

**SPOUSES MANUEL AND JOCELYN BARREDO, PETITIONERS, VS.
SPOUSES EUSTAQUIO AND EMILDA LEAÑO, RESPONDENTS.***G.R. No. 156627. June 04, 2004*

Ponente: PUNO, J.

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In resolving the case at bar, we hearken back to the time-honored principle in obligations and contracts enunciated by this Court some 80 years ago in *Song Fo & Co. v. Hawaiian Philippine Co.*[1] that the rescission of contracts will not be permitted for a slight or casual breach thereof.

The factual antecedents are undisputed. Sometime in 1979, petitioners spouses Manuel and Jocelyn Barredo (Barredo Spouses) bought a house and lot located along Lilac Road, Pilar Village, Las Piñas, Metro Manila, with the proceeds of a P50,000.00 loan from the Social Security System (SSS) which was payable in 25 years and an P88,400.00 loan from the Apex Mortgage and Loans Corporation (Apex) which was payable in 20 years. To secure the twin loans, they executed a first mortgage over the house and lot in favor of SSS and a second one in favor of Apex.

On July 10, 1987, the Barredo Spouses sold their house and lot to respondents Eustaquio and Emilda Leño (Leño Spouses) by way of a Conditional Deed of Sale with Assumption of Mortgage. The Leño Spouses would pay the Barredo Spouses P200,000.00, P100,000.00 of which would be payable on July 15, 1987, while the balance of P100,000.00 would be paid in ten (10) equal monthly installments after the signing of the contract. The Leño Spouses would also assume the first and second mortgages and pay the monthly amortizations to SSS and Apex beginning July 1987 until both obligations are fully paid.

In accordance with the agreement, the purchase price of P200,000.00 was paid to the Barredo Spouses who turned over the possession of the house and lot in favor of the Leño Spouses. Two (2) years later, on September 4, 1989, the Barredo Spouses initiated a complaint before the Regional Trial Court of Las Piñas seeking the rescission of the contract on the ground that the Leño Spouses despite repeated demands failed to pay the mortgage amortizations to the SSS and Apex causing the Barredo Spouses great and irreparable damage. The Leño Spouses, however, answered that they were up-to-date with their amortization payments to Apex but were not able to pay the SSS amortizations because their payments were refused upon the instructions of the Barredo Spouses.

Meanwhile, allegedly in order to save their good name, credit standing and reputation, the Barredo Spouses took it upon themselves to settle the mortgage loans and paid the SSS the sum of P27,494.00 on September 11, 1989, and P41,401.91 on January 9, 1990. The SSS issued a Release of Real Estate Mortgage Loan on January 9, 1990. They also settled the mortgage loan with Apex and paid the sum of P5,379.23 on October 3, 1989, and P64,000.00 on January 9, 1990. Likewise, Apex issued a Certification of Full Payment of Loan on January 12, 1990. They also paid the real estate property taxes for the years 1987 up to 1990.

On October 5, 1993, the Regional Trial Court of Las Piñas, Br. 275,[2] ruled that the assumption of mortgage

debts of the Barredo Spouses by the Leaño Spouses “is a very substantial condition x x x x The credit standing of the (Barredo Spouses) will be greatly prejudiced should they appear delinquent or not paying at all. This is what the (Barredo Spouses) feared so much, if foreclosure proceedings are resorted to because of their failure to pay their obligations.”[3] The trial court thus rendered judgment in favor of the plaintiff, the Barredo Spouses –

WHEREFORE, and in consideration of the foregoing, by preponderance of evidence, judgment is hereby rendered in favor of the plaintiffs and against the defendants by: (1) declaring the Conditional Deed of Sale with Assumption of Mortgage entered into by the plaintiffs and the defendants on July 10, 1987, as rescinded and therefore null and void as of this date; (2) ordering the defendants jointly and severally to pay the sum of P15,000.00 as actual and litigation expenses, and the sum of P25,000.00 as and by way of attorney’s fees; and (3) to pay the costs.

