

VICELET LALICON AND VICELEN LALICON, PETITIONERS, VS. NATIONAL HOUSING AUTHORITY, RESPONDENT.

G.R. No. 185440. July 13, 2011

Ponente: ABAD, J.

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ABAD, J.:

This case is about (a) the right of the National Housing Authority to seek annulment of sales made by housing beneficiaries of lands they bought from it within the prohibited period and (b) the distinction between actions for rescission instituted under Article 1191 of the Civil Code and those instituted under Article 1381 of the same code.

The Facts and the Case

On November 25, 1980 the National Housing Authority (NHA) executed a Deed of Sale with Mortgage over a Quezon City lot [1] in favor of the spouses Isidro and Flaviana Alfaro (the Alfaros). In due time, the Quezon City Registry of Deeds issued Transfer Certificate of Title (TCT) 277321 in the name of the Alfaros. The deed of sale provided, among others, that the Alfaros could sell the land within five years from the date of its release from mortgage without NHA's prior written consent. Thus:

x x x. 5. Except by hereditary succession, the lot herein sold and conveyed, or any part thereof, cannot be alienated, transferred or encumbered within five (5) years from the date of release of herein mortgage without the prior written consent and authority from the VENDOR-MORTGAGEE (NHA). x x x. [2] (Emphasis supplied)

The mortgage and the restriction on sale were annotated on the Alfaros' title on April 14, 1981.

About nine years later or on November 30, 1990, while the mortgage on the land subsisted, the Alfaros sold the same to their son, Victor Alfaro, who had taken in a common-law wife, Cecilia, with whom he had two daughters, petitioners Vicelet and Vicelen Lalicon (the Lalicons). Cecilia, who had the means, had a house built on the property and paid for the amortizations. After full payment of the loan or on March 21, 1991 the NHA released the mortgage. Six days later or on March 27 Victor transferred ownership of the land to his illegitimate daughters.

About four and a half years after the release of the mortgage or on October 4, 1995, Victor registered the November 30, 1990 sale of the land in his favor, resulting in the cancellation of his parents' title. The register of deeds issued TCT 140646 in Victor's name. On December 14, 1995 Victor mortgaged the land to Marcela Lao Chua, Rosa Sy, Amparo Ong, and Ida See. Subsequently, on February 14, 1997 Victor sold the property to Chua, one of the mortgagees, resulting in the cancellation of his TCT 140646 and the issuance of TCT N-172342 in Chua's name.

A year later or on April 10, 1998 the NHA instituted a case before the Quezon City Regional Trial Court (RTC) for the annulment of the NHA's 1980 sale of the land to the Alfaros, the latter's 1990 sale of the land to their son Victor, and the subsequent sale of the same to Chua, made in violation of NHA rules and regulations.

On February 12, 2004 the RTC rendered a decision in the case. It ruled that, although the Alfarnos clearly violated the five-year prohibition, the NHA could no longer rescind its sale to them since its right to do so had already prescribed, applying Article 1389 of the New Civil Code. The NHA and the Lalicons, who intervened, filed their respective appeals to the Court of Appeals (CA).

On August 1, 2008 the CA reversed the RTC decision and found the NHA entitled to rescission. The CA declared TCT 277321 in the name of the Alfarnos and all subsequent titles and deeds of sale null and void. It ordered Chua to reconvey the subject land to the NHA but the latter must pay the Lalicons the full amount of their amortization, plus interest, and the value of the improvements they constructed on the property.

The Issues Presented

The issues in this case are:

1. Whether or not the CA erred in holding that the Alfarnos violated their contract with the NHA;
2. Whether or not the NHA's right to rescind has prescribed; and
3. Whether or not the subsequent buyers of the land acted in good faith and their rights, therefore, cannot be affected by the rescission.

The Rulings of the Court

First. The contract between the NHA and the Alfarnos forbade the latter from selling the land within five years from the date of the release of the mortgage in their favor. [3] But the Alfarnos sold the property to Victor on November 30, 1990 even before the NHA could release the mortgage in their favor on March 21, 1991. Clearly, the Alfarnos violated the five-year restriction, thus entitling the NHA to rescind the contract.

The Lalicons contend, however, that the Alfarnos did not violate the five-year restriction against resale since what the contract between the parties barred was a transfer of the property within five years from the release of the mortgage, not a transfer of the same prior to such release.

But the Lalicons are trying to be clever. The restriction clause is more of a condition on the sale of the property to the Alfarnos rather than a condition on the mortgage constituted on it. Indeed, the prohibition against resale remained even after the land had been released from the mortgage. The five-year restriction against resale, counted from the release of the property from the NHA mortgage, measures out the desired hold that the government felt it needed to ensure that its objective of providing cheap housing for the homeless is not defeated by wily entrepreneurs.

