

STA. CLARA HOMEOWNERS' ASSOCIATION THRU ITS BOARD OF DIRECTORS COMPOSED OF ARNEIL CHUA, LUIS SARROSA, JOCELYN GARCIA, MA. MILAGROS VARGAS, LORENZO LACSON, ERNESTO PICCIO, DINDO ...

G.R. No. 141961. January 23, 2002

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

A motion to dismiss based on lack of jurisdiction and lack of cause of action hypothetically admits the truth of the allegations in the complaint. It is not dependent on the pleas or the theories set forth in the answer or the motion to dismiss. Membership in a homeowners' association is voluntary and cannot be unilaterally forced by a provision in the association's articles of incorporation or by-laws, which the alleged member did not agree to be bound to.

Statement of the Case

The Petition for Review before us assails the August 31, 1999 Decision[1] and the February 11, 2000 Resolution[2] of the Court of Appeals (CA) in CA-GR SP No. 49130. The decretal portion of the challenged Decision reads as follows:

“WHEREFORE, the petition is DISMISSED for lack of merit. The assailed Orders of the trial court are AFFIRMED. No costs.”[3]

The assailed Resolution denied petitioner's Motion for Reconsideration.

The CA[4] affirmed the Orders[5] of the Regional Trial Court (RTC) of Bacolod City (Branch 49) in Civil Case No. 98-10217, which had refused to dismiss herein respondents' Complaint for alleged lack of jurisdiction and lack of cause of action.

The Facts

The factual antecedents of the case are summarized by the Court of Appeals in this wise:

“On 1 April 1998, Spouses Victor Ma. Gaston and Lydia M. Gaston, private respondents herein, filed a complaint for damages with preliminary injunction/preliminary mandatory injunction and temporary restraining order before the Regional Trial Court in Negros Occidental at Bacolod City against petitioners Santa Clara Homeowners Association (SCHA for brevity) thru its Board of Directors, namely: Arneil Chua, Luis Sarrosa, Jocelyn Garcia, Ma. Milagros Vargas, Lorenzo Lacson, Ernesto Piccio, Dindo Ilagan, Danilo Gamboa, Jr., Rizza de la Rama and Security Guard Capillo and ‘John Doe’, and Santa Clara Estate, Incorporated. The case was docketed as Civil Case No 98-10217 and raffled to RTC-Branch 49, Bacolod City.

“The complaint alleged that private respondents herein [were] residents of San Jose Avenue, Sta. Clara Subdivision, Mandalagan, Bacolod City. They purchased their lots in the said subdivision sometime in 1974, and at the time of purchase, there was no mention or requirement of membership in any homeowners’

association. From that time on, they have remained non-members of SCHA. They also stated that an arrangement was made wherein homeowners who [were] non-members of the association were issued 'non-member' gatepass stickers for their vehicles for identification by the security guards manning the subdivision's entrances and exits. This arrangement remained undisturbed until sometime in the middle of March, 1998, when SCHA disseminated a board resolution which decreed that only its members in good standing were to be issued stickers for use in their vehicles. Thereafter, on three separate incidents, Victor M. Gaston, the son of the private respondents herein who lives with them, was required by the guards on duty employed by SCHA to show his driver's license as a prerequisite to his entrance to the subdivision and to his residence therein despite their knowing him personally and the exact location of his residence. On 29 March 1998, private respondent herein Victor Ma. Gaston was himself prevented from entering the subdivision and proceeding to his residential abode when petitioner herein security guards Roger Capillo and a 'John Doe' lowered the steel bar of the KAMETAL gate of the subdivision and demanded from him his driver's license for identification. The complaint further alleged that these acts of the petitioners herein done in the presence of other subdivision owners had caused private respondents to suffer moral damage.

"On 3 April 1998, during the hearing of the private respondents' application for the issuance of a temporary restraining order before the lower court, counsel for the petitioners informed the court that he would be filing a motion to dismiss the case and made assurance that pending the issuance of a temporary restraining order, the private respondents would be granted unrestricted access to and from their place of residence.

