PACIENCIA A. DALEON AND CLARO EDUARDO D. JAVIER, JR., REPRESENTED BY THEIR ATTORNEY-IN-FACT, GLORIA BAYONA, AXEL LEONARD DALEON, GINA DALEON, BENJAMIN A. DALEON, JR., FOR HIMSEL...

G.R. No. 186094. August 23, 2010

Ponente: ABAD, J.

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ABAD, J.:

This case is about the contractual right of the seller to forfeit the buyer's downpayment on the property sold because of the buyer's refusal to pay subsequent installments, which refusal had been prompted by a subsequent adverse claim to the property.

The Facts and the Case

On November 6, 1997 petitioners Paciencia A. Daleon, Claro Eduardo D. Javier, Jr., Axel Leonard Daleon, Gina Daleon, Benjamin A. Daleon, Jr. Noela Daleon Veloso, Lucy Ann Daleon-Breva, and Peter A. Daleon (the Daleons), on the one hand, and the respondents Ma. Catalina P. Tan, Fidel P. Tan and Manuel P. Tan (the Tans), on the other, executed a contract to sell[2] covering the Daleons' 9.383-hectare of registered land at Ibabang Dupay, Lucena City,[3] which they owned pro indiviso, for the price of P18.766 million. The contract included a provision, inserted by hand as its paragraph 15-A, which stated that "in the event that any of the checks paid by the [buyers] should [bounce], this contract shall be rescinded and the [sellers] shall forfeit 50% of the amount already paid by the [buyers], while the remaining 50% shall be returned x x x or placed as outstanding lien [on] the said title."[4]

Pursuant to the terms of their agreement, the Tans gave the Daleons a downpayment of P10.861 million and issued in their favor 12 postdated checks dated December 5, 1997 through November 5, 1998 in the amount of P658,750.00 per check to cover the remaining balance of P7.905 million.

On November 14, 1997, eight days after the parties executed their agreement, one Bartolome Sy caused to be annotated on the title to the property an adverse claim on the undivided share of one of the Daleons. For this reason, the Tans placed a stop payment order on their first postdated check and repeatedly wrote the Daleons that, until the adverse claim on the property was canceled, they were stopping payment on their checks. They invoked their right as buyers in good faith to receive the property free from all liens and encumbrances. They also noted the Daleons' misrepresentation regarding the clean status of the property. On February 19, 1998 a Consulta was further annotated on the property's title relative to Bartolome Sy's claim.

The Daleons deposited the first three checks in their bank but these were returned for the reason "SPO/DAIF" or "stop payment order/drawn against insufficient funds." Meanwhile, the Daleons succeeded in getting a court order that directed the cancellation of Bartolome Sy's adverse claim on their title to the property. They then deposited the other checks that the Tans gave them but these, too, were returned for the reason "SPO/DAIF."

On March 18, 1998 the Tans wrote the Daleons, informing them that they were ready to make good on their checks provided the Daleons presented to them a clean title to the property. In addition, they requested the Daleons to submit to them the documents specified in paragraph 9 of the contract to sell as a prerequisite to the payment of the last two checks.[5] Meanwhile, the Tans' stop payment order on their checks remained in force.

On October 3, 1998 the Tans wrote the Daleons, stating that the Tans had not yet received from the Daleons any news about the status of the Bartolome Sy issue. The Tans gave the Daleons five days within which to deliver the documents mentioned in paragraph 9 of the contract to sell.

In response, on November 18, 1998 the Daleons filed an action against the Tans for rescission of their agreement and enforcement of the penalty of forfeiture of half of what the Tans already paid pursuant to paragraph 15-A of such agreement on the ground that the Tans' breached its terms by placing a stop payment order on the postdated checks.[6] The Daleons likewise filed a criminal complaint for violation of the bouncing checks law or Batas Pambansa Bilang 22 (B.P. 22) against the Tans relative to the dishonored checks.

The Tans filed their answer with a counterclaim for unrealized income as a result of their inability to use their downpayment of P10.861 million. They sought the award to them of specific amounts of moral damages, exemplary damages, attorney's fees, and expenses of litigation.

