

**CONGREGATION OF THE RELIGIOUS OF THE VIRGIN MARY AND/OR  
THE SUPERIOR GENERAL OF THE RELIGIOUS OF THE VIRGIN MARY,  
REPRESENTED BY THE REVEREND MOTHER MA. CLARITA  
BALLEQUE, PETITI...**

*G.R. No. 169790. April 30, 2008*

Ponente: NACHURA, J.

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**NACHURA, J.:**

Challenged in this petition for review on certiorari is the Court of Appeals (CA) Decision[1] in CA-G.R. CV. No. 71406 which modified the Regional Trial Court (RTC) Decision[2] in Civil Case No. V-7382 ordering the rescission of the contract of sale between the parties in an action for Specific Performance or Rescission with Damages filed by respondents Emilio, Josephine Fatima Laserna, Myrna Angeline Laserna, Manuel Laserna, Marjorie Melba Laserna Antonio Laserna, all surnamed Orola, (respondents) against petitioner Congregation of the Religious of the Virgin Mary (RVM).[3]

The undisputed facts, as found by the CA and adopted by RVM in its petition, follow.

Sometime in April 1999, [petitioner] Religious of the Virgin Mary (RVM for brevity), acting through its local unit and specifically through Sr. Fe Enhenco, local Superior of the St. Mary's Academy of Capiz and [respondents] met to discuss the sale of the latter's property adjacent to St. Mary's Academy. Said property is denominated as Lot 159-B-2 and was still registered in the name of [respondents'] predecessor-in-interest, Manuel Laserna.

In May of 1999, [respondent] Josephine Orola went to Manila to see the Mother Superior General of the RVM, in the person of Very Reverend Mother Ma. Clarita Balleque [VRM Balleque] regarding the sale of the property subject of this instant case.

A contract to sell dated June 2, 1999 made out in the names of herein [petitioner] and [respondents] as parties to the agreement was presented in evidence pegging the total consideration of the property at P5,555,000.00 with 10% of the total consideration payable upon the execution of the contract, and which was already signed by all the [respondents] and Sr. Ma. Fe Enhenco, R.V.M. [Sr. Enhenco] as witness.

On June 7, 1999, [respondents] Josephine Orola and Antonio Orola acknowledged receipt of RCBC Check No. 0005188 dated June 7, 1999 bearing the amount of P555,500.00 as 10% down payment for Lot 159-B-2 from the RVM Congregation (St. Mary's Academy of Cadiz [SMAC]) with the "conforme" signed by Sister Fe Enginco (sic), Mother Superior, SMAC.

[Respondents] executed an extrajudicial settlement of the estate of Trinidad Andrada Laserna dated June 21, 1999 adjudicating unto themselves, in pro indiviso shares, Lot 159-B-2, and which paved the transfer of said lot into their names under Transfer Certificate of Title No. T-39194 with an entry date of August 13, 1999.[4]

Thereafter, respondents, armed with an undated Deed of Absolute Sale which they had signed, forthwith scheduled a meeting with VRM Balleque at the RVM Headquarters in Quezon City to finalize the sale,

specifically, to obtain payment of the remaining balance of the purchase price in the amount of P4,999,500.00. However, VRM Balleque did not meet with respondents. Succeeding attempts by respondents to schedule an appointment with VRM Balleque in order to conclude the sale were likewise rebuffed.

In an exchange of correspondence between the parties' respective counsels, RVM denied respondents' demand for payment because: (1) the purported Contract to Sell was merely signed by Sr. Enhenco as witness, and not by VRM Balleque, head of the corporation sole; and (2) as discussed by counsels in their phone conversations, RVM will only be in a financial position to pay the balance of the purchase price in two years time. Thus, respondents filed with the RTC a complaint with alternative causes of action of specific performance or rescission.

After trial, the RTC ruled that there was indeed a perfected contract of sale between the parties, and granted respondents' prayer for rescission thereof. It disposed of the case, to wit:

WHEREFORE, premises considered, judgment is hereby rendered in favor of the [respondents] and against the [petitioner].

- Dismissing the counterclaim;
- Ordering the rescission of the Contract to Sell, Exh. "E".
- Ordering the forfeiture of the downpayment of P555,500 in favor of the [respondents];
- Ordering [petitioner] corporation sole, the Superior General of the Religious of the Virgin Mary, to pay [respondents]:
  - a. P50,000.00 as exemplary damages;
  - b. P50,000.00 as attorney's fees.