"On 8 April 1998, petitioners herein filed a motion to dismiss arguing that the trial court ha[d] no jurisdiction over the case as it involve[d] an intra-corporate dispute between SCHA and its members pursuant to Republic Act No. 580, as amended by Executive Order Nos. 535 and 90, much [less], to declare as null and void the subject resolution of the board of directors of SCHA, the proper forum being the Home Insurance (and Guaranty) Corporation (HIGC). To support their claim of intra-corporate controversy, petitioners stated that the Articles of Incorporation of SCHA, which was duly approved by the Securities and Exchange Commission (SEC) on 4 October 1973, provides 'that the association shall be a non-stock corporation with all homeowners of Sta. Clara constituting its membership'. Also, its by-laws contains a provision that 'all real estate owners in Sta. Clara Subdivision automatically become members of the association'. The private respondents, having become lot owners of Sta. Clara Subdivision in 1974 after the approval by the SEC of SCHA's articles of incorporation and by-laws, became members automatically in 1974 of SCHA argued the petitioners. Moreover, the private respondents allegedly enjoyed the privileges and benefits of membership in and abided by the rules of the association, and even attended the general special meeting of the association members on 24 March 1998. Their non-payment of the association yearly dues [did] not make them non-members of SCHA continued the petitioners. And even granting that the private respondents [were] not members of the association, the petitioners opined that the HIGC still ha[d] jurisdiction over the case pursuant to Section 1 (a), Rule II of the Rules of Procedure of the HIGC.

"On 6 July 1998, the lower court, after having received private respondents opposition to petitioners' motion to dismiss and other subsequent pleadings filed by the parties, resolved to deny petitioners' motion to dismiss, finding that there existed no intra-corporate controversy since the private respondents alleged that they ha[d] never joined the association; and, thus, the HIGC had no jurisdiction to hear the case. On 18 July 1998, petitioners submitted a Motion for Reconsideration, adding lack of cause of action as ground for the dismissal of the case. This additional ground was anchored on the principle of *damnum absque injuria* as allegedly there [was] no allegation in the complaint that the private respondents were actually prevented from entering the subdivision and from having access to their residential abode. On 17 August 1998, the court a quo, taking into consideration the comment filed by the private respondents[,] on petitioners' motion for reconsideration and the pleadings thereafter submitted by the parties, denied the said motion without however ruling on the additional ground of lack of cause of action x x x.

x x x x x x x x

“On 18 August 1998, petitioners filed a motion to resolve defendants’ motion to dismiss on ground of lack of cause of action. On 8 September 1998, after the petitioners and the private respondents submitted their pleadings in support of or in opposition thereto, as the case may be, the trial court issued an order denying the motion, x x x.”[6]

On September 24, 1998, petitioners elevated the matter to the Court of Appeals via a Petition for Certiorari.[7]

Ruling of the Court of Appeals

The Court of Appeals dismissed the Petition and ruled that the RTC had jurisdiction over the dispute. It debunked petitioners’ contention that an intra-corporate controversy existed between the SCHA and respondents. The CA held that the Complaint had stated a cause of action. It likewise opined that jurisdiction and cause of action were determined by the allegations in the complaint and not by the defenses and theories set up in the answer or the motion to dismiss.

Hence, this Petition.[8]

Issues

In their Memorandum, petitioners raise the following issues for the Court’s consideration:

I

“Whether or not Respondent Court of Appeals erred in upholding the jurisdiction of the court a quo, ‘to declare as null and void the resolution of the Board of SCHA, decreeing that only members [in] good standing of the said association, were to be issued stickers for use in their vehicles.

II

“Whether or not private respondents are members of SCHA.