SO ORDERED.[4]

Aggrieved, the Leaño Spouses who have turned over the possession of the subject house and lot to the Barredo Spouses appealed to the Court of Appeals. On May 21, 2002, the appellate court reversed and set aside the decision of the trial court on the ground that the payments of amortization to Apex and SSS were mere collateral matters which do not detract from the condition of paying the principal consideration.[5] The dispositive portion of the decision reads –

WHEREFORE, the questioned decision of the Regional Trial Court of Las Piñas, Branch 275, is hereby REVERSED and SET ASIDE, and another one is entered DISMISSING the complaint for lack of cause of action, and ordering plaintiff-appellees to:

a)

execute the Deed of Absolute Sale and to deliver TCT No. S-104634 in favor of defendants-appellants upon full payment of the amounts of P68,895.91, P69,379.23 and P2,217.60, or a total of P140,492.74, subject to the legal rate of interest per annum from the time said payments were made by plaintiffs-appellees until the same are fully paid;

b) to vacate and/or turn over the said property to defendants-appellants;

c) to pay attorney’s fees in the sum of P20,000.00 and

d) to pay the costs of litigation.

SO ORDERED.[6]

On December 10, 2002, the appellate court denied the motion for reconsideration for lack of merit. Hence, this petition for review on certiorari on a sole assignment of error –

CONTRARY TO THE EXPRESS FINDINGS OF THE TRIAL COURT THAT THERE WAS SUBSTANTIAL AND FUNDAMENTAL BREACH BY THE RESPONDENTS OF THEIR RECIPROCAL OBLIGATIONS TO ASSUME AND PAY THE MORTGAGE OBLIGATION OF PETITIONERS WITH THE SSS AND APEX, THE COURT OF APPEALS ERRED IN HOLDING THAT THE PAYMENTS OF AMORTIZATION TO APEX AND SSS ARE MERE COLLATERAL MATTERS AND DISMISSING PETITIONERS’ COMPLAINT FOR LACK OF CAUSE OF ACTION.[7]

Petitioners argue that the terms of the agreement called for the strict compliance of two (2) equally essential and material obligations on the part of the Leaño Spouses, namely, the payment of the P200,000.00 to them and the payment of the mortgage amortizations to the SSS and Apex. And, the Barredo Spouses undertook to execute the corresponding Deed of Absolute Sale only upon the faithful compliance by the Leaño Spouses of the conditions

set forth in their agreement. Thus, the failure of the Leaño Spouses to pay the mortgage amortizations to the SSS and Apex gave rise to the right of the Barredo Spouses to refrain from executing the deed of sale and in fact ask for rescission, a right accorded to an injured party.

Respondents Leaño Spouses, however, contend that they were only obliged to assume the amortization payments of the Barredo Spouses with the SSS and Apex, which they did upon signing the agreement. The contract does not stipulate as a condition the full payment of the SSS and Apex mortgages. Granting for argument's sake that their failure to pay in full the mortgage was not a full compliance of their obligation, they could not be faulted because their payments were not accepted by the SSS since the Barredo Spouses failed to notify the SSS of the assignment of their debt. In fine, the alleged breach, if any, was only casual or slight and does not defeat the very object of the parties in entering into the agreement. Moreover, the Barredo Spouses were not and will never be injured parties since if the amortizations were not paid, it would be the Leaño Spouses who would eventually lose the house and lot. As such, rescission does not obtain.

We quote the pertinent provisions of the Conditional Deed of Sale with Assumption of Mortgage –

- ONE HUNDRED THOUSAND PESOS (P100,000.00) Philippine Currency, shall be paid by the VENDEES to the VENDORS on July 15, 1987.
- The balance of ONE HUNDRED THOUSAND PESOS (P100,000.00) Philippine Currency, shall be paid by the VENDEES to the VENDORS in ten (10) equal monthly installments at the VENDORS' residence, after the signing of this Contract, consisting of ten (10) post-dated checks drawn against the checking account of the VENDEES beginning August 1, 1987, and the succeeding months x x x x until the amount is fully paid and the checks properly encashed x x x x
- The VENDEES do hereby accept this Sale and bind themselves to assume as they hereby assume beginning on July 1, 1987, the payment of the unpaid balance of the First Mortgage indebtedness of the VENDORS with the Social Security System as of June 1, 1987 x x x x and another indebtedness of the VENDORS in a 2nd Mortgage with the Apex Mortgage and Loans Corporation, as of June 1, 1987, x x x x and that the herein VENDEES do hereby further agree to be bound by the precise terms and conditions therein contained.
- That should the VENDEES well and faithfully comply with the conditions set forth in this Contract, then the VENDORS shall execute the corresponding Absolute Deed of Sale over the property herein conveyed with assumption of the mortgages aforesaid, in favor of the VENDEES herein.

