GOVERNMENT SERVICE INSURANCE SYSTEM, PETITIONER, VS. ABRAHAM LOPEZ, RESPONDENT.

G.R. No. 165568. July 13, 2009

Ponente: CARPIO, J.

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CARPIO, J.:

The Case

Before the Court is a petition for review[1] of the 10 February 2004 Decision[2] and 4 October 2004 Resolution[3] of the Court of Appeals in CA-G.R. CV No. 56322. The Court of Appeals reversed the 26 September 1996 Decision[4] of the Regional Trial Court, Branch 163, Pasig, which dismissed the complaint for specific performance filed by respondent Abraham Lopez (Lopez) against petitioner Government Service Insurance System (GSIS).

The Facts

Lopez obtained a loan of P22,500 from the GSIS. To secure the loan, Lopez mortgaged on 6 June 1982 his house and lot on No. 15 M. Cruz Street, Sto. Niño, Marikina, Metro Manila. When he defaulted on the loan, GSIS foreclosed on the real estate mortgage on 6 February 1984 and obtained title to the property under Transfer Certificate of Title (TCT) No. 125201. Meanwhile, GSIS allowed Lopez to remain on the property for a monthly rent of P1,200.

Thereafter, Lopez accumulated arrears in rent. Thus, in a letter dated 20 October 1986, GSIS demanded payment as follows:

> Our records disclose that you have been remiss in the payment of the rentals for the premises you are now occupying. Your arrears have accumulated to the total sum of TWENTY TWO THOUSAND EIGHT HUNDRED PESOS (P22,800.00) as of 9/30/86.
>
> You are, therefore, advised to pay in full the aforementioned arrears, plus interest, and to vacate the premises within fifteen (15) days from receipt hereof, otherwise, this Office will be constrained to file the corresponding legal action against you for ejectment, x x x[5]

When no payment was made, GSIS sent another letter dated 8 April 1988, inviting Lopez to bid for the subject property on 22 April 1988.[6] The scheduled bidding was cancelled when Lopez obtained on 21 April 1988 a temporary restraining order from the Regional Trial Court, Branch CLX of Pasig.[7]

In a letter dated 7 July 1988, Lopez offered to repurchase the property from the GSIS, thus:

> This refers to our former property at #15 M. Cruz St., Sto. Niño, Marikina, Metro Manila which was foreclosed by the Government Service Insurance System, Manila.
>
> In this connection we would like to inform you that we are requesting your good office to please allow us to repurchase the said property.

> It will be highly appreciated if you could please inform us about the outstanding obligation we will pay the GSIS, as of July 31, 1988.[8]

The GSIS, through its Acquired Assets Administration, sent a reply dated 2 August 1988, which reads:

> x x x we wish to inform you that you may be allowed to repurchase the property subject to the approval by our Board of Trustees on cash basis for an amount based on the current market value of the property plus unpaid rentals and accrued real estate taxes, if any.
>
> Accordingly, you should put up a 10% deposit as earnest money subject to refund, should the Board reject your offer, or forfeiture should you fail to come up with the terms that may be imposed by the Board.
>
> As determined by this Office, the current market value of subject property is P155,000.00 and the back rentals as of July 31, 1988, amount to P62,919.80.
>
> If you are, therefore, willing to repurchase your former property for the amount of P155,000.00 plus back rentals, please remit to this Office the required 10% deposit earnest money of P15,500.00 either in cash or cashier's/manager's check payable to the GSIS within fifteen (15) days from receipt of this letter, otherwise, subject property will be included in the public auction sale of GSIS acquired properties to be conducted at some future date.[9] (Underscoring in the original)

On 22 August 1988, Lopez paid GSIS P15,500, as evidenced by a receipt which indicated that the amount represented "payment of 10% cash deposit."[10]

No contract of sale was executed. Instead, in notices dated 25 September 1989 and 18 October 1989, GSIS demanded from Lopez payment of arrears in rent.[11] The notice of 18 October 1989 reads:

