

RAYMUNDO S. DE LEON, PETITIONER, VS. BENITA T. ONG, RESPONDENT.

G.R. No. 170405. February 02, 2010

Ponente: CORONA, J.

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CORONA, J.:

On March 10, 1993, petitioner Raymundo S. de Leon sold three parcels of land[2] with improvements situated in Antipolo, Rizal to respondent Benita T. Ong. As these properties were mortgaged to Real Savings and Loan Association, Incorporated (RSLAI), petitioner and respondent executed a notarized deed of absolute sale with assumption of mortgage[3] stating:

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That for and in consideration of the sum of ONE MILLION ONE HUNDRED THOUSAND PESOS (P1.1 million), Philippine currency, the receipt whereof is hereby acknowledged from [RESPONDENT] to the entire satisfaction of [PETITIONER], said [PETITIONER] does hereby sell, transfer and convey in a manner absolute and irrevocable, unto said [RESPONDENT], his heirs and assigns that certain real estate together with the buildings and other improvements existing thereon, situated in [Barrio] Mayamot, Antipolo, Rizal under the following terms and conditions:

- That upon full payment of [respondent] of the amount of FOUR HUNDRED FIFTEEN THOUSAND FIVE HUNDRED (P415,000), [petitioner] shall execute and sign a deed of assumption of mortgage in favor of [respondent] without any further cost whatsoever;
- That [respondent] shall assume payment of the outstanding loan of SIX HUNDRED EIGHTY FOUR THOUSAND FIVE HUNDRED PESOS (P684,500) with REAL SAVINGS AND LOAN,[4] Cainta, Rizal... (emphasis supplied)

X X X X X X X X

Pursuant to this deed, respondent gave petitioner P415,500 as partial payment. Petitioner, on the other hand, handed the keys to the properties and wrote a letter informing RSLAI of the sale and authorizing it to accept payment from respondent and release the certificates of title.

Thereafter, respondent undertook repairs and made improvements on the properties.[5] Respondent likewise informed RSLAI of her agreement with petitioner for her to assume petitioner's outstanding loan. RSLAI required her to undergo credit investigation.

Subsequently, respondent learned that petitioner again sold the same properties to one Leona Viloria after March 10, 1993 and changed the locks, rendering the keys he gave her useless. Respondent thus proceeded to RSLAI to inquire about the credit investigation. However, she was informed that petitioner had already paid the amount due and had taken back the certificates of title.

Respondent persistently contacted petitioner but her efforts proved futile.

On June 18, 1993, respondent filed a complaint for specific performance, declaration of nullity of the second sale and damages^[6] against petitioner and Vilorio in the Regional Trial Court (RTC) of Antipolo, Rizal, Branch 74. She claimed that since petitioner had previously sold the properties to her on March 10, 1993, he no longer had the right to sell the same to Vilorio. Thus, petitioner fraudulently deprived her of the properties.

Petitioner, on the other hand, insisted that respondent did not have a cause of action against him and consequently prayed for the dismissal of the complaint. He claimed that since the transaction was subject to a condition (i.e., that RSLAI approve the assumption of mortgage), they only entered into a contract to sell. Inasmuch as respondent did apply for a loan from RSLAI, the condition did not arise. Consequently, the sale was not perfected and he could freely dispose of the properties. Furthermore, he made a counter-claim for damages as respondent filed the complaint allegedly with gross and evident bad faith.

Because respondent was a licensed real estate broker, the RTC concluded that she knew that the validity of the sale was subject to a condition. The perfection of a contract of sale depended on RSLAI's approval of the assumption of mortgage. Since RSLAI did not allow respondent to assume petitioner's obligation, the RTC held that the sale was never perfected.

In a decision dated August 27, 1999,^[7] the RTC dismissed the complaint for lack of cause of action and ordered respondent to pay petitioner P100,000 moral damages, P20,000 attorney's fees and the cost of suit.

Aggrieved, respondent appealed to the Court of Appeals (CA),^[8] asserting that the court a quo erred in dismissing the complaint.

The CA found that the March 10, 2003 contract executed by the parties did not impose any condition on the sale and held that the parties entered into a contract of sale. Consequently, because petitioner no longer owned the properties when he sold them to Vilorio, it declared the second sale void. Moreover, it found petitioner liable for moral and exemplary damages for fraudulently depriving respondent of the properties.

In a decision dated July 22, 2005,^[9] the CA upheld the sale to respondent and nullified the sale to Vilorio. It likewise ordered respondent to reimburse petitioner P715,250 (or the amount he paid to RSLAI). Petitioner, on the other hand, was ordered to deliver the certificates of titles to respondent and pay her P50,000 moral damages and P15,000 exemplary damages.

Petitioner moved for reconsideration but it was denied in a resolution dated November 11, 2005.^[10] Hence, this petition,^[11] with the sole issue being whether the parties entered into a contract of sale or a contract to sell.