A careful reading of the pertinent provisions of the agreement readily shows that the principal object of the contract was the sale of the Barredo house and lot, for which the Leaño Spouses gave a down payment of P100,000.00 as provided for in par. 1 of the contract, and thereafter ten (10) equal monthly installments amounting to another P100,000.00, as stipulated in par. 2 of the same agreement. The assumption of the mortgages by the Leaño Spouses over the mortgaged property and their payment of amortizations are just collateral matters which are natural consequences of the sale of the said mortgaged property.

Thus, par. 3 of the agreement provides that the Leaño Spouses “bind themselves to assume as they hereby assume beginning on July 1, 1987, the payment of the unpaid balance x x x x” Hence, the Leaño Spouses merely bound themselves to assume, which they actually did upon the signing of the agreement, the obligations of the Barredo Spouses with the SSS and Apex. Nowhere in the agreement was it stipulated that the sale was conditioned upon their full payment of the loans with SSS and Apex. When the language of the contract is clear, it requires no interpretation,[8] and its terms should not be disturbed.[9] The primary and elementary rule of construction of documents is that when the words or language thereof is clear and plain or readily understandable by any ordinary reader thereof, there is absolutely no room for interpretation or construction anymore[10] and the literal meaning of its stipulations shall control.[11]

To include the full payment of the obligations with the SSS and Apex as a condition would be to unnecessarily stretch and put a new meaning to the provisions of the agreement. For, as a general rule, when the terms of an agreement have been reduced to writing, such written agreement is deemed to contain all the terms agreed upon and there can be, between the parties and their successors-in-interest, no evidence of such terms other than the contents of the written agreement.[12] And, it is a familiar doctrine in obligations and contracts that the parties are bound by the stipulations, clauses, terms and conditions they have agreed to, which is the law between them, the only limitation being that these stipulations, clauses, terms and conditions are not contrary to law, morals, public order or public policy.[13] Not being repugnant to any legal proscription, the agreement entered into by the parties must be respected and each is bound to fulfill what has been expressly stipulated therein.[14]

But even if we consider the payment of the mortgage amortizations to the SSS and Apex as a condition on which the sale is based on, still rescission would not be available since non-compliance with such condition would just be a minor or casual breach thereof as it does not defeat the very object of the parties in entering into the contract. A cursory reading of the agreement easily reveals that the main consideration of the sale is the payment of P200,000.00 to the vendors within the period agreed upon. The assumption of mortgage by the Leaño Spouses is a natural consequence of their buying a mortgaged property. In fact, the Barredo Spouses do not stand to benefit from the payment of the amortizations by the Leaño Spouses directly to the SSS and Apex simply because the Barredo Spouses have already parted with their property, for which they were already fully compensated in the amount of P200,000.00.

Thus, as adverted to in *Song Fo & Co. v. Hawaiian Philippine Co.*,[15] we ruled that a delay in the payment for a small quantity of molasses for some twenty (20) days is not such a violation of an essential condition of the contract that warrants rescission due to non-performance. In *Philippine Amusement Enterprise, Inc. v. Natividad*,[16] we declined rescission for “the occasional failure of the phonograph to operate, not frequent enough to render it unsuitable and unserviceable.” In *Laforteza v. Machuca*,[17] we said that the delay of one month in payment was a mere casual breach that would not entitle the respondents to rescind the contract. In *Ang v. Court of Appeals*,[18] we held that the failure to remove and clear the subject property of all occupants and obstructions and deliver all the pertinent papers to the vendees for the registration and issuance of a certificate of title in their name were not essential conditions but merely incidental undertakings which will not permit rescission. In *Power Commercial and Industrial Corp. v. Court of Appeals*,[19] we went a step further and considered the failure of the vendor to eject the occupants of a lot sold as a “usual warranty against eviction,” and not a condition that was not met, and thus, rescission was not allowed. And, in *Del Castillo v. Nanguiat*,[20] we ruled that the failure to pay in full the purchase price stipulated in a deed of sale does not ipso facto grant the seller the right to rescind the agreement. In all these cases, we were consistent in holding that rescission of a contract will not be permitted for a slight or casual breach, but only such substantial and fundamental breach as would defeat the very object of the parties in making the agreement.