> Our records disclose that you have been remiss in the payment of the rentals for the premises you are now occupying. Your arrears have accumulated to the total sum of SIXTY SIX THOUSAND PESOS (P66,000.00) as of September 30, 1989.
>
> You are, therefore, advised to pay in full the aforementioned arrears, plus interest, and to vacate the premises within fifteen (15) days from receipt hereof, otherwise, this Office will be constrained to file the corresponding legal action against you for ejectment, x x x

Thereafter, GSIS filed a complaint for ejectment against Lopez with the Metropolitan Trial Court, Branch 76, Marikina City (MeTC).[12] The parties entered into a Compromise Agreement, which the MeTC approved in a Decision dated 7 March 1991.[13] The Compromise Agreement is quoted as follows:

> COMPROMISE AGREEMENT
>
> COME NOW the parties assisted by their respective counsels and unto this Honorable Court most respectfully submit this Compromise Agreement for the approval of this Honorable Court under the following terms and conditions to wit:
>
> - The plaintiff is the owner of a two-storey residential house located at No. 15 Marcos Cruz (G. Luna) Street, Sto. Niño, Marikina, Metro Manila.
>
> - The defendants, despite demands, failed to execute a lease contract and were in arrears in the payment of the reasonable compensation for the use and occupancy of the said premises.
>
> - To forestall their inevitable and justified eviction from the premises as a result of their inexcusable failure to comply with their legitimate obligations, the defendants have agreed to liquidate their arrearages in full and to execute a formal lease agreement.
>
> - As a manifestation of their good faith, the defendants offered a compromise settlement by paying the

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reasonable compensation as follows:

1. P30,000 payable within five (5) days from receipt of notice of Board approval;
2. P10,000 monthly thereafter until the balance of the rental arrearages is fully paid;
3. P1,200 monthly starting January 1, 1991 to December 31, 1991.

- The defendants' offer was recommended to the plaintiff's Board of Trustees and approved in toto under Board Resolution No. 55 adopted on February 14, 1991 with additional condition that the defendants shall be charged a new and reasonable rental rate based on current rates starting January 1, 1992.

- In case the defendants fail to comply with any of the terms and conditions hereof, and the terms and conditions of the lease contract that will be executed by them, the plaintiff shall be entitled to the immediate issuance of a writ of execution without the prior notice to the defendants. This compromise agreement shall be immediately executory.[14]

In a letter dated 13 February 1992, GSIS-Acquired Assets Administration Vice-President Z. C. Beltran, Jr. wrote Lopez as follows:

> This refers to your letter of January 14, 1992 offering to buy back your former property located at 15 M. Cruz St., Sto. Niño, Marikina, Metro Manila.
>
> Please be informed that the property now commands a current market value of P844,000.00. Our records also show that you have incurred rental arrearages of P9,600.00 from May 1991 to January 31, 1992.
>
> Commission on Audit rules and our policies require that we sell our acquired assets thru public bidding. We may, however, recommend an exception to your case, if you are willing to buy it back at its current market value at P844,000.00 plus all rental dues but unpaid, to be paid for in full and in cash 30 days from receipt of notice of Board approval. If agreeable, please inform us immediately so that we can submit your offer to our Board of Trustees for consideration.[15]

There is no copy of the 14 January 1992 letter referred to in Beltran's letter. At any rate, Lopez, through counsel, replied on 5 March 1992, thus:

> With respect to your letter dated February 13, 1992 to my client x x x I would like to request your office in his behalf for a reduction of the price set by your office from P844,000.00 to the previous agreed price of P155,000.00.
>
> Way back August 2, 1988, the Acquired Assets Administration of GSIS has set the price for said repurchase at P155,000.00 with the notice that my client may deposit a 10% earnest money of P15,500.00 x x x. Accordingly, Mr. Lopez deposited said amount x x x. Mr. Lopez [has been waiting] up to the present for your Board's action for said repurchase x x x. Unfortunately, x x x, your Board has not yet acted on said repurchase though he has already made the required deposit.[16]