Petitioner insists that he entered into a contract to sell since the validity of the transaction was subject to a suspensive condition, that is, the approval by RSLAI of respondent's assumption of mortgage. Because RSLAI did not allow respondent to assume his (petitioner's) obligation, the condition never materialized. Consequently, there was no sale.

Respondent, on the other hand, asserts that they entered into a contract of sale as petitioner already conveyed full ownership of the subject properties upon the execution of the deed.

We modify the decision of the CA.

Contract of Sale or Contract to Sell?

The RTC and the CA had conflicting interpretations of the March 10, 1993 deed. The RTC ruled that it was a contract to sell while the CA held that it was a contract of sale.

In a contract of sale, the seller conveys ownership of the property to the buyer upon the perfection of the contract.

Should the buyer default in the payment of the purchase price, the seller may either sue for the collection thereof or have the contract judicially resolved and set aside. The non-payment of the price is therefore a negative resolutive condition.[12]

On the other hand, a contract to sell is subject to a positive suspensive condition. The buyer does not acquire ownership of the property until he fully pays the purchase price. For this reason, if the buyer defaults in the payment thereof, the seller can only sue for damages.[13]

The deed executed by the parties (as previously quoted) stated that petitioner sold the properties to respondent "in a manner absolute and irrevocable" for a sum of P1.1 million.[14] With regard to the manner of payment, it required respondent to pay P415,500 in cash to petitioner upon the execution of the deed, with the balance[15]payable directly to RSLAI (on behalf of petitioner) within a reasonable time.[16] Nothing in said instrument implied that petitioner reserved ownership of the properties until the full payment of the purchase price.[17]On the contrary, the terms and conditions of the deed only affected the manner of payment, not the immediate transfer of ownership (upon the execution of the notarized contract) from petitioner as seller to respondent as buyer. Otherwise stated, the said terms and conditions pertained to the performance of the contract, not the perfection thereof nor the transfer of ownership.

Settled is the rule that the seller is obliged to transfer title over the properties and deliver the same to the buyer.[18] In this regard, Article 1498 of the Civil Code[19] provides that, as a rule, the execution of a notarized deed of sale is equivalent to the delivery of a thing sold.

In this instance, petitioner executed a notarized deed of absolute sale in favor of respondent. Moreover, not only did petitioner turn over the keys to the properties to respondent, he also authorized RSLAI to receive payment from respondent and release his certificates of title to her. The totality of petitioner's acts clearly indicates that he had unqualifiedly delivered and transferred ownership of the properties to respondent. Clearly, it was a contract of sale the parties entered into.

Furthermore, even assuming arguendo that the agreement of the parties was subject to the condition that RSLAI had to approve the assumption of mortgage, the said condition was considered fulfilled as petitioner prevented its fulfillment by paying his outstanding obligation and taking back the certificates of title without even notifying respondent. In this connection, Article 1186 of the Civil Code provides:

Article 1186. The condition shall be deemed fulfilled when the obligor voluntarily prevents its fulfillment.

Void Sale Or Double Sale?

Petitioner sold the same properties to two buyers, first to respondent and then to Vilorina on two separate occasions.[20]However, the second sale was not void for the sole reason that petitioner had previously sold the same properties to respondent. On this account, the CA erred.

This case involves a double sale as the disputed properties were sold validly on two separate occasions by the same seller to the two different buyers in good faith.

Article 1544 of the Civil Code provides:

Article 1544. If the same thing should have been sold to different vendees, the ownership shall be transferred to the person who may have first taken possession thereof in good faith, if it should be movable property.

Should it be immovable property, the ownership shall belong to the person acquiring it who in good faith first recorded it in the Registry of Property.

Should there be no inscription, the ownership shall pertain to the person who in good faith was first in the possession; and, in the absence thereof, to the person who presents the oldest title, provided there is good faith. (emphasis supplied)

This provision clearly states that the rules on double or multiple sales apply only to purchasers in good faith. Needless to say, it disqualifies any purchaser in bad faith.

A purchaser in good faith is one who buys the property of another without notice that some other person has a right to, or an interest in, such property and pays a full and fair price for the same at the time of such purchase, or before he has notice of some other person's claim or interest in the property.[21] The law requires, on the part of the buyer, lack of notice of a defect in the title of the seller and payment in full of the fair price at the time of the sale or prior to having notice of any defect in the seller's title.

Was respondent a purchaser in good faith? Yes.

Respondent purchased the properties, knowing they were encumbered only by the mortgage to RSLAI. According to her agreement with petitioner, respondent had the obligation to assume the balance of petitioner's outstanding obligation to RSLAI. Consequently, respondent informed RSLAI of the sale and of her assumption of petitioner's obligation. However, because petitioner surreptitiously paid his outstanding obligation and took back her certificates of title, petitioner himself rendered respondent's obligation to assume petitioner's indebtedness to RSLAI impossible to perform.