III

“Whether or not Respondent Court of Appeals erred in not ordering the dismissal of the Complaint in Civil Case No. 98-10217 for lack of cause of action.”[9]

In sum, the issues boil down to two: (1) Did the RTC have jurisdiction over the Complaint? and (2) Did the Complaint state a cause of action?

This Court’s Rulings

The Petition has no merit.

First Issue:

Jurisdiction

Petitioners contend that the CA erred in upholding the trial court’s jurisdiction to declare as null and void the SCHA Resolution decreeing that only members in good standing would be issued vehicle stickers.

The RTC did not void the SCHA Resolution; it merely resolved the Motion to Dismiss filed by petitioners by holding that it was the RTC, not the Home Insurance and Guaranty Corporation (HIGC), that had jurisdiction over the dispute.

HIGC’s Jurisdiction

HIGC[10] was created pursuant to Republic Act 580.[11] Originally, administrative supervision over

homeowners' associations was vested by law in the Securities and Exchange Commission (SEC).[12]

Pursuant to Executive Order (EO) No. 535, however,[13] the HIGC assumed the regulatory and adjudicative functions of the SEC over homeowners' associations. Explicitly vesting such powers in the HIGC is paragraph 2 of EO 535, which we quote hereunder:

“2. In addition to the powers and functions vested under the Home Financing Act, the Corporation, shall have among others, the following additional powers:

(a)

x x x; and exercise all the powers, authorities and responsibilities that are vested in the Securities and Exchange Commission with respect to home owners associations, the provision of Act 1459, as amended by P.D. 902-A, to the contrary notwithstanding;

(b)

To regulate and supervise the activities and operations of all homeowners associations registered in accordance therewith.”

Moreover, by virtue of the aforequoted provision, the HIGC also assumed the SEC's original and exclusive jurisdiction to hear and decide cases involving controversies arising from intra-corporate or partnership relations.[14]

In December 1994, the HIGC adopted the Revised Rules of Procedure in the Hearing of Homeowners' Disputes, pertinent portions of which are reproduced below:

“RULE II

Disputes Triable by HIGC/Nature of Proceedings

Section 1. Types of Disputes. - The HIGC or any person, officer, body, board or committee duly designated or created by it shall have jurisdiction to hear and decide cases involving the following:

a)

Devices or schemes employed by or any acts of the Board of Directors or officers of the association amounting to fraud and misrepresentation which may be detrimental to the interest of the public and/or of the members of the association or the association registered with HIGC

b)

Controversies arising out of intra-corporate relations between and among members of the association, between any or all of them and the association of which they are members; and between such association and the state/general public or other entity in so far as it concerns its right to exist as a corporate entity.

x x x x x x x x.”

The aforesaid powers and responsibilities, which had been vested in the HIGC with respect to homeowners' associations, were later transferred to the Housing and Land Use Regulatory Board (HLURB) pursuant to Republic Act 8763.[15]

Are Private Respondents

SCHA Members?

In order to determine if the HIGC has jurisdiction over the dispute, it is necessary to resolve preliminarily -- on the basis of the allegations in the Complaint -- whether private respondents are members of the SCHA.

Petitioners contend that because the Complaint arose from intra-corporate relations between the SCHA and its members, the HIGC therefore has no jurisdiction over the dispute. To support their contention that private respondents are members of the association, petitioners cite the SCHA's Articles of Incorporation[16] and By-laws[17] which provide that all landowners of the Sta. Clara Subdivision are automatically members of the SCHA.

We are not persuaded. The constitutionally guaranteed freedom of association[18] includes the freedom not to associate.[19] The right to choose with whom one will associate oneself is the very foundation and essence of that partnership.[20] It should be noted that the provision guarantees the right to form an association. It does not include the right to compel others to form or join one.[21]

More to the point, private respondents cannot be compelled to become members of the SCHA by the simple expedient of including them in its Articles of Incorporation and By-laws without their express or implied consent. True, it may be to the mutual advantage of lot owners in a subdivision to band themselves together to promote their common welfare. But that is possible only if the owners voluntarily agree, directly or indirectly, to become members of the association. True also, memberships in homeowners' associations may be acquired in various ways -- often through deeds of sale, Torrens certificates or other forms of evidence of property ownership. In the present case, however, other than the said Articles of Incorporation and By-laws, there is no showing that private respondents have agreed to be SCHA members.