- Costs against the [petitioner].

Dissatisfied, both parties filed their respective Notices of Appeal. The CA dismissed the respondents' appeal because of their failure to file an Appeal Brief. However, RVM's appeal, where respondents accordingly filed an Appellee's Brief, continued. Subsequently, the CA rendered judgment setting aside the RTC Decision, to wit:

WHEREFORE, with all the foregoing, the decision of the Regional Trial Court, Branch 15, Roxas City dated March 1, 2001 in [C]ivil [C]ase [N]o. V-7382 for Specific Performance or Rescission with Damages is hereby SET ASIDE and a new one entered GRANTING [respondents'] action for specific performance. [Petitioner RVM] [is] hereby ordered to pay [respondents] immediately the balance of the total consideration for the subject property in the amount of P4,999,500.00 with interest of 6% per annum computed from June 7, 2000 or one year from the downpayment of the 10% of the total consideration until such time when the whole obligation has been fully satisfied. In the same way, [respondents] herein are ordered to immediately deliver the title of the property and to execute the necessary documents required for the sale as soon as all requirements aforesaid have been complied by [RVM]. Parties are further ordered to abide by their reciprocal obligations in good faith.

All other claims and counterclaims are hereby dismissed for lack of factual and legal basis.

No pronouncement as to cost.

In modifying the RTC Decision, the CA, albeit sustaining the trial court's finding on the existence of a perfected contract of sale between the parties, noted that the records and evidence adduced did not preponderate for either party on the manner of effecting payment for the subject property. In short, the CA was unable to determine from the records if the balance of the purchase price was due in two (2) years, as claimed by RVM, or, upon transfer of title to the property in the names of respondents, as they averred. Thus, the CA applied Articles 1383[5] and

1384[6] of the Civil Code which pronounce rescission as a subsidiary remedy covering only the damages caused.

The appellate court then resolved the matter in favor of the greatest reciprocity of interest pursuant to Article 1378[7] of the Civil Code. It found that the 2-year period to purchase the property, which RVM insisted on, had been mooted considering the time elapsed from the commencement of this case. Thus, the CA ordered payment of the balance of the purchase price with 6% interest per annum computed from June 7, 2000 until complete satisfaction thereof.

Hence, this recourse.

RVM postulates that the order to pay interest is inconsistent with the professed adherence by the CA to the greatest reciprocity of interest between the parties. Since mutual restitution cannot be had when the CA set aside the rescission of the contract of sale and granted the prayer for specific performance, RVM argues that the respondents should pay rentals for the years they continued to occupy, possess, and failed to turn over to RVM the subject property.

Effectively, the only issue for our resolution is whether RVM is liable for interest on the balance of the purchase price.

At the outset, we must distinguish between an action for rescission as mapped out in Article 1191 of the Civil Code and that provided by Article 1381 of the same Code. The articles read:

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.

This is understood to be without prejudice to the rights of third persons who have acquired the thing, in accordance with articles 1385 and 1388 and the Mortgage Law.

Art. 1381. The following contracts are rescissible:

- (1) Those which are entered into by guardians whenever the wards whom they represent suffer lesion by more than one fourth of the value of the things which are the object thereof;
- (2) Those agreed upon in representation of absentees, if the latter suffer the lesion state in the preceding number;
- (3) Those undertaken in fraud of creditors when the latter cannot in any other manner collect the claims due them;
- (4) Those which refer to things under litigation if they have been entered into by the defendant without the knowledge and approval of the litigants or of competent judicial authority;
- (5) All other contracts specially declared by law to be subject to rescission.

Article 1191, as presently worded, speaks of the remedy of rescission in reciprocal obligations within the context of Article 1124 of the Old Civil Code which uses the term "resolution." The remedy of resolution applies only to reciprocal obligations[8] such that a party's breach thereof partakes of a tacit resolutive condition which entitles the injured party to rescission. The present article, as in the Old Civil Code, contemplates alternative remedies for the injured party who is granted the option to pursue, as principal actions, either a rescission or specific

performance of the obligation, with payment of damages in each case. On the other hand, rescission under Article 1381 of the Civil Code, taken from Article 1291 of the Old Civil Code, is a subsidiary action, and is not based on a party's breach of obligation.

