

WILLIAM ONG GENATO, PETITIONER, VS. BENJAMIN BAYHON, MELANIE BAYHON, BENJAMIN BAYHON, JR., BRENDA BAYHON, ALINA BAYHON-CAMPOS, IRENE BAYHON-TOLOSA, AND THE MINOR GINO BAYHON, AS...

G.R. No. 171035. August 24, 2009

Ponente: PUNO, C.J.

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PUNO, C.J.:

At bar is a Petition for Review on Certiorari assailing the Decision of the Court of Appeals dated September 16, 2005[1] and Resolution denying the petitioner's motion for reconsideration issued on January 6, 2006.

This is a consolidated case stemming from two civil cases filed before the Regional Trial Court (RTC) - Civil Case No. Q-90-7012 and Civil Case No. Q-90-7551.

Civil Case No. Q-90-7012

On October 18, 1990, respondents Benjamin M. Bayhon, Melanie Bayhon, Benjamin Bayhon Jr., Brenda Bayhon, Alina Bayhon-Campos, Irene Bayhon-Tolosa and the minor Gino Bayhon, as represented by his mother Jesusita M. Bayhon, filed an action before the RTC, Quezon City, Branch 76, docketed as Civil Case No. Q-90-7012. In their Complaint, respondents sought the declaration of nullity of a dacion en pago allegedly executed by respondent Benjamin Bayhon in favor of petitioner William Ong Genato.[2]

Respondent Benjamin Bayhon alleged that on July 3, 1989, he obtained from the petitioner a loan amounting to PhP 1,000,000.00;[3] that to cover the loan, he executed a Deed of Real Estate Mortgage over the property covered by Transfer Certificate of Title (TCT) No. 38052; that, however, the execution of the Deed of Real Estate Mortgage was conditioned upon the personal assurance of the petitioner that the said instrument is only a private memorandum of indebtedness and that it would neither be notarized nor enforced according to its tenor.[4]

Respondent further alleged that he filed a separate proceeding for the reconstitution of TCT No. 38052 before the RTC, Quezon City, Branch 87.[5] Petitioner William Ong Genato filed an Answer in Intervention in the said proceeding and attached a copy of an alleged dacion en pago covering said lot.[6] Respondent assailed the dacion en pago as a forgery alleging that neither he nor his wife, who had died 3 years earlier, had executed it.[7]

In his Answer, petitioner Genato denied the claim of the respondent regarding the death of the latter's wife.[8] He alleged that on the date that the real estate mortgage was to be signed, respondent introduced to him a woman as his wife.[9] He alleged that the respondent signed the dacion en pago and that the execution of the instrument was above-board.[10]

Civil Case No. Q-90-7551

On December 20, 1990, petitioner William Ong Genato filed Civil Case No. Q-90-7551, an action for specific performance, before the RTC, Quezon City, Branch 79. In his Complaint, petitioner alleged that respondent

obtained a loan from him in the amount of PhP 1,000,000.00. Petitioner alleged further that respondent failed to pay the loan and executed on October 21, 1989 a dacion en pago in favor of the petitioner. The dacion en pago was inscribed and recorded with the Registry of Deeds of Quezon City.[11]

Petitioner further averred that despite demands, respondent refused to execute the requisite documents to transfer to him the ownership of the lot subject of the dacion en pago. Petitioner prayed, inter alia, for the court to order the respondent to execute the final deed of sale and transfer of possession of the said lot.[12]

Decision of the Consolidated Cases

The two cases were consolidated and transferred to the RTC, Quezon City, Branch 215. On October 9, 1997, the trial court rendered its Decision. It found that respondent obtained a loan in the amount of PhP 1,000,000.00 from the petitioner on July 3, 1989. The terms of the loan were interest payment at 5% per month with an additional 3% penalty in case of nonpayment.[13]

With respect to the dacion en pago, the trial court held that the parties have novated the agreement.[14] It deduced the novation from the subsequent payments made by the respondent to the petitioner. Of the principal amount, the sum of PhP 102,870.00 had been paid: PhP 27,870.00 on March 23, 1990, PhP 55,000.00 on 26 March 1990 and PhP 20,000.00 on 16 November 1990.[15] All payments were made after the purported execution of the dacion en pago.