As correctly observed by the CA:

“x x x. The approval by the SEC of the said documents is not an operative act which bestows membership on the private respondents because the right to associate partakes of the nature of freedom of contract which can be exercised by and between the homeowners amongst themselves, the homeowners' association and a homeowner, and the subdivision owner and a homeowner/lot buyer x x x.”[22]

No Privity of Contract

Clearly then, no privity of contract exists between petitioners and private respondents. As a general rule, a contract is a meeting of minds between two persons.[23] The Civil Code upholds the spirit over the form; thus, it deems an agreement to exist, provided the essential requisites are present. A contract is upheld as long as there is proof of consent, subject matter and cause. Moreover, it is generally obligatory in whatever form it may have been entered into. From the moment there is a meeting of minds between the parties, it is perfected.[24]

As already adverted to, there are cases in which a party who enters into a contract of sale is also bound by a lien annotated on the certificate of title. We recognized this in *Bel Air Village Association, Inc. v. Dionisio*,[25] in which we ruled:

“There is no dispute that Transfer Certificate of Title No. 81136 covering the subject parcel of land issued in the name of the petitioner contains an annotation to the effect that the lot owner becomes an automatic member of the respondent Bel-Air Association and must abide by such rules and regulations laid down by the Association in the interest of the sanitation, security and the general welfare of the community. It is likewise not disputed that the provision on automatic membership was expressly annotated on the petitioner's Transfer Certificate of Title and on the title of his predecessor-in-interest.

”The question, therefore, boils down to whether or not the petitioner is bound by such annotation.

“Section 39 of Art. 496 (The Land Registration Act) states:

‘Sec. 39. Every person receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser of registered land who takes a certificate of title for value in good faith shall hold the same free of all encumbrances except those noted on said certificate x x x.’” (Italics supplied)

The above ruling, however, does not apply to the case at bar. When private respondents purchased their property in 1974 and obtained Transfer Certificates of Title Nos. T-126542 and T-127462 for Lots 11 and 12 of Block 37 along San Jose Avenue in Sta. Clara Subdivision, there was no annotation showing their automatic membership in the SCHAs. Thus, no privity of contract arising from the title certificate exists between petitioners and private respondents.

Further, the records are bereft of any evidence that would indicate that private respondents intended to become members of the SCHAs. Prior to the implementation of the aforesaid Resolution, they and the other homeowners who were not members of the association were issued non-member gate pass stickers for their vehicles. This fact has not been disputed by petitioners. Thus, the SCHAs recognized that there were subdivision landowners who were not members thereof, notwithstanding the provisions of its Articles of Incorporation and By-laws.

Jurisdiction Determined by Allegations in the Complaint

It is a settled rule that jurisdiction over the subject matter is determined by the allegations in the complaint. Jurisdiction is not affected by the pleas or the theories set up by the defendant in an answer or a motion to dismiss. Otherwise, jurisdiction would become dependent almost entirely upon the whims of the defendant.[26]

The Complaint does not allege that private respondents are members of the SCHAs. In point of fact, they deny such membership. Thus, the HIGC has no jurisdiction over the dispute.

Petitioners likewise contend that even if private respondents are not members of the SCHAs, an intra-corporate controversy under the third type of dispute provided in Section 1(b) of Rule II of the HIGC Rules exists. Petitioners posit that private respondents fall within the meaning of “general public.” We are not convinced.