Article 1266 of the Civil Code provides:

Article 1266. The debtor in obligations to do shall be released when the prestation become legally or physically impossible without the fault of the obligor.

Since respondent's obligation to assume petitioner's outstanding balance with RSLAI became impossible without her fault, she was released from the said obligation. Moreover, because petitioner himself willfully prevented the condition vis-à-vis the payment of the remainder of the purchase price, the said condition is considered fulfilled pursuant to Article 1186 of the Civil Code. For purposes, therefore, of determining whether respondent was a purchaser in good faith, she is deemed to have fully complied with the condition of the payment of the remainder of the purchase price.

Respondent was not aware of any interest in or a claim on the properties other than the mortgage to RSLAI which she undertook to assume. Moreover, Vilorio bought the properties from petitioner after the latter sold them to respondent. Respondent was therefore a purchaser in good faith. Hence, the rules on double sale are applicable.

Article 1544 of the Civil Code provides that when neither buyer registered the sale of the properties with the registrar of deeds, the one who took prior possession of the properties shall be the lawful owner thereof.

In this instance, petitioner delivered the properties to respondent when he executed the notarized deed[22] and handed over to respondent the keys to the properties. For this reason, respondent took actual possession and exercised control thereof by making repairs and improvements thereon. Clearly, the sale was perfected and consummated on March 10, 1993. Thus, respondent became the lawful owner of the properties.

Nonetheless, while the condition as to the payment of the balance of the purchase price was deemed fulfilled, respondent's obligation to pay it subsisted. Otherwise, she would be unjustly enriched at the expense of petitioner.

Therefore, respondent must pay petitioner P684,500, the amount stated in the deed. This is because the provisions, terms and conditions of the contract constitute the law between the parties. Moreover, the deed itself provided that the assumption of mortgage "was without any further cost whatsoever." Petitioner, on the other hand, must deliver

the certificates of title to respondent. We likewise affirm the award of damages.

WHEREFORE, the July 22, 2005 decision and November 11, 2005 resolution of the Court of Appeals in CA-G.R. CV No. 59748 are hereby AFFIRMED with MODIFICATION insofar as respondent Benita T. Ong is ordered to pay petitioner Raymundo de Leon P684,500 representing the balance of the purchase price as provided in their March 10, 1993 agreement.

Costs against petitioner.

SO ORDERED.

Carpio[*], Velasco, Jr., Nachura, and Peralta, JJ., concur.

[*] Per Special Order No. 818 dated January 18, 2010.

[1] The Court of Appeals was impleaded as respondent but was excluded pursuant to Section 4, Rule 45 of the Rules of Court.

[2] Covered by TCT Nos. 226469, 226470 and 226471 registered in the name of petitioner.

[3] Rollo, pp. 55-56. There is a marked discrepancy between the total amount and the sum of the payments to be made by respondent (or P1,099,500).

[4] The records of this case revealed that petitioner's outstanding obligation to RSLAI amounted to P715,000 as of April 1, 1993.

[5] Respondent had the properties cleaned and landscaped. She likewise had the house (built thereon) painted and repaired.

[6] Docketed as Civil Case No. 93-2739.

[7] Penned by Judge Francisco A. Querubin. Id., pp. 129-151.

[8] Docketed as CA-G.R. CV No. 59748.

[9] Penned by Associate Justice Eugenio S. Labitoria and concurred in by Associate Justices Eliezer R. delos Santos and Arturo D. Brion (now a member of this Court) of the Third Division of the Court of Appeals. Rollo, pp. 30-34.

[10] Id., pp. 46-47.

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

[12] *Dijamco v. Court of Appeals*. G.R. No. 113665, 7 October 2004, 440 SCRA 190, 197. See also J.B.L. Reyes, 5 *Outline of Philippine Civil Law*, 2-3 (1957).

[13] Id.

[14] *Supra* note 3.

[15] *Supra* note 4.

[16] Paragraph 2 of the deed did not prescribe a period within which respondent should settle petitioner's obligation to RSLAI.

[17] See Civil Code, Art. 1370 which provides:

Article 1370. If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of the stipulations shall control.

If the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former.

[18] Civil Code, Art. 1495 provides:

Article 1495. The vendor is bound to transfer the ownership of and deliver, as well as warrant the thing which is the object of the sale.

[19] Civil Code, Art. 1498 provides:

Article 1498. When a sale is made through a public instrument, the execution thereof shall be equivalent to the delivery of the thing which is the object of the contract, if from the deed. the contrary does not appear or cannot be clearly inferred.

With regard to movable property, its delivery may also be made by the delivery of the keys of the place or depository where it is stored or kept. (emphasis supplied)

[20] See *Delfin v. Lagon*, G.R. No. 132262, 15 September 2006, 502 SCRA 24, 31.

[21] *Centeno v. Spouses Viray*, 440 Phil. 881, 885 (2002).

[22] See Civil Code, Art. 1498.

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