESTLY MISTAKEN.
>
> I.B. BASED ON A FALSE, FABRICATED AND SELF-SERVING TESTIMONY OF THE RESPONDENTS.
>
> I.C. BASED ON THE FINDINGS OF FACTS WHICH ARE CONTRARY TO THOSE OF THE TRIAL COURT AND CONTRARY TO THE ADMISSION OF THE RESPONDENTS HEREIN.
>
> II. THE JUDGMENT OF THE TRIAL COURT WHICH WAS AFFIRMED BY THE COURT OF APPEALS IS NOT IN ACCORD WITH THE EXISTING LAWS AND THE APPLICABLE DECISIONS OF THIS HONORABLE COURT, BEING AN ERRONEOUS APPLICATION OF ARTICLES 1191 AND 1545 OF THE CIVIL CODE AND THE APPLICABLE JURISPRUDENCE[14]

The hinge issues are the following: (1) whether petitioners substantially breached their obligation warranting the rescission of the contract and (2) whether there is legal ground to order the offsetting of the claim of improvements by petitioners to the claim of fruits derived from the land by respondents.

First to be determined is the total amount paid by petitioners to respondents to show the former's compliance or non-compliance with their obligation.

There is no question that petitioners were obligated to pay the remaining mortgage obligation of respondents with the DBP as of July 31, 1983. The official receipt[15] dated September 7, 1983 issued by DBP shows that the remaining mortgage obligation of respondents as of September 7, 1983 was P75,544.92, that is after petitioners had paid the bank P10,000.00 on the same date. Hence, the total remaining mortgage obligation as of July 31, 1983 which was supposed to be assumed by petitioners was P85,544.92. Deducting this from the total value of the

land which is about P110,700.00, the balance of about P25,000.00, and not P35,000.00, was to be paid by petitioners to respondents.

The courts a quo erred in concluding that petitioners were able to pay respondents a total sum of P29,800.00. Per stipulation by the parties themselves, petitioners paid to respondents the total sum of P27,500.00.[16] This even includes the amount of P2,700.00 which petitioners paid for the additional 2,484-square meter strip of land which they purchased from respondents. Deducting this P2,700.00 from the total payments made for the 8.2030 hectares, petitioners were able to pay a sum of P24,800.00 of the P25,000.00 balance for the subject parcel. This small discrepancy is not a ground for respondents to rescind their contract with petitioners.

We look, however, to the other ground - the failure of petitioners to pay the remaining balance of the mortgage obligation of respondents to the DBP. The record shows that at the time petitioners filed the case with the trial court on October 9, 1984, they were able to pay only P23,097.00 of the then P85,544.92 outstanding mortgage obligation of respondents. Instead of petitioners paying the remaining balance on or before December 31, 1983, they asked the DBP to re-structure the payment of the loan for ten years in November 1983. They did so without the consent of respondents. Their claim to the contrary is not substantiated by evidence.

First, after respondents learned that petitioners had re-structured the loan, respondents paid the amount of P72,703.06 to DBP. The fact that respondents later on withdrew the amount cannot operate against them because the trial court had enjoined them from withdrawing the certificate of title and the bank from releasing the same.

Second, the subject property was facing foreclosure that December of 1983. It was precisely due to the impending foreclosure that respondents offered to sell the subject property to petitioners. It was never the intention of respondents to be left at the mercy of petitioners as to when the latter would complete payment of the remaining mortgage obligation. It goes against the common sense of man and the ordinary course of business that an owner of land sells his property without any definite agreement as to when the obligation shall be paid, especially if his property is facing foreclosure. Though petitioners were able to subsequently fully settle the mortgage loan in May 1986 - two years and five months from December 1983, and one and a half years after they filed this case - the fact remains that they reneged on their obligation to pay within the agreed period. They could have asked respondents to give them a grace period to settle the remaining loan obligation but they did not.

It is true that petitioners sent a Notice of Loan Approval[17] dated November 24, 1983 addressed to respondent Aquino informing that the application for loan re-structuring had been approved by the DBP. But this does not prove their claim that respondents authorized the loan re-structuring for the following reasons: one, it was petitioners themselves who applied for the loan re-structuring; two, the document is a mere notice; three, the notice does not even show that it was received by respondents; and four, after the manager of the DBP informed respondents about the loan re-structuring, respondents rushed to sell another portion of their land so they could pay the remaining obligation. They later withdrew the amount because of the restraining order issued by the trial court and not because they waived their right to rescind the contract.