While the criminal complaint against the Tans did not prosper,[7] the RTC rendered a decision in the rescission case against them dated February 26, 2007.[8] The RTC a) rescinded the contract to sell between the parties; b) ordered the forfeiture in favor of the Daleons of P5,430,500.00 or 50% of what the Tans paid them; c) ordered the Daleons to return to the Tans the remaining 50% or P5,430,500.00 or have this obligation inscribed as an outstanding lien on the title; and d) ordered the Tans to pay the Daleons P250,000.00 in attorneys fees and expenses of litigation and to pay the costs.[9]

The Tans appealed the case to the Court of Appeals (CA), which on May 29, 2008 rendered a decision,[10] reversing the RTC judgment, ordering the Daleons to return to the Tans the P10,861,000.00 the latter paid with legal interests of 6% per annum from date of the filing of complaint until its full payment and further ordering the Daleons to pay the Tans attorney's fees and expenses of litigation of P300,000.00 and to pay the cost of suit.

The CA held in substance that in a contract to sell where the seller retains ownership until the buyer pays the price in full, such full payment is a positive suspensive condition. In this situation, the buyer's failure to pay the full price does not constitute a contractual breach, but merely an event that prevents the seller from relinquishing ownership and delivering the title. Thus, said the CA, rescission is not available in such case; the buyer's failure to complete payment merely prevented the obligation of the seller to convey title.[11]

Following this theory, the CA held that the Daleons can only cancel the contract to sell but not rescind it. The Tans failure to pay the balance of the purchase price merely resulted in setting aside the contract to sell, placing the parties in the same situation as they were before the execution of the contract to sell. Paragraph 15-A, said the CA, lost its efficacy as a result of this setting aside of the contract to sell. Consequently, the Daleons were duty bound to return the full amount of P10.861 million with 6% interest per annum, on the principle that no person shall unjustly enrich himself at the expense of another.

On January 13, 2009 the CA denied the Daleons' motion for reconsideration,[12] prompting the latter to come to this Court.

The Issue Presented

The only issue presented in this case is whether or not the CA erred in ruling that the Daleons were not entitled

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under the circumstances to rescind the contract to sell and forfeit in their favor 50% of the Tans' downpayment of P10.861 million pursuant to paragraph 15-A of that contract.

The Court's Ruling

The Daleons point out that since the parties agreed to the insertion in their contract to sell of paragraph 15-A, then its provisions should apply given that the Tans' checks covering subsequent payments were dishonored upon presentation to the bank. The Tans cannot object to the Daleons' retention of 50% of the P10.861 million downpayment or P5,430,500.00 since this was what paragraph 15-A authorized. Relying on the principle of mutuality of contracts, the Daleons claim that no legal impediment stood in the way of implementing the provision since it is not contrary to law, morals, good customs, public order, or public policy.

The Court is not prepared to accept the CA's reason for reversing the RTC decision in the case. The Court has in a number of cases affirmed the validity of this legal creature with an ominous name--forfeiture of initial payments, provided the parties clearly agree on it. We said in Valarao v. Court of Appeals:[13]

> As a general rule, a contract is the law between the parties. Thus, "from the moment the contract is perfected, the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all consequences which, according to their nature, may be in keeping with good faith, usage and law." Also, "the stipulations of the contract being the law between the parties, courts have no alternative but to enforce them as they were agreed [upon] and written, there being no law or public policy against the stipulated forfeiture of payments already made." However, it must be shown that private respondent-vendee failed to perform her obligation, thereby giving petitioners-vendors the right to demand the enforcement of the contract.
>
> We concede the validity of the automatic forfeiture clause, which deems any previous payments forfeited and the contract automatically rescinded upon the failure of the vendee to pay three successive monthly installments or any one yearend lump sum payment. However, petitioners failed to prove the conditions that would warrant the implementation of this clause.[14]

But a forfeiture clause in a contract of sale, which in a sense is punitive and confiscatory, is to be construed strictissimi juris[15] and, in resolving a controversy involving it, the principles of equity must apply to the end that exact justice is achieved.[16]

Here, the Daleons assumed that they were ready to hand over a clean title to the Tans had the latter not placed a stop payment order on their checks. This was not the case. The Tans had to place that stop payment for a valid reason. They agreed to buy the property believing that the seller's title was unblemished by any lien or unfavorable claim. Bartolome Sy's adverse claim, which came shortly after the execution of the contract and the initial payment to the Daleons of P10.861 million, was certainly distressing. Its annotation on the title served as warning to third parties like the Tans that someone claimed an interest or a better right to the property than the registered owner.[17] Certainly, the Tans were justified in placing a stop payment order on their checks to avoid greater loss since it may be assumed that they did not want to buy such an expensive property that had a cloud on its title.