The esteemed Mr. Justice J.B.L. Reyes, ingeniously cuts through the distinction in his concurring opinion in *Universal Food Corporation v. CA*:<sup>[9]</sup>

I concur with the opinion penned by Mr. Justice Fred Ruiz Castro, but I would like to add that the argument of petitioner, that the rescission demanded by the respondent-appellee, Magdalo Francisco, should be denied because under Article 1383 of the Civil Code of the Philippines[,] rescission can not be demanded except when the party suffering damage has no other legal means to obtain reparation, is predicated on a failure to distinguish between a rescission for breach of contract under Article 1191 of the Civil Code and a rescission by reason of *lesión* or economic prejudice, under Article 1381, et seq. The rescission on account of breach of stipulations is not predicated on injury to economic interests of the party plaintiff but on the breach of faith by the defendant, that violates the reciprocity between the parties. It is not a subsidiary action, and Article 1191 may be scanned without disclosing anywhere that the action for rescission thereunder is subordinated to anything other than the culpable breach of his obligations by the defendant. This rescission is a principal action retaliatory in character, it being unjust that a party be held bound to fulfill his promises when the other violates his. As expressed in the old Latin aphorism: "Non servanti fidem, non est fides servanda." Hence, the reparation of damages for the breach is purely secondary.

On the contrary, in the rescission by reason of *lesión* or economic prejudice, the cause of action is subordinated to the existence of that prejudice, because it is the *raison d'être* as well as the measure of the right to rescind. Hence, where the defendant makes good the damages caused, the action cannot be maintained or continued, as expressly provided in Articles 1383 and 1384. But the operation of these two articles is limited to the cases of rescission for *lesión* enumerated in Article 1381 of the Civil Code of the Philippines, and does not apply to cases under Article 1191.

It is probable that the petitioner's confusion arose from the defective technique of the new Code that terms both instances as "rescission" without distinctions between them; unlike the previous Spanish Civil Code of 1889, that differentiated "resolution" for breach of stipulations from "rescission" by reason of *lesión* or damage. But the terminological vagueness does not justify confusing one case with the other, considering the patent difference in causes and results of either action.

In the case at bench, although the CA upheld the RTC's finding of a perfected contract of sale between the parties, the former disagreed with the latter that fraud and bad faith were attendant in the sale transaction. The appellate court, after failing to ascertain the parties' actual intention on the terms of payment for the sale, proceeded to apply Articles 1383 and 1384 of the Civil Code declaring rescission as a subsidiary remedy that may be availed of only when the injured party has no other legal means to obtain reparation for the damage caused. In addition, considering the absence of fraud and bad faith, the CA felt compelled to arrive at a resolution most equitable for the parties. The CA's most equitable resolution granted respondents' prayer for specific performance of the sale and ordered RVM to pay the remaining balance of the purchase price, plus interest. It set aside and deleted the RTC's order forfeiting the downpayment of P555,500.00 in favor of, and payment of exemplary damages, attorney's fees and costs of suit to, respondents.

Nonetheless, RVM is displeased. It strenuously objects to the CA's imposition of interest. RVM latches on to the CA's characterization of its resolution as most equitable which, allegedly, is not embodied in the dispositive portion of the decision ordering the payment of interest. RVM is of the view that since the CA decreed specific performance of the contract without a finding of bad faith by either party, and respondents retained possession of the subject property for the duration of the litigation, the imposition of interest is not keeping with equity without

simultaneously requiring respondents to pay rentals for their continued and uninterrupted stay thereon. In all, RVM phrases the issue in metaphysical terms, i.e., the most equitable solution.

We completely disagree. The law, as applied to this factual milieu, leaves no room for equivocation. Thus, we are not wont to apply equity in this instance.

As uniformly found by the lower courts, we likewise find that there was a perfected contract of sale between the parties. A contract of sale carries the correlative duty of the seller to deliver the property and the obligation of the buyer to pay the agreed price.[10] As there was already a binding contract of sale between the parties, RVM had the corresponding obligation to pay the remaining balance of the purchase price upon the issuance of the title in the name of respondents. The supposed 2-year period within which to pay the balance did not affect the nature of the agreement as a perfected contract of sale.[11] In fact, we note that this 2-year period is neither reflected in any of the drafts to the contract,[12] nor in the acknowledgment receipt of the downpayment executed by respondents Josephine and Antonio with the conformity of Sr. Enhenco.[13] In any event, we agree with the CA's observation that the 2-year period to effect payment has been mooted by the lapse of time.