First, the third type of dispute refers only to cases wherein an association’s right to exist as a corporate entity is at issue. In the present case, the Complaint filed by private respondents refers to the SCHAs’ acts allegedly amounting to an impairment of their free access to their place of residence inside the Sta. Clara Subdivision.[27] The existence of SCHAs as a corporate entity is clearly not at issue in the instant case.

Second, in *United BF Homeowners’ Association v. BF Homes, Inc.*, [28] we held that Section 1(b), Rule II of HIGC’s “Revised Rules of Procedure in the Hearing of Homeowners’ Disputes” was void. The HIGC went beyond its lawful authority provided by law when it promulgated its revised rules of procedure. There was a clear attempt to unduly expand the provisions of Presidential Decree 902-A. As provided by the law, it is only the State -- not the “general public or other entity” -- that can question an association’s franchise or corporate existence.[29]

To reiterate, the HIGC exercises limited jurisdiction over homeowners’ disputes. The law confines its authority to controversies that arise from any of the following intra-corporate relations: (1) between and among members of the association; (2) between any and/or all of them and the association of which they are members; and (3) between the association and the state insofar as the controversy concerns its right to exist as a corporate entity.[30]

It should be stressed that the Complaint here is for damages. It does not assert membership in the SCHAs as its basis. Rather, it is based on an alleged violation of their alleged right of access through the subdivision and on the

alleged embarrassment and humiliation suffered by the plaintiffs.

Second Issue:

Sufficiency of Cause of Action

Petitioners claim that the CA erred in not ordering the dismissal of the Complaint for lack of cause of action. They argue that there was no allegation therein that private respondents were actually prevented from entering the subdivision and gaining access to their residential abode.

This contention is untenable. A defendant moving to dismiss a complaint on the ground of lack of cause of action is regarded as having hypothetically admitted all the factual averments in the complaint. The test of the sufficiency of the allegations constituting the cause of action is whether, admitting the facts alleged, the court can render a valid judgment on the prayers.[31] This test implies that the issue must be passed upon on the basis of the bare allegations in the complaint. The court does not inquire into the truth of such allegations and declare them to be false. To do so would constitute a procedural error and a denial of the plaintiff's right to due process.[32]

A complaint states a cause of action when it contains these three essential elements: (1) the legal right of the plaintiff, (2) the correlative obligation of the defendant, and (3) the act or omission of the defendant in violation of the said legal right.[33]

In the instant case, the records sufficiently establish a cause of action. First, the Complaint alleged that, under the Constitution, respondents had a right of free access to and from their residential abode. Second, under the law, petitioners have the obligation to respect this right. Third, such right was impaired by petitioners when private respondents were refused access through the Sta. Clara Subdivision, unless they showed their driver's license for identification.

Given these hypothetically admitted facts, the RTC, in the exercise of its original and exclusive jurisdiction,[34] could have rendered judgment over the dispute.

We stress that, in rendering this Decision, this Court is not prejudging the main issue of whether, in truth and in fact, private respondents are entitled to a favorable decision by the RTC. That will be made only after the proper proceedings therein. Later on, if it is proven during the trial that they are indeed members of the SCHA, then the case may be dismissed on the ground of lack of jurisdiction. We are merely holding that, on the basis of the allegations in the Complaint, (1) the RTC has jurisdiction over the controversy and (2) the Complaint sufficiently alleges a cause of action. Therefore, it is not subject to attack by a motion to dismiss on these grounds.

WHEREFORE, the Petition is hereby DENIED and the assailed Decision AFFIRMED. Costs against petitioners.

SO ORDERED.

Melo, (Chairman), Sandoval-Gutierrez, and Carpio, JJ., concur.

Vitug, J., I concur although I might call attention to Article 2174 of the Civil Code as and when pertinent.

[1] Rollo, pp. 210-225.

[2] Rollo, pp. 244-246.

[3] CA Decision, p. 15; rollo, p. 224.

[4] Special Fifteenth Division. Penned by J. Jose L. Sabio Jr. and concurred in by JJ Ruben T. Reyes and Omar U. Amin.