With the breach committed by petitioners, the trial court ruled and the appellate court rightly affirmed that petitioners substantially violated their obligation. Hence, respondents are entitled to a rescission of the contract under Article 1191 of the Civil Code, viz.:

> Art. 1191. The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.
>
> The injured party may choose between the fulfillment and the rescission of the obligation, with the payment of damages in either case. He may also seek rescission, even after he has chosen fulfillment, if the latter should become impossible.

> The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period.
>
> x x x

Petitioners can not argue that their breach is merely casual and slight, especially that they were able to subsequently pay the loan and the purpose of the contract has been fulfilled by petitioners, i.e., that the mortgage obligation shall be paid and respondents shall be able to retain at least the rest of the land free from any liens or encumbrances.[18] The ruling of the trial court on this issue is correct, viz.:

> x x x It is admitted that the underlying purpose of the Aquinos to sell a portion of the land was in order that their mortgage obligation shall be paid and they shall be able to retain at least the rest of the land free from any liens and encumbrances. It was imperative then for Rene Ramel to pay the mortgage obligation. He did not do so. x x x x More important[,] he did not even intend to pay the bank because he had the loan re-structured so as to be payable in ten years. Of course, he finally paid the mortgage loan but only after one and one-half years after the filing of this case. To the mind of the [c]ourt, the non-payment of the mortgage obligation until after one and one-half years after the filing of this case constitutes a substantial breach that entitles the Aquinos to rescind the contract.[19]

Rightly, the appellate court affirmed the ruling, viz.:

> Since Ramel failed to settle Aquino's mortgage obligation on or before December 31, 1983 as in fact he restructured it for a period of ten years, he committed a substantial breach of his agreement with Aquino. That the breach is substantial is all the more appreciated when note is taken of the fact that the entire 14.1825-hectare property, not just the 8.2030 hectares portion thereof sold to Ramel, remained encumbered beyond the agreed deadline of December 31, 1983, thus restricting the owners' rights thereto.[20]

Petitioners further invoke Article 1592 of the Civil Code and argue that respondents are not entitled to rescission because no demand has been made upon them either judicially or by notarial act. They contend that respondents "merely raised rescission as a defense in this case of Specific Performance and they have never informed the Ramels about their alleged decision to exercise the said right before this case was filed xxx."[21] They aver that the act of the Aquinos in tendering payment to DBP does not constitute demand as the term is defined under Article 1592,[22] viz.:

> Art. 1592. 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.

Again, we reject the argument. We held in the case of Luzon Brokerage Co., Inc. v. Maritime Building Co., Inc.[23] that even a cross-claim found in the Answer filed in the trial court constitutes judicial demand for rescission that satisfies the requirements of Article 1592. Further, in Iringan v. Court of Appeals,[24] we held that an action for Judicial Confirmation of Rescission and Damages before the Regional Trial Court complied with the requirement of the law for judicial demand of rescission even if the intention of the moving party was to compel the other party to formalize in a public document their extrajudicial mutual agreement to rescind. In this case, the mutual agreement to rescind was forged when the injured party sent to the defaulting party a letter stating that he had considered the contract rescinded and that he would not accept any further payment. The defaulting party replied that he was not opposing the revocation of the sale, save for some reimbursements. We held that though the letter declaring the intention to rescind did not satisfy the "demand" required by the law, the subsequent case filed for a judicial confirmation of the rescission did meet the requirement for a valid demand.

We rule that respondents satisfied Article 1592 when they raised rescission as a defense in their Answer. To be

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sure, petitioners learned of respondents' intention to rescind even before they filed their Answer. Petitioners knew the intent to rescind when respondents deposited the amount of P72,703.06 with DBP to fully settle their remaining obligation. Petitioners were told by respondents that they were rescinding the contract after the mortgage was re-structured without their consent. Indeed, it was this declaration by respondents that prompted petitioners to file the case of Specific Performance with the trial court.

Finally, petitioners question the ruling of the courts a quo offsetting the claim of improvements by petitioners and the claim of the fruits derived from the land by respondents. Petitioners claim that the offsetting of claims is erroneous citing Articles 546 and 547 of the Civil Code, viz.:

> Art. 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he has been reimbursed therefor.
>
> Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof.
>
> Art. 547. If the useful improvements can be removed without damage to the principal thing, the possessor in good faith may remove them, unless the person who recovers the possession exercises the option under paragraph 2 of the preceding article.

