

**MANUEL C. PAGTALUNAN, PETITIONER, VS. RUFINA DELA CRUZ
VDA. DE MANZANO, RESPONDENT.***G.R. No. 147695. September 13, 2007*

Ponente: AZCUNA, J.

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This is a petition for review on certiorari under Rule 45 of the Rules of Court of the Court of Appeals' (CA) Decision promulgated on October 30, 2000 and its Resolution dated March 23, 2001 denying petitioner's motion for reconsideration. The Decision of the CA affirmed the Decision of the Regional Trial Court (RTC) of Malolos, Bulacan, dated June 25, 1999 dismissing the case of unlawful detainer for lack of merit.

The facts are as follows:

On July 19, 1974, Patricio Pagtalunan (Patricio), petitioner's stepfather and predecessor-in-interest, entered into a Contract to Sell with respondent, wife of Patricio's former mechanic, Teodoro Manzano, whereby the former agreed to sell, and the latter to buy, a house and lot which formed half of a parcel of land, covered by Transfer Certificate of Title (TCT) No. T-10029 (now TCT No. RT59929 [T-254773]), with an area of 236 square meters. The consideration of P17,800 was agreed to be paid in the following manner: P1,500 as downpayment upon execution of the Contract to Sell, and the balance to be paid in equal monthly installments of P150 on or before the last day of each month until fully paid.

It was also stipulated in the contract that respondent could immediately occupy the house and lot; that in case of default in the payment of any of the installments for 90 days after its due date, the contract would be automatically rescinded without need of judicial declaration, and that all payments made and all improvements done on the premises by respondent would be considered as rentals for the use and occupation of the property or payment for damages suffered, and respondent was obliged to peacefully vacate the premises and deliver the possession thereof to the vendor.

Petitioner claimed that respondent paid only P12,950. She allegedly stopped paying after December 1979 without any justification or explanation. Moreover, in a "Kasunduan"[1] dated November 18, 1979, respondent borrowed P3,000 from Patricio payable in one year either in one lump sum payment or by installments, failing which the balance of the loan would be added to the principal subject of the monthly amortizations on the land.

Lastly, petitioner asserted that when respondent ceased paying her installments, her status of buyer was automatically transformed to that of a lessee. Therefore, she continued to possess the property by mere tolerance of Patricio and, subsequently, of petitioner.

On the other hand, respondent alleged that she paid her monthly installments religiously, until sometime in 1980 when Patricio changed his mind and offered to refund all her payments provided she would surrender the house. She refused. Patricio then started harassing her and began demolishing the house portion by portion. Respondent admitted that she failed to pay some installments after December 1979, but that she resumed paying in 1980 until

her balance dwindled to P5,650. She claimed that despite several months of delay in payment, Patricio never sued for ejectment and even accepted her late payments.

Respondent also averred that on September 14, 1981, she and Patricio signed an agreement (Exh. 2) whereby he consented to the suspension of respondent's monthly payments until December 1981. However, even before the lapse of said period, Patricio resumed demolishing respondent's house, prompting her to lodge a complaint with the Barangay Captain who advised her that she could continue suspending payment even beyond December 31, 1981 until Patricio returned all the materials he took from her house. This Patricio failed to do until his death.

Respondent did not deny that she still owed Patricio P5,650, but claimed that she did not resume paying her monthly installment because of the unlawful acts committed by Patricio, as well as the filing of the ejectment case against her. She denied having any knowledge of the Kasunduan of November 18, 1979.

Patricio and his wife died on September 17, 1992 and on October 17, 1994, respectively. Petitioner became their sole successor-in-interest pursuant to a waiver by the other heirs. On March 5, 1997, respondent received a letter from petitioner's counsel dated February 24, 1997 demanding that she vacate the premises within five days on the ground that her possession had become unlawful. Respondent ignored the demand. The Punong Barangay failed to settle the dispute amicably.

On April 8, 1997, petitioner filed a Complaint for unlawful detainer against respondent with the Municipal Trial Court (MTC) of Guiguinto, Bulacan praying that, after hearing, judgment be rendered ordering respondent to immediately vacate the subject property and surrender it to petitioner; forfeiting the amount of P12,950 in favor of petitioner as rentals; ordering respondent to pay petitioner the amount of P3,000 under the Kasunduan and the amount of P500 per month from January 1980 until she vacates the property, and to pay petitioner attorney's fees and the costs.

On December 22, 1998, the MTC rendered a decision in favor of petitioner. It stated that although the Contract to Sell provides for a rescission of the agreement upon failure of the vendee to pay any installment, what the contract actually allows is properly termed a resolution under Art. 1191 of the Civil Code.