GSIS did not act on his request. Instead, it sent a notice dated 1 February 1993 of the inclusion of the subject property in a public auction scheduled on 19 February 1993.[17] This prompted Lopez to file with the Regional Trial Court, Branch 163, Pasig, a Complaint for Specific Performance to enjoin the sale of the subject property and compel GSIS to execute the necessary contract of sale upon full payment of the purchase price of P155,000.[18]

The Ruling of the Trial Court

The trial court agreed with the contention of GSIS that there was no perfected contract of sale for lack of consent. Exhibit "A" (GSIS' letter dated 2 August 1988) is clear that the sale shall be "subject to the approval of the Board of Trustees." No such approval has been secured. Therefore, despite the payment of P15,500, the transaction

could not be considered a perfected contract of sale. The trial court found that the P15,500 was a mere deposit, which was for the purpose of holding the inclusion of the subject property in the public auction.

The dispositive portion of the 26 September 1996 Decision of the trial court reads:

> WHEREFORE, foregoing premises considered, this Court renders judgment in favor of defendant and against plaintiff ordering:
>
> - The dismissal of this case for lack of merit;
>
> - The plaintiff to pay defendant the sum of P30,000.00 as reimbursement of the expenses in the publication for the invitation to bid;
>
> - The plaintiff to pay defendant the sum of P20,000.00 for attorney's fees;
>
> - The cost of suit.[19]

The Ruling of the Court of Appeals

The Court of Appeals similarly found that the P15,500 paid by Lopez to GSIS was earnest deposit. According to the Court of Appeals, earnest deposit is only a deposit of what would become earnest money or down payment should a contract of sale be executed. It merely guarantees that the seller would not back out of the sale. In this case, the money paid was not treated as proof of perfection of contract. In fact, it was made subject to refund should the Board of Trustees reject the offer of Lopez.

However, the Court of Appeals found that there was tacit acceptance of Lopez's offer to repurchase the property. Indicative of such decision of the GSIS is its failure to refund Lopez's deposit. The deposit was paid on 22 August 1988. Yet, GSIS did not refund the same even up to the time Lopez filed the complaint for specific performance in February 1993. There was no explanation offered for the retention of the deposit.

The Court of Appeals also found that GSIS sought to enforce the terms of the contract to sell. GSIS sought to collect from Lopez arrears in rent. The appellate court opined that the arrears in rent were part of the repurchase price under the contract to sell. In demanding payment of the arrears in rent, GSIS was in effect implementing the contract to sell.

In addition, the Court of Appeals held that promissory estoppel would operate against GSIS from backing out of its commitment to allow Lopez to repurchase the property at the price mentioned in its 2 August 1988 letter. Under the doctrine of promissory estoppel, the act and assurance given by GSIS to Lopez to allow the latter to repurchase the property at the price indicated in its offer bind GSIS, which should not be allowed to turn around and adopt an inconsistent position in its transaction with Lopez to the prejudice of Lopez who relied upon them.

In view of these findings, the Court of Appeals held that there was a perfected contract of sale between the parties since all the elements of such a contract exist in this case, namely, (1) consent or meeting of the minds; (2) determinative subject matter; and (3) price certain in money or its equivalent. GSIS must, therefore, execute the necessary contract of sale upon full payment in cash by Lopez of the purchase price of P155,000 plus arrears in rent and real property taxes, if any.

The dispositive portion of the 10 February 2004 Decision of the Court of Appeals reads:

> WHEREFORE, under the premises, the assailed decision of the RTC is REVERSED and SET ASIDE. Defendant-appellee is ENJOINED from conducting the public auction of the subject property, and is further ORDERED to execute a contract of sale in favor of plaintiff-appellant upon payment in cash of the full purchase price of PhP155,000.00 plus arrears in rent and accrued real property taxes, if any.

SO ORDERED.[20]

The Issues

GSIS raises the following issues:

I.

THE COURT OF APPEALS ERRED IN CONCLUDING THAT GSIS TACITLY ACCEPTED LOPEZ'S OFFER TO REPURCHASE UNDER THE TERMS AND CONDITIONS OF GSIS' LETTER DATED 2 AUGUST 1988.