[5] Penned by Judge Othello M. Villanueva.

[6] CA Decision, pp. 2-6; rollo, pp. 211-215.

[7] Rollo, pp. 138-172.

[8] The case was deemed submitted for decision on February 23, 2001, upon the Court's receipt of respondents' "Reply." Respondents' Memorandum, filed on February 2, 2001, was signed by Atty. Miguel F. Montinola; petitioners' Memorandum, filed also on February 2, 2001, was signed by Attys. William N. Mirano and Gina H. Mirano.

[9] Petitioners' Memorandum, pp. 12-13; rollo, pp. 366-367.

[10] The HIGC was initially called Home Financing Commission, thereafter Home Financing Corporation, later Home Insurance and Guaranty Corporation, until it finally became the Home Guaranty Corporation.

[11] An Act to Create the Home Financing Commission to Stimulate Home Building and Land Ownership and to Promote the Development of Land for that Purpose, Provide Liberal Financing Through an Insured Mortgage System, and Develop Thrift through the Accumulation of Savings in Insured Institutions. September 15, 1950.

[12] Presidential Decree 902-A (Section 3).

[13] Amending the Charter of the Home Financing Commission, Renaming it as Home Financing Corporation, Enlarging its Powers, and for Other Purposes. May 3, 1979.

[14] Presidential Decree 902-A, Section 5, states: "In addition to the regulatory and adjudicative functions of the Securities and Exchange Commission over corporations, partnerships and other forms of associations registered with it as expressly granted under existing laws and decrees, it shall have original and exclusive jurisdiction to hear and decide cases involving:

x x x x x x x x

(b) Controversies arising out of intra-corporate or partnership relations, between and among stockholders, members, or associates; between any or all of them and the corporation, partnership or association of which they are stockholders, members or associates, respectively; and between such corporation, partnership or association and the state insofar as it concerns their individual franchise or right to exist as such entity."

[15] An Act Consolidating and Amending Republic Act Nos. 580, 1557, 5488, and 7835 and Executive Order Nos. 535 and 90, as they apply to the Home Insurance and Guaranty Corporation.

[16] SECOND. - That the association shall be a non-stock corporation with all homeowners of Sta. Clara constituting its membership.

[17] All real estate owners in Sta. Clara Subdivision of Bacolod City, as defined and bounded in the Articles of Incorporation AUTOMATICALLY become members of the association.

[18] Art III, Sec. 8. The right of the people, including those employed in the public and private sectors, to form unions, associations, or societies for purposes not contrary to law shall not be abridged, 1987 Constitution.

[19] *Sinaca v. Mula*, 315 SCRA 266, September 27, 1999.

[20] *Ortega v. CA*, 245 SCRA 529, July 3, 1995.

[21] *Bernas*, *The Constitution of the Republic of the Philippines: A Commentary*, (1996 ed), p. 340.

[22] CA Decision, p. 10; rollo, p. 219.

[23] Art. 1305, Civil Code.

[24] Cordial v. Miranda, GR No. 135495, December 14, 2000.

[25] 174 SCRA 589, 595, June 30, 1989, per Gutierrez Jr., J.

[26] Commart (Phils.), Inc. v. Securities & Exchange Commission, 198 SCRA 73, June 3, 1991.

[27] CA Decision, pp. 13-14; rollo, pp. 222-223.

[28] 310 SCRA 304, July 14, 1999.

[29] Ibid.

[30] Id.

[31] Rava Development Corporation v. Court of Appeals, 211 SCRA 144, July 3, 1992.

[32] Galeon v. Galeon, 49 SCRA 516, February 28, 1973.

[33] San Lorenzo Village Association, Inc. v. Court of Appeals, 288 SCRA 115, March 26, 1998.

[34] §19, Batas Pambansa Blg. 129, as amended by Republic Act No. 7691.

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