The MTC held that respondent's failure to pay not a few installments caused the resolution or termination of the Contract to Sell. The last payment made by respondent was on January 9, 1980 (Exh. 71). Thereafter, respondent's right of possession ipso facto ceased to be a legal right, and became possession by mere tolerance of Patricio and his successors-in-interest. Said tolerance ceased upon demand on respondent to vacate the property.

The dispositive portion of the MTC Decision reads:

Wherefore, all the foregoing considered, judgment is hereby rendered, ordering the defendant:

- to vacate the property covered by Transfer Certificate of Title No. T-10029 of the Register of Deeds of Bulacan (now TCT No. RT-59929 of the Register of Deeds of Bulacan), and to surrender possession thereof to the plaintiff;
- to pay the plaintiff the amount of P113,500 representing rentals from January 1980 to the present;
- to pay the plaintiff such amount of rentals, at P500/month, that may become due after the date of judgment, until she finally vacates the subject property;
- to pay to the plaintiff the amount of P25,000 as attorney's fees.

SO ORDERED.[2]

On appeal, the RTC of Malolos, Bulacan, in a Decision dated June 25, 1999, reversed the decision of the MTC

and dismissed the case for lack of merit. According to the RTC, the agreement could not be automatically rescinded since there was delivery to the buyer. A judicial determination of rescission must be secured by petitioner as a condition precedent to convert the possession de facto of respondent from lawful to unlawful.

The dispositive portion of the RTC Decision states:

WHEREFORE, judgment is hereby rendered reversing the decision of the Municipal Trial Court of Guiguinto, Bulacan and the ejectment case instead be dismissed for lack of merit.[3]

The motion for reconsideration and motion for execution filed by petitioner were denied by the RTC for lack of merit in an Order dated August 10, 1999.

Thereafter, petitioner filed a petition for review with the CA.

In a Decision promulgated on October 30, 2000, the CA denied the petition and affirmed the Decision of the RTC. The dispositive portion of the Decision reads:

WHEREFORE, the petition for review on certiorari is Denied. The assailed Decision of the Regional Trial Court of Malolos, Bulacan dated 25 June 1999 and its Order dated 10 August 1999 are hereby AFFIRMED.

SO ORDERED. [4]

The CA found that the parties, as well as the MTC and RTC failed to advert to and to apply Republic Act (R.A.) No. 6552, more commonly referred to as the Maceda Law, which is a special law enacted in 1972 to protect buyers of real estate on installment payments against onerous and oppressive conditions.

The CA held that the Contract to Sell was not validly cancelled or rescinded under Sec. 3 (b) of R.A. No. 6552, and recognized respondent's right to continue occupying unmolested the property subject of the contract to sell.

The CA denied petitioner's motion for reconsideration in a Resolution dated March 23, 2001.

Hence, this petition for review on certiorari.

Petitioner contends that:

- Respondent Dela Cruz must bear the consequences of her deliberate withholding of, and refusal to pay, the monthly payment. The Court of Appeals erred in allowing Dela Cruz who acted in bad faith from benefiting under the Maceda Law.
- The Court of Appeals erred in resolving the issue on the applicability of the Maceda Law, which issue was not raised in the proceedings a quo.
- Assuming arguendo that the RTC was correct in ruling that the MTC has no jurisdiction over a rescission case, the Court of Appeals erred in not remanding the case to the RTC for trial.[5]

Petitioner submits that the Maceda Law supports and recognizes the right of vendors of real estate to cancel the sale outside of court, without need for a judicial declaration of rescission, citing *Luzon Brokerage Co., Inc., v. Maritime Building Co., Inc.*[6]

Petitioner contends that respondent also had more than the grace periods provided under the Maceda Law within which to pay. Under Sec. 3[7] of the said law, a buyer who has paid at least two years of installments has a grace period of one month for every year of installment paid. Based on the amount of P12,950 which respondent had already paid, she is entitled to a grace period of six months within which to pay her unpaid installments after December, 1979. Respondent was given more than six months from January 1980 within which to settle her unpaid installments, but she failed to do so. Petitioner's demand to vacate was sent to respondent in February

1997.

There is nothing in the Maceda Law, petitioner asserts, which gives the buyer a right to pay arrearages after the grace periods have lapsed, in the event of an invalid demand for rescission. The Maceda Law only provides that actual cancellation shall take place after 30 days from receipt of the notice of cancellation or demand for rescission and upon full payment of the cash surrender value to the buyer.