The Lalicons claim that the NHA unreasonably ignored their letters that asked for consent to the resale of the subject property. They also claim that their failure to get NHA's prior written consent was not such a substantial breach that warranted rescission.

But the NHA had no obligation to grant the Lalicons' request for exemption from the five-year restriction as to warrant their proceeding with the sale when such consent was not immediately forthcoming. And the resale without the NHA's consent is a substantial breach. The essence of the government's socialized housing program is to preserve the beneficiary's ownerships for a reasonable length of time, here at least within five years from the time he acquired it free from any encumbrance.

Second. Invoking the RTC ruling, the Lalicons claim that under Article 1389 of the Civil Code the "action to claim rescission must be commenced within four years" from the time of the commission of the cause for it.

But an action for rescission can proceed from either Article 1191 or Article 1381. It has been held that Article

1191 speaks of rescission in reciprocal obligations within the context of Article 1124 of the Old Civil Code which uses the term "resolution." Resolution applies only to reciprocal obligations such that a breach on the part of one party constitutes an implied resolutive condition which entitles the other party to rescission. Resolution grants the injured party the option to pursue, as principal actions, either a rescission or specific performance of the obligation, with payment of damages in either case.

Rescission under Article 1381, on the other hand, was taken from Article 1291 of the Old Civil Code, which is a subsidiary action, not based on a party's breach of obligation. [4] The four-year prescriptive period provided in Article 1389 applies to rescissions under Article 1381.

Here, the NHA sought annulment of the Alfaros' sale to Victor because they violated the five-year restriction against such sale provided in their contract. Thus, the CA correctly ruled that such violation comes under Article 1191 where the applicable prescriptive period is that provided in Article 1144 which is 10 years from the time the right of action accrues. The NHA's right of action accrued on February 18, 1992 when it learned of the Alfaros' forbidden sale of the property to Victor. Since the NHA filed its action for annulment of sale on April 10, 1998, it did so well within the 10-year prescriptive period.

Third. The Court also agrees with the CA that the Lalicons and Chua were not buyers in good faith. Since the five-year prohibition against alienation without the NHA's written consent was annotated on the property's title, the Lalicons very well knew that the Alfaros' sale of the property to their father, Victor, even before the release of the mortgage violated that prohibition.

As regards Chua, she and a few others with her took the property by way of mortgage from Victor in 1995, well within the prohibited period. Chua knew, therefore, based on the annotated restriction on the property, that Victor had no right to mortgage the property to her group considering that the Alfaros could not yet sell the same to him without the NHA's consent. Consequently, although Victor later sold the property to Chua after the five-year restriction had lapsed, Chua cannot claim lack of awareness of the illegality of Victor's acquisition of the property from the Alfaros.

Lastly, since mutual restitution is required in cases involving rescission under Article 1191, [5] the NHA must return the full amount of the amortizations it received for the property, plus the value of the improvements introduced on the same, with 6% interest per annum from the time of the finality of this judgment. The Court will no longer dwell on the matter as to who has a better right to receive the amount from the NHA: the Lalicons, who paid the amortizations and occupied the property, or Chua, who bought the subject lot from Victor and obtained for herself a title to the same, as this matter was not raised as one of the issues in this case. Chua's appeal to the Court in a separate case [6] having been denied due course and NHA failing to file its own petition for review, the CA decision ordering the restitution in favor of the Lalicons has now become final and binding against them.

WHEREFORE, the Court AFFIRMS the Decision of the Court of Appeals in CA-G.R. CV 82298 dated August 1, 2008.

SO ORDERED.

Carpio,[*] Velasco, Jr., (Chairperson), Mendoza, and Sereno,**] JJ., concur.

[*] Designated as additional member in lieu of Associate Justice Diosdado M. Peralta, per Special Order 1029 dated June 30, 2011.

**] Designated as additional member, per Special Order 1028 dated June 21, 2011.

[1] Lot 3, Block 2 of consolidation and subdivision plan Pcs-04-000033.

[2] Rollo, p. 73.

[3] Id.

[4] Congregation of the Religious of the Virgin Mary v. Orola, G.R. No. 169790, April 30, 2008, 553 SCRA 578, 585.

[5] Laperal v. Solid Homes, Inc., 499 Phil. 367, 378 (2005).

[6] Chua v. National Housing Authority, G.R. No. 183989, October 22, 2008.

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