II.

THE COURT OF APPEALS ERRED IN HOLDING THERE WAS PROMISSORY ESTOPPEL.[21]

The Ruling of the Court

The petition is meritorious.

The stages of a contract of sale are: (1) negotiation, starting from the time the prospective contracting parties indicate interest in the contract to the time the contract is perfected; (2) perfection, which takes place upon the concurrence of the essential elements of the sale;[22] and (3) consummation, which commences when the parties perform their respective undertakings under the contract of sale, culminating in the extinguishment of the contract.[23]

In the present case, the parties never got past the negotiation stage. Nothing shows that the parties had agreed on any final arrangement containing the essential elements of a contract of sale, namely, (1) consent or the meeting of the minds of the parties; (2) object or subject matter of the contract ; and (3) price or consideration of the sale.[24]

The 2 August 1988 letter of the GSIS cannot be classified as a perfected contract of sale which binds the parties. The letter was in reply to Lopez's offer to repurchase the property. Both the trial and appellate courts found that Lopez's offer to repurchase the property was subject to the approval of the Board of Trustees of the GSIS, as explicitly stated in the 2 August 1988 GSIS' letter. No such approval appears in the records. When there is merely an offer by one party without acceptance by the other, there is no contract of sale.[25] Since there was no acceptance by GSIS, which can validly act only through its Board of Trustees,[26] of Lopez's offer to repurchase the property, there was no perfected contract of sale.

The Court of Appeals, however, held that there was a tacit approval by the Board of Trustees of the GSIS of Lopez's offer to repurchase the subject property since GSIS never returned the P15,500 paid by Lopez.

This is error. The Court of Appeals overlooked the fact that in an ejectment suit, GSIS and Lopez entered into a court-approved Compromise Agreement regarding the lease of the property. The Compromise Agreement was approved on 7 March 1991, or almost three years after the 2 August 1988 letter. The Compromise Agreement pertinently states, thus:

1. The plaintiff (GSIS) is the owner of a two-storey residential house located at No. 15 Marcos Cruz (G. Luna) Street, Sto. Niño, Marikina, Metro Manila.

2. The defendants (Lopez), despite demands, failed to execute a lease contract and were in arrears in the payment of the reasonable compensation for the use and occupancy of the said premises.

3. To forestall their inevitable and justified eviction from the premises as a result of their inexcusable failure to comply with their legitimate obligations, the defendants have agreed to liquidate their arrearages in full and to

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execute a formal lease agreement.[27]

The acts of the GSIS in seeking to evict Lopez from the property and in demanding payment of arrears in rent emphasize its ownership of the subject property and clearly negate any form of approval by GSIS of Lopez's offer to repurchase the property. Likewise, Lopez's recognition of GSIS' ownership of the property and his status as a defaulting lessee in the Compromise Agreement, which was entered into after Lopez's offer to repurchase, undoubtedly refutes his claim of a perfected contract of sale. If Lopez was under the impression that he had a perfected contract of sale with GSIS, which meant that Lopez could compel GSIS to perform its obligations as a seller, then Lopez could have objected to the Compromise Agreement. However, Lopez assented to the contents of the Compromise Agreement.

Considering that there was no perfected contract of sale, the concept of earnest money is certainly not applicable to this case. Article 1482 of the Civil Code states that: "Whenever earnest money is given in a contract of sale, it shall be considered as part of the price and as proof of the perfection of the contract." The earnest money forms part of the consideration only if the sale is consummated upon full payment of the purchase price.[28] Hence, there must first be a perfected contract of sale before we can speak of earnest money. As found by the trial court, the P15,500 paid by Lopez is merely a deposit for the exclusion of the subject property from the list of the properties to be auctioned off by GSIS.