Petitioner contends that his demand letter dated February 24, 1997 should be considered the notice of cancellation since the demand letter informed respondent that she had "long ceased to have any right to possess the premises in question due to [her] failure to pay without justifiable cause." In support of his contention, he cited *Layug v. Intermediate Appellate Court*[8] which held that "the additional formality of a demand on [the seller's] part for rescission by notarial act would appear, in the premises, to be merely circuitous and consequently superfluous." He stated that in *Layug*, the seller already made a written demand upon the buyer.

In addition, petitioner asserts that whatever cash surrender value respondent is entitled to have been applied and must be applied to rentals for her use of the house and lot after December, 1979 or after she stopped payment of her installments.

Petitioner argues that assuming Patricio accepted respondent's delayed installments in 1981, such act cannot prevent the cancellation of the Contract to Sell. Installments after 1981 were still unpaid and the applicable grace periods under the Maceda Law on the unpaid installments have long lapsed. Respondent cannot be allowed to hide behind the Maceda Law. She acted with bad faith and must bear the consequences of her deliberate withholding of and refusal to make the monthly payments.

Petitioner also contends that the applicability of the Maceda Law was never raised in the proceedings below; hence, it should not have been applied by the CA in resolving the case.

The Court is not persuaded.

The CA correctly ruled that R.A. No. 6552, which governs sales of real estate on installment, is applicable in the resolution of this case.

This case originated as an action for unlawful detainer. Respondent is alleged to be illegally withholding possession of the subject property after the termination of the Contract to Sell between Patricio and respondent. It is, therefore, incumbent upon petitioner to prove that the Contract to Sell had been cancelled in accordance with R.A. No. 6552.

The pertinent provision of R.A. No. 6552 reads:

Sec. 3. In all transactions or contracts involving the sale or financing of real estate on installment payments, including residential condominium apartments but excluding industrial lots, commercial buildings and sales to tenants under Republic Act Numbered Thirty-eight hundred forty-four as amended by Republic Act Numbered Sixty-three hundred eighty-nine, where the buyer has paid at least two years of installments, the buyer is entitled to the following rights in case he defaults in the payment of succeeding installments:

(a) To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is hereby fixed at the rate of one month grace period for every one year of installment payments made: Provided, That this right shall be exercised by the buyer only once in every five years of the life of the contract and its extensions, if any.

(b) 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.[9]

R.A. No. 6552, otherwise known as the "Realty Installment Buyer Protection Act," 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.[10] The Court agrees with petitioner that the cancellation of the Contract to Sell may be done outside the court particularly when the buyer agrees to such cancellation.

However, the cancellation of the contract by the seller must be in accordance with Sec. 3 (b) of R.A. No. 6552, which requires a notarial act of rescission and the refund to the buyer of the full payment of the cash surrender value of the payments on the property. Actual cancellation of the contract takes place after 30 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.

Based on the records of the case, the Contract to Sell was not validly cancelled or rescinded under Sec. 3 (b) of R.A. No. 6552.

First, Patricio, the vendor in the Contract to Sell, died on September 17, 1992 without canceling the Contract to Sell.

Second, petitioner also failed to cancel the Contract to Sell in accordance with law.

Petitioner contends that he has complied with the requirements of cancellation under Sec. 3 (b) of R.A. No. 6552. He asserts that his demand letter dated February 24, 1997 should be considered as the notice of cancellation or demand for rescission by notarial act and that the cash surrender value of the payments on the property has been applied to rentals for the use of the house and lot after respondent stopped payment after January 1980.

The Court, however, finds that the letter[11] dated February 24, 1997, which was written by petitioner's counsel, merely made formal demand upon respondent to vacate the premises in question within five days from receipt thereof since she had "long ceased to have any right to possess the premises x x x due to [her] failure to pay without justifiable cause the installment payments x x x."

Clearly, the demand letter is not the same as the notice of cancellation or demand for rescission by a notarial act required by R.A. No. 6552. Petitioner cannot rely on *Layug v. Intermediate Appellate Court*[12] to support his contention that the demand letter was sufficient compliance. *Layug* held that "the additional formality of a demand on [the seller's] part for rescission by notarial act would appear, in the premises, to be merely circuitous and consequently superfluous" since the seller therein filed an action for annulment of contract, which is a kindred concept of rescission by notarial act.[13] Evidently, the case of unlawful detainer filed by petitioner does not exempt him from complying with the said requirement.