If the Barredo Spouses were really protective of their reputation and credit standing, they should have sought the consent, or at least notified the SSS and Apex of the assumption by the Leaño Spouses of their indebtedness. Besides, in ordering rescission, the trial court should have likewise ordered the Barredo Spouses to return the P200,000.00 they received as purchase price plus interests. Art. 1385 of the Civil Code provides that “[r]escission creates the obligation to return the things which were the object of the contract, together with their fruits, and the price with its interest.”[21] The vendor is therefore obliged to return the purchase price paid to him by the buyer if the latter rescinds the sale.[22] Thus, where a contract is rescinded, it is the duty of the court to require both parties to surrender that which they have respectively received and place each other as far as practicable in his original situation.[23]

IN VIEW WHEREOF, the petition is DENIED. The Decision of the Court of Appeals in CA-G.R. CV No. 44009 promulgated May 21, 2002, and its Resolution therein dated December 10, 2002, are hereby AFFIRMED. Costs against petitioners.

SO ORDERED.

Quisumbing, Austria-Martinez, Callejo, Sr., and Tinga, JJ., concur.

[1] 47 Phil. 821, 827 (1925).

[2] Judge Florentino M. Alumbres, presiding.

[3] Decision of the trial court, p. 8; Rollo, p. 39.

[4] Ibid.

[5] Special Twelfth Division; Decision penned by Associate Justice Elvi John S. Asuncion and concurred in by Associate Justices Mariano C. Del Castillo and Edgardo F. Sundiam.

[6] Decision of the Court of Appeals, p. 9; Rollo, p. 29.

[7] Petition, p. 6; Id., p. 13.

[8] Petrophil Corp. v. Court of Appeals, G.R. No. 122796, 10 December 2001, 371 SCRA 702.

[9] Tanguilig v. Court of Appeals, G.R. No. 117190, 2 January 1997, 266 SCRA 78.

[10] Leveriza v. Intermediate Appellate Court, G.R. No. 66614, 25 January 1988, 157 SCRA 282, citing San Mauricio Mining Co. v. Ancheta, No. L-47859 & G.R. No. 57132, 10 July 1981, 105 SCRA 371, 418.

[11] Article 1370, Civil Code; R & M General Merchandise, Inc. v. Court of Appeals, G.R. No. 144189, 5 October 2001, 366 SCRA 679.

[12] Llana v. Court of Appeals, G.R. No. 104802, 11 July 2001, 361 SCRA 27.

[13] Odyssey Park, Inc. v. Court of Appeals, G.R. No. 107992, 8 October 1997, 280 SCRA 253; Asset Privatization Trust v. Sandiganbayan, G.R. No. 138598, 29 June 2001, 360 SCRA 437.

[14] Barons Marketing Corp v. Court of Appeals, G.R. No. 126486, 9 February 1998, 286 SCRA 96.

[15] 47 Phil. 821, 827 (1925).

[16] No. L-21876, 29 September 1967, 21 SCRA 284.

[17] G.R. No. 137552, 16 June 2000, 333 SCRA 643.

[18] G.R. No. 80058, 13 February 1989, 170 SCRA 286.

[19] G.R. No. 119745, 20 June 1997, 274 SCRA 597.

[20] G.R. No. 137909, 11 December 2003.

[21] Velarde v. Court of Appeals, G.R. No. 108346, 11 July 2001, 361 SCRA 56, citing Co v. Court of Appeals, G.R. No. 112330, 17 August 1999, 312 SCRA 528.

[22] Goldenrod, Inc. v. Court of Appeals, G.R. No. 126812, 24 November 1998, 299 SCRA 141.

[23] Tolentino, A., Civil Code of the Philippines, Vol. IV (1991), pp. 180-181, citing De Erquiaga, G.R. No. 47206, 27 September 1989, 178 SCRA 1.

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