In principle, GSIS should return the P15,500 deposit made by Lopez since the Board of Trustees rejected Lopez's offer to repurchase the property, as evidenced by the Compromise Agreement where GSIS asserted its ownership of the property. However, Lopez admittedly owes GSIS for the accumulated rental arrears in the sum of P16,800 as of 26 February 1993.[29] Considering these circumstances, partial legal compensation,[30] under Articles 1278, 1279, and 1281 of the Civil Code, applies in this case. In short, both parties are creditors and debtors of each other, although in different amounts which are already due and demandable. Hence, GSIS is justified in retaining the P15,500 deposit and automatically applying it to Lopez's unpaid rentals totaling P16,800 as of 26 February 1993.

In view of the foregoing, the Court finds no need to discuss the other issue raised by GSIS.

WHEREFORE, the Court GRANTS the petition. The Court SETS ASIDE the 10 February 2004 Decision and 4 October 2004 Resolution of the Court of Appeals in CA-G.R. CV No. 56322 and REINSTATES the 26 September 1996 Decision of the Regional Trial Court, Branch 163, Pasig in Civil Case No. 62890.

SO ORDERED.

Puno, C.J., (Chairperson), Corona, Chico-Nazario, and Leonardo-De Castro, JJ., concur.

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[*] Designated additional member per Raffle dated 6 July 2009.

[1] Under Rule 45 of the Rules of Court.

[2] Rollo, pp. 7-18. Penned by Associate Justice Godardo A. Jacinto with Associate Justices Elvi John S. Asuncion and Lucas P. Bersamin, concurring.

[3] Id. at 19-20. Penned by Associate Justice Godardo A. Jacinto with Associate Justices Lucas P. Bersamin and Jose Catral Mendoza, concurring.

[4] Id. at 44-49. Penned by Judge Aurelio C. Trampe.

[5] Records, p. 39 (Exh. "3").

[6] Id. at 42 (Exh. "6").

[7] Id. at 45 (Exh. "8").

[8] Id. at 36 (Exh. "1").

[9] Id. at 7 (Exh. "A").

[10] Id. at 8 (Exh. "B").

[11] Id. at 40-41 (Exhs. "4" and "5").

[12] Id. at 73-78.

[13] Id. at 79-81.

[14] Id. at 79-80.

[15] Id. at 9 (Exh. "C").

[16] Id. at 10 (Exh. "D").

[17] Id. at 11 (Exh. "E").

[18] Id. at 1-6.

[19] Rollo, p. 49.

[20] Id. at 17.

[21] Id. at 33.

[22] Article 1475 of the Civil Code provides:

The contract of sale is perfected at the moment there is a meeting of the minds upon the thing which is the object of the contract and upon the price.

From that moment, the parties may reciprocally demand performance, subject to the provisions of the law governing the form of contracts.

[23] Serrano v. Caguiat, G.R. No. 139173, 28 February 2007, 517 SCRA 57, 63, citing San Miguel Properties Phils., Inc. v. Spouses Huang, 391 Phil. 636 (2000).

[24] Coronel v. Court of Appeals, G.R. No. 103577, 7 October 1996, 263 SCRA 15, 26.

[25] Manila Metal Container Corporation v. Philippine National Bank, G.R. No. 166862, 20 December 2006, 511 SCRA 444, 464, citing Palattao v. Court of Appeals, 431 Phil. 438, 450 (2002).

[26] See Manila Metal Container Corporation v. Philippine National Bank, supra at 467-468.

[27] Records, p. 79.

[28] Serrano v. Caguiat, supra note 23 at 66, citing Chua v. Court of Appeals, 449 Phil. 25 (2003).

[29] Records, p. 57 (Exhibit "13").

[30] Article 1278 of the Civil Code provides:

Compensation shall take place when two persons, in their own right, are creditors and debtors of each other.

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Article 1279 of the Civil Code provides:

In order that compensation may be proper, it is necessary:

> (1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other;
>
> (2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;
>
> (3) That the two debts be due;
>
> (4) That they be liquidated and demandable;
>
> (5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor.

Article 1281 of the same Code provides:

Compensation may be total or partial. When the two debts are of the same amount, there is total compensation.

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