In addition, Sec. 3 (b) of R.A. No. 6552 requires refund of the cash surrender value of the payments on the property to the buyer before cancellation of the contract. The provision does not provide a different requirement for contracts to sell which allow possession of the property by the buyer upon execution of the contract like the instant case. Hence, petitioner cannot insist on compliance with the requirement by assuming that the cash surrender value payable to the buyer had been applied to rentals of the property after respondent failed to pay the installments due.

There being no valid cancellation of the Contract to Sell, the CA correctly recognized respondent's right to

continue occupying the property subject of the Contract to Sell and affirmed the dismissal of the unlawful detainer case by the RTC.

The Court notes that this case has been pending for more than ten years. Both parties prayed for other reliefs that are just and equitable under the premises. Hence, the rights of the parties over the subject property shall be resolved to finally dispose of that issue in this case.

Considering that the Contract to Sell was not cancelled by the vendor, Patricio, during his lifetime or by petitioner in accordance with R.A. No. 6552 when petitioner filed this case of unlawful detainer after 22 years of continuous possession of the property by respondent who has paid the substantial amount of P12,300 out of the purchase price of P17,800, the Court agrees with the CA that it is only right and just to allow respondent to pay her arrears and settle the balance of the purchase price.

For respondent's delay in the payment of the installments, the Court, in its discretion, and applying Article 2209[14] of the Civil Code, may award interest at the rate of 6% per annum[15] on the unpaid balance considering that there is no stipulation in the Contract to Sell for such interest. For purposes of computing the legal interest, the reckoning period should be the filing of the complaint for unlawful detainer on April 8, 1997.

Based on respondent's evidence[16] of payments made, the MTC found that respondent paid a total of P12,300 out of the purchase price of P17,800. Hence, respondent still has a balance of P5,500, plus legal interest at the rate of 6% per annum on the unpaid balance starting April 8, 1997.

The third issue is disregarded since petitioner assails an inexistent ruling of the RTC on the lack of jurisdiction of the MTC over a rescission case when the instant case he filed is for unlawful detainer.

WHEREFORE, the Decision of the Court of Appeals dated October 30, 2000 sustaining the dismissal of the unlawful detainer case by the RTC is **AFFIRMED** with the following **MODIFICATIONS**:

- Respondent Rufina Dela Cruz Vda. de Manzano shall pay petitioner Manuel C. Pagtalunan the balance of the purchase price in the amount of Five Thousand Five Hundred Pesos (P5,500) plus interest at 6% per annum from April 8, 1997 up to the finality of this judgment, and thereafter, at the rate of 12% per annum;
- Upon payment, petitioner Manuel C. Pagtalunan shall execute a Deed of Absolute Sale of the subject property and deliver the certificate of title in favor of respondent Rufina Dela Cruz Vda. de Manzano; and
- In case of failure to pay within 60 days from finality of this Decision, respondent Rufina Dela Cruz Vda. de Manzano shall immediately vacate the premises without need of further demand, and the downpayment and installment payments of P12,300 paid by her shall constitute rental for the subject property.

No costs.

SO ORDERED.

Puno, C.J., (Chairperson), Sandoval-Gutierrez, Corona, and Garcia, JJ., concur.

[1] The MTC Decision stated that plaintiff (petitioner) never submitted a copy of the Kasunduan in evidence.

[2] Rollo, p. 122.

[3] Id. at 145.

[4] Id. at 37.

[5] Id. at 8.

[6] No. L-25885, November 16, 1978, 86 SCRA 305, 327.

[7] R.A. No. 6552, Sec. 3. In all transactions or contracts involving the sale or financing of real estate on installment payments, including residential condominium apartments but excluding industrial lots, commercial buildings and sales to tenants under [R.A No. 3844], as amended by [R.A No. 6389], where the buyer has paid at least two years of installments, the buyer is entitled to the following rights in case he defaults in the payment of succeeding installments:

(a) To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is hereby fixed at the rate of one month grace period for every one year of installment payments made: Provided, That this right shall be exercised by the buyer only once in every five years of the life of the contract and its extensions, if any.

[8] No. L-75364, November 23, 1988, 167 SCRA 627, 635.

[9] Emphasis supplied.

[10] *Leaño v. Court of Appeals*, G.R. No. 129018, November 15, 2001, 369 SCRA 36, 45.

[11] *Rollo*, p. 48.

[12] *Supra*, note 8.

[13] *Olympia Housing, Inc. v. Panasiatic Travel Corporation*, G.R. No. 140468, January 16, 2003, 395 SCRA 298.

[14] Art. 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest which is six percent per annum.

[15] *Ramos v. Heruela*, G.R. No. 145330, October 14, 2005, 473 SCRA 79.

[16] Exhibits 9 to 71, *Records*, pp. 141-202.

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