The trial court likewise found that at the time of the execution of the real estate mortgage, the wife of respondent, Amparo Mercado, was already dead. It held that the property covered by TCT No. 38052 was owned in common by the respondents and not by respondent Benjamin Bayhon alone. It concluded that the said lot could not have been validly mortgaged by the respondent alone; the deed of mortgage was not enforceable and only served as evidence of the obligation of the respondent.[16]

In sum, the trial court upheld the respondent's liability to the petitioner and ordered the latter to pay the sum of PhP 5,647,130.00.[17] This amount included the principal, the stipulated interest of 5% per month, and the penalty; and, was calculated from the date of demand until the date the RTC rendered its judgment.

Appeal to the Court of Appeals

Respondents appealed before the Court of Appeals. On March 28, 2002, respondent Benjamin Bayhon died while the case was still pending decision.[18] On September 16, 2005, the Court of Appeals rendered a decision reversing the trial court.

The Court of Appeals held that the real estate mortgage and the dacion en pago were both void. The appellate court ruled that at the time the real estate mortgage and the dacion en pago were executed, or on July 3, 1989 and October 21, 1989, respectively, the wife of respondent Benjamin Bayhon was already dead.[19] Thus, she could not have participated in the execution of the two documents. The appellate court struck down both the dacion en pago and the real estate mortgage as being simulated or fictitious contracts pursuant to Article 1409 of the Civil Code.[20]

The Court of Appeals held further that while the principal obligation is valid, the death of respondent Benjamin Bayhon extinguished it. [21] The heirs could not be ordered to pay the debts left by the deceased.[22] Based on the foregoing, the Court of Appeals dismissed petitioner's appeal. Petitioner's motion for reconsideration was denied in a resolution dated January 6, 2006.[23]

Petition for Review

Petitioner now comes before this Court assailing the decision of the Court of Appeals and raising the following

issues:

Whether or not Benjamin Bayhon is liable to Mr. Genato in the amount of Php 5,647,130.00 in principal and interest as of October 3, 1997 and 5% monthly interest thereafter until the account shall have been fully paid.[24]

The Court of Appeals erred in declaring the Real Estate Mortgage dated July 3, 1989 and the Dacion en Pago dated October 21, 1989, null and void.[25]

We shall first tackle the nullity of the dacion en pago.

We affirm the ruling of the appellate court that the subject dacion en pago is a simulated or fictitious contract, and hence void. The evidence shows that at the time it was allegedly signed by the wife of the respondent, his wife was already dead. This finding of fact cannot be reversed.

We now go to the ruling of the appellate court extinguishing the obligation of respondent. As a general rule, obligations derived from a contract are transmissible. Article 1311, par.1 of the Civil Code provides:

Contracts take effect only between the parties, their assigns and heirs, except in case where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law. The heir is not liable beyond the value of the property he received from the decedent.

In *Estate of Hemady v. Luzon Surety Co., Inc.*, [26] the Court, through Justice JBL Reyes, held:

While in our successional system the responsibility of the heirs for the debts of their decedent cannot exceed the value of the inheritance they receive from him, the principle remains intact that these heirs succeed not only to the rights of the deceased but also to his obligations. Articles 774 and 776 of the New Civil Code (and Articles 659 and 661 of the preceding one) expressly so provide, thereby confirming Article 1311 already quoted.

"ART. 774. -- Succession is a mode of acquisition by virtue of which the property, rights and obligations to the extent of the value of the inheritance, of a person are transmitted through his death to another or others either by his will or by operation of law."

"ART. 776. -- The inheritance includes all the property, rights and obligations of a person which are not extinguished by his death." [27] (Emphasis supplied)

The Court proceeded further to state the general rule:

Under our law, therefore, the general rule is that a party's contractual rights and obligations are transmissible to the successors. The rule is a consequence of the progressive "depersonalization" of patrimonial rights and duties that, as observed by Victorio Polacco, has characterized the history of these institutions. From the Roman concept of a relation from person to person, the obligation has evolved into a relation from patrimony to patrimony, with the persons occupying only a representative position, barring those rare cases where the obligation is strictly personal, i.e., is contracted *intuitu personae*, in consideration of its performance by a specific person and by no other. The transition is marked by the disappearance of the imprisonment for debt. [28] (Emphasis supplied)

The loan in this case was contracted by respondent. He died while the case was pending before the Court of Appeals. While he may no longer be compelled to pay the loan, the debt subsists against his estate. No property or portion of the inheritance may be transmitted to his heirs unless the debt has first been satisfied. Notably, throughout the appellate stage of this case, the estate has been amply represented by the heirs of the deceased, who are also his co-parties in Civil Case No. Q-90-7012.