However, the CA mistakenly applied Articles 1383 and 1384 of the Civil Code to this case because respondents' cause of action against RVM is predicated on Article 1191 of the same code for breach of the reciprocal obligation. It is evident from the allegations in respondents' Complaint[14] that the instant case does not fall within the enumerated instances in Article 1381 of the Civil Code. Certainly, the Complaint did not pray for rescission of the contract based on economic prejudice.

Moreover, contrary to the CA's finding that the evidence did not preponderate for either party, the records reveal, as embodied in the trial court's exhaustive disquisition, that RVM committed a breach of the obligation when it suddenly refused to execute and sign the agreement and pay the balance of the purchase price.[15] Thus, when RVM refused to pay the balance and thereby breached the contract, respondents rightfully availed of the alternative remedies provided in Article 1191. Accordingly, respondents are entitled to damages regardless of whichever relief, rescission or specific performance, would be granted by the lower courts.[16]

Yet, RVM stubbornly argues that given the CA's factual finding on the absence of fraud or bad faith by either party, its order to pay interest is inequitable.

The argument is untenable. The absence of fraud and bad faith by RVM notwithstanding, it is liable to respondents for interest. In ruling out fraud and bad faith, the CA correspondingly ordered the fulfillment of the obligation and deleted the RTC's order of forfeiture of the downpayment along with payment of exemplary damages, attorney's fees and costs of suit. But RVM's contention disregards the common finding by the lower courts of a perfected contract of sale. As previously adverted to, RVM breached this contract of sale by refusing to pay the balance of the purchase price despite the transfer to respondents' names of the title to the property. The 2-year period RVM relies on had long passed and expired, yet, it still failed to pay. It did not even attempt to pay respondents the balance of the purchase price after the case was filed, to amicably end this litigation. In fine, despite a clear cut equitable decision by the CA, RVM refused to lay the matter to rest by complying with its obligation and paying the balance of the agreed price for the property.

Lastly, to obviate confusion, the clear language of Article 1191 mandates that damages shall be awarded in either case of fulfillment or rescission of the obligation.[17] In this regard, Article 2210 of the Civil Code is explicit that "interest may, in the discretion of the court, be allowed upon damages awarded for breach of contract." The ineluctable conclusion is that the CA correctly imposed interest on the remaining balance of the purchase price to cover the damages caused the respondents by RVM's breach.

WHEREFORE, premises considered, the petition is DENIED. The order granting specific performance and payment of the balance of the purchase price plus six percent (6%) interest per annum from June 7, 2000 until complete satisfaction is hereby AFFIRMED. Costs against petitioner.

**SO ORDERED.**

Ynares-Santiago, (Chairperson), Austria-Martinez, Chico-Nazario, and Reyes, JJ., concur.

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[1] Rollo, pp. 23-29.

[2] CA rollo, pp. 89-112.

[3] RVM is a corporation solely organized and existing under Philippine Laws.

[4] Rollo, pp. 26-27.

[5] Art. 1383. The action for rescission is subsidiary; it cannot be instituted except when the party suffering damages has no other legal means to obtain reparation for the same.

[6] Art. 1384. Rescission shall be only to the extent necessary to cover the damages caused.

[7] Art. 1378. When it is absolutely impossible to settle doubts by the rules established in the preceding articles, and the doubts refer to incidental circumstances of a gratuitous contract, the least transmission of rights and interests shall prevail. If the contract is onerous, the doubt shall be settled in favor of the greatest reciprocity of interest.

If the doubts are cast upon the principal object of the contract in such a way that it cannot be known what may have been the intention or will of the parties, the contract shall be null and void.

[8] Refers to reciprocity between the parties (obligee/s and obligor/s) relating to the constituted obligation arising from the same cause. Article 1191 of the Civil Code has no application to every case where the parties (obligee/s and obligor/s) are mutually debtor/s and creditor/s of each other.

[9] G.R. No. L-29155, May 13, 1970, 33 SCRA 1, 23.

[10] Asturias Sugar Central v. Pure Cane Molasses Co., 60 Phil. 255 (1934); Borromeo v. Franco, 5 Phil. 49 (1905).

[11] See Article 1193 of the Civil Code.

[12] Records, pp. 10-12, 15-17.

[13] Id. at 13.

[14] Id. at 1-20.

[15] CA Rollo, pp. 15-20.

[16] See Article 1191, par. 2 of the Civil Code.

[17] See Laperal v. Solid Homes, Inc., G.R. No. 130913, June 12, 2005, 460 SCRA 375, 388.

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