Besides, the Tans had the right to hold the Daleons to their warranties as sellers under Article 1547 of the Civil Code[18] that the property was free from charges or encumbrances not known to the buyers. Further, Article 1545 of the Code provides that "where the ownership in the thing has not passed, the buyer may treat the fulfillment by the seller of his obligation to deliver the same as described and as warranted expressly or by implication in the contract of sale as a condition of the obligation of the buyer to perform his promise to accept and pay for the thing." The Daleons deposited the initial checks issued to them before they filed a belated action to have the adverse claim removed from their title. More, they ignored the Tans' repeated demand to know what they were

doing regarding that claim.

In Tan v. Benolirao,[19] the buyer of land in a contract to sell refused to pay the balance of the purchase price because of the sudden appearance of an annotation on the sellers' title, judicially placed by excluded co-heirs, thus creating a legal lien on the property in favor of such co-heirs. The Court held that, because of the annotation, the sellers could no longer compel the buyer to pay the balance of the purchase price since they could not fulfill their obligation to transfer a clean title to the latter. The Court held that the buyer's refusal to pay the balance cannot justify the sellers' forfeiture of his downpayment. Thus:

> We, therefore, hold that the contract to sell was terminated when the vendors could no longer legally compel Tan to pay the balance of the purchase price as a result of the legal encumbrance which attached to the title of the property. Since Tan's refusal to pay was due to the supervening event of a legal encumbrance on the property and not through his own fault or negligence, we find and so hold that the forfeiture of Tan's down payment was clearly unwarranted.[20]

The above ruling in Tan applies to the present case.

Although the Daleons later on successfully dealt with Sy's adverse claim, they failed and refused to inform the Tans about it despite the latter's several written demands for the Daleons to update them on the issue. Apparently, although the Tans were still interested in consummating the sale, the Daleons interest was in keeping their land and forfeiting 50% of the Tan's downpayment of P10.861 million. Thus, instead of seeing the sale through to its end--which was then within reach--the Daleons took what they thought was a promising prospect offered by paragraph 15-A. The Court cannot, however, tolerate such covetousness.

As to the rate of interest that may be awarded on the obligation to return the downpayment made in this case, the Court takes bearing from the decision in Trade & Investment Development Corporation of the Philippines v. Roblett Industrial Construction Corporation.[21] Thus, when as in this case an obligation - not constituting a loan or forbearance of money - is breached, the court may impose interest on the damages awarded (the return of the downpayment made) at the rate of 6% per annum. But such interest cannot be adjudged except when the demand to return the downpayment can be established with reasonable certainty. Here, such demand may be found in the counterclaim that the Tans filed in the action against them on January 12, 1999.

The Court also held that, when the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

WHEREFORE, the Court DENIES the petition and AFFIRMS the decision dated May 29, 2008 and resolution dated January 13, 2009 of the Court of Appeals in CA-G.R. CV 89223 but with MODIFICATION on the interest that petitioners Paciencia A. Daleon, Claro Eduardo D. Javier, Jr., Axel Leonard Daleon, Gina Daleon, Benjamin A. Daleon, Jr., Noela Daleon Veloso, Lucy Ann Daleon-Breva, and Peter A. Daleon are to pay the respondents Ma. Catalina P. Tan, Fidel P. Tan, and Manuel P. Tan on the sum of P10.861 million that the former are to return to the latter. Such interest shall be at the rate of 6% per annum from the date the Tans filed their counterclaim in the case or from January 12, 1999 and at the rate of 12% per annum based on the accrued amount, from the time the judgment of this Court becomes final and executory until the obligation is fully satisfied.