The procedure in vindicating monetary claims involving a defendant who dies before final judgment is governed by Rule 3, Section 20 of the Rules of Civil Procedure, to wit:

When the action is for recovery of money arising from contract, express or implied, and the defendant dies before entry of final judgment in the court in which the action was pending at the time of such death, it shall not be dismissed but shall instead be allowed to continue until entry of final judgment. A favorable judgment obtained by the plaintiff therein shall be enforced in the manner especially provided in these Rules for prosecuting claims against the estate of a deceased person.

Pursuant to this provision, petitioner's remedy lies in filing a claim against the estate of the deceased respondent.

We now go to the interest awarded by the trial court. We note that the interest has been pegged at 5% per month, or 60% per annum. This is unconscionable, hence cannot be enforced.[29] In light of this, the rate of interest for this kind of loan transaction has been fixed in the case of *Eastern Shipping Lines v. Court of Appeals*,[30] at 12% per annum, calculated from October 3, 1989, the date of extrajudicial demand.[31]

Following this formula, the total amount of the obligation of the estate of Benjamin Bayhon is as follows:

Principal
Php 1,000,000.00
Less: Partial Payments
27,870.00
55,00000
20,000.00
897,130.00
Plus : Interest
(12% per annum x 20 years)
2,153,552.00
TOTAL:
Php 3,050,682.00

IN VIEW WHEREOF, the decision of the Court of Appeals dated September 16, 2005 is AFFIRMED with the MODIFICATION that the obligation to pay the principal loan and interest contracted by the deceased Benjamin Bayhon subsists against his estate and is computed at PhP 3,050,682.00.

No costs.

SO ORDERED.

Carpio, Corona, Leonardo-De Castro, and Bersamin, JJ., concur.

[1] CA G.R.-CV No. 63626, Benjamin M. Bayhon, Melanie Bayhon, Benjamin Bayhon, Jr., Brenda Bayhon, Alina Bayhon-Campos, Irene Bayhon-Tolosa, and the minor Gino Bayhon, represented herein by his natural mother as guardian-ad-litem, Jesusita M. Bayhon v. William Ong Genato; penned by Associate Justice Vicente Q.

Roxas and concurred in by Associate Justices Portia Aliño-Hormachuelos and Juan Q. Enriquez, Jr.

[2] Original Records, pp. 1-9.

[3] Id., pp. 3-4.

[4] Id., p. 4.

[5] Designated as LRC Case No. Q-1957.

[6] Original Records, p. 4.

[7] Id., p. 5.

[8] Id., p. 166.

[9] Id., p. 169.

[10] Id., p. 170.

[11] Id., pp. 353-354.

[12] Id.

[13] Id., p. 650.

[14] Id., p. 657.

[15] Id., pp. 656-657.

[16] Id., p. 658.

[17] Id., p. 659.

[18] CA rollo, p. 148.

[19] Rollo, pp. 47- 48.

[20] Article 1409 provides that:

The following contracts are inexistent and void from the beginning:

- (1) Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy;
- (2) Those which are absolutely simulated or fictitious;
- (3) Those whose cause or object did not exist at the time of the transaction;
- (4) Those whose object is outside the commerce of men;
- (5) Those which contemplate an impossible service;
- (6) Those where the intention of the parties relative to the principal object of the contract cannot be ascertained;
- (7) Those expressly prohibited or declared void by law.

These contracts cannot be ratified. Neither can the right to set up the defense of illegality be waived.

[21] Rollo, p. 46.

[22] Id.

[23] Id., pp. 37-39.

[24] *Id.*, p. 18.

[25] *Id.*, p. 20.

[26] No. L-8437, 100 Phil. 388 (1958).

[27] *Id.*, p. 393.

[28] *Id.*, p. 394.

[29] *Imperial v. Jaucian*, G.R. No. 149004, 14 April 2004, 427 SCRA 517, 525.

[30] G.R. No. 97412, July 12, 1994, 234 SCRA 78, 95.

[31] *Rollo*, p. 28.

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