Under these provisions, petitioners argue that as possessors in good faith and in the concept of an owner, they are entitled to the fruits received before possession was legally interrupted and they must be reimbursed for their expenses or for the increase in the value the subject property may have acquired by reason thereof.[25]

The records show that both parties failed to prove their claims through any receipt or document. Despite the lack of proof, the trial court ordered that whatever improvements spent on the land shall be offset from the fruits derived therefrom, viz.:[26]

> The plaintiffs claimed that they were able to improve the land after possession was given to them. No receipts were shown to guide the [c]ourt as to how much [were] the costs of the improvements. Likewise the defendants claimed that the plaintiffs were able to cultivate the land and harvest palay although their testimonies to this effect [are] based on their presumptions and calculations not on actual harvest such that the [c]ourt also cannot make determination of the real fruits derived from the land. This being so, the [c]ourt shall just offset the claim of improvements to the claim of fruits derived from the land and then place the parties in their previous positions before the agreement. Whatever improvements spent on the land shall be compensated from the fruits derived therefrom.[27]

The appellate court found the setting off by the trial court to be in order, viz.:

> [W]e find in order the Solomonic setting off by the court a quo the appellants' claim of improvements on, with the appellees' claims for value of the fruits of, the subject land, given the paucity of evidence on the matter. Along the same vein, We find it just and fair to set off the compensation arising from the possession and enjoyment of the fruits of subject lot by appellants during the pendency of the case with the interests due on the amounts paid by them to the Aquinos and to the DBP.[28]

We can not order an offsetting of the claims as did the trial court and the appellate court. The evidence show that both parties failed to prove their respective claims. In the absence of evidence from both parties on their claims, offsetting is improper. The right to offset may exist but the question of how much is to be offset is factual in nature and needs to be proved by proper evidence.

IN VIEW WHEREOF, the Decision and the Resolution of the Court of Appeals in CA-G.R. CV No. 28654 dated April 16, 1997 and March 25, 1998, respectively, are AFFIRMED with the MODIFICATION that respondents

are ordered to pay petitioners the sum of P24,800.00, not P29,800.00 as ordered by the trial court, representing the amounts they received from petitioners, plus the sum of P108,216.00 representing the amounts petitioners paid to DBP. The order on the offsetting of claims is DELETED for lack of evidence. Respondents-intervenors, as co-owners, are likewise ordered to reimburse respondent Aquino their one-third share each of the total amount to be paid by Aquino to petitioners.

SO ORDERED.

Sandoval-Gutierrez, Corona, Azcuna, and Garcia JJ., concur.

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[1] RTC Decision, 7; CA rollo, 45.

[2] Receipt dated August 7, 1983; Exhibit A; Folder of Exhibits, 16.

[3] Receipt dated September 7, 1983; Exhibit B; Id. at 17.

[4] Receipt dated February 12, 1984; Exhibit D; Id. at 19.

[5] See Exhibits C, E, E-1, G and G-1.

[6] Receipt dated September 7, 1983; Exhibit H; Folder of Exhibits, 25.

[7] See RTC Decision, 2; CA rollo, 40.

[8] Exhibit F; Folder of Exhibits, 22.

[9] RTC Decision, 12; CA rollo, 50.

[10] Exhibit 7; Folder of Exhibits, 10-15.

[11] Should be 1984.

[12] See RTC Decision, 5-6; CA rollo, 43-44.

[13] RTC Decision, 17; Id. at 55.

[14] See Petition for Review on Certiorari; Rollo, 9-42.

[15] See Exhibit F; Folder of Exhibits, 18.

[16] See Folder of Exhibits; see also Stipulations of Facts, RTC Decision, 5-6; Rollo, 43-44.

[17] See Exhibit F; Folder of Exhibits, 18.

[18] Petition, 20; Rollo, 28.

[19] RTC Decision, 16; CA rollo, 54.

[20] CA Decision, 10; Rollo, 79.

[21] Petition, 27; Id. at 35.

[22] Petition, 25-26; Id. at 33-34.

[23] G.R. No. L-25885, January 31, 1972, 43 SCRA 93.

[24] G.R. No. 129107, September 26, 2001, 366 SCRA 41.

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[25] Petition, 31; Rollo, 39.

[26] RTC Decision, 17; CA rollo, 55.

[27] RTC Decision, 16-17; Id. at 54-55.

[28] CA Decision, 11; Rollo, 80.

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