SO ORDERED.

Carpio, Nachura, Peralta, and Mendoza, JJ., concur.

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[1] Also referred to as Pacencia A. Daleon in some parts of the records.

[2] Rollo, pp. 32-38.

[3] Covered by Transfer Certificate of Title (TCT) T-80623.

[4] Rollo, p. 36.

[5] 9. That in addition to consideration stated in the preceding paragraph, the SECOND PARTY (respondents) is given the right to stop the payment of the last two (2) checks herein above-identified without any liability to the FIRST PARTY (petitioners) until the latter has completed the submission of the following documents to the SECOND PARTY:

- Certified Copy of the Death Certificates of Socorro A. Daleon and Benjamin A. Daleon;

- Original Copy of the Special Power of Attorney constituted in favor of BENJAMIN DALEON, JR. by the heirs of Benjamin Daleon;

- Original Copy of the Extra-Judicial Settlement of the Estate of Benjamin A. Daleon;

- Original Copy of the Extra-Judicial Settlement of the heirs of Socorro A. Daleon;

- Original Copy of the Waiver of the Tenants of the property;

- Sworn undertaking of all the co-owners respecting their aggregate landholding;

- Original Receipts of Updated Tax Payments;

- Original Tax Declaration for TCT No. T-80623;

- BARC Clearance;

- Original Special Power of Attorney duly executed by CLARO EDUARDO JAVIER, JR. before the Consular Official of the Philippine Embassy or before a duly appointed NOTARY PUBLIC in Lucena City, in case of his return to the Philippines.

[6] Civil Case 98-164 entitled "Paciencia Daleon, et al. v. Ma. Catalina Tan, et al.," Regional Trial Court of Lucena City, Branch 59.

[7] In a Resolution dated January 6, 2001, the Daleons' complaint for violation of B.P. 22 in I.S. 2000-1032 was dismissed by the Lucena City Prosecutor's Office on the ground that the 12 postdated checks issued were sufficiently funded, contrary to the Daleons' claim that the accounts from which they were drawn had insufficient funds.

[8] Rollo, pp. 97-106.

[9] Id. at 106.

[10] Id. at 162-176; docketed as CA-G.R. CV 89223 entitled "Paciencia Daleon, et al. v. Ma. Catalina Tan, et al." penned by former Associate Justice Lucenito N. Tagle, with the concurrence of Associate Justices Amelita G. Tolentino and Marlene Gonzales-Sison.

[11] Rivera v. Del Rosario, 464 Phil. 783, 801 (2004); Leaño v. Court of Appeals, 420 Phil. 836, 846 (2001); Ong v. Court of Appeals, 369 Phil. 243, 253-254 (1999); Roque v. Lapuz, 185 Phil. 525, 537 (1980); Manuel v. Rodriguez, 109 Phil. 1, 10 (1960).

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[12] Rollo, pp. 191-192.

[13] 363 Phil. 495 (1999).

[14] Id. at 506.

[15] Carpenter v. Blanford, 8 B. & C., 575, 108 Eng. Rep., 1156 (1828).

[16] Gray v. Maier etc. Brewery, 2 Cal.App. 653, [84 Pac. 280] (1906).

[17] Sajonas v. Court of Appeals, 327 Phil. 689, 701-702 (1996).

[18] Article 1547. In a contract of sale, unless a contrary intention appears, there is:

(1) An implied warranty on the part of the seller that he has the right to sell the thing at the time when the ownership is to pass, and that the buyer shall from that time have and enjoy the legal and peaceful possession of the thing;

(2) An implied warranty that the thing shall be free from any hidden faults or defects, or any charge or encumbrance not declared or known to the buyer.

This article shall not, however, be held to render liable a sheriff, auctioneer, mortgagee, pledgee, or other person professing to sell by virtue of authority in fact or law, for the sale of a thing in which a third person has a legal or equitable interest.

[19] G.R. No. 153820, October 16, 2009, 604 SCRA 36.

[20] Id. at 54.

[21] G.R. No. 139290, November 11, 2005, 474 SCRA 510.

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