

FILOIL MARKETING CORPORATION (NOW PETROPHIL CORPORATION), PETITIONER, VS. THE HONORABLE INTERMEDIATE APPELLATE COURT AND JOSEFINA ALBERTO DE PABALAN, RESPONDENTS.

G.R. No. 67115. January 20, 1989

Ponente: CRUZ, J.

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CRUZ, J.:

There were three principal defendants in the original action for rescission and damages filed by the herein private respondent. They were all held solidarily liable. Only the petitioner herein has appealed from the decision of the respondent court sustaining the trial court. The other defendant has not done so and so is bound by the decision now before us.

This case arose from a sale of a piece of land belonging to Josefina Alberto de Pabalan in favor of Villa Rey Transit on December 22, 1971.[1] The purchase price was P140,000.00, payable in installments. On the day of the sale, TCT No. 87322 covering the land was delivered by Pabalan to Jose M. Villarama, President of Villa Rey Transit,[2] who on February 25, 1972, caused its cancellation and the issuance of TCT No. 94229 in his own name.[3] The new certificate of title was clean; no conditions were annotated thereon; and the transfer appeared to have been made by virtue of an absolute deed of sale.

On that very same date, Villarama mortgaged the land on behalf of Villa Rey Transit to the herein petitioner as security for a loan of P350,000.00.[4] Filoil Marketing Corporation was at the time already occupying the land by virtue of a contract of lease earlier entered into with Pabalan. In the deed of mortgage, Villarama warranted that this was the only encumbrance on the land, which was otherwise free from all liens and encumbrances. On January 25, 1974, the mortgagor having defaulted in the payment of the debt, the mortgage was extrajudicially foreclosed and the land was sold at public auction.[5]

Filoil was the highest bidder.[6] The certificate of sale was duly annotated on the certificate of title.[7] However, before the petitioner could consolidate its ownership over the property, Pabalan, having learned of these developments, filed a complaint in the Court of First Instance of Pangasinan, principally against Villa Rey Transit, Villarama and Filoil.[8]

The complainant alleged that her contract of sale with Villa Rey Transit was conditional and did not transfer title to the latter pending full payment to her of the purchase price. Villarama acted fraudulently when without her knowledge he caused the cancellation of TCT No. 87322 and its replacement with TCT No. 94229 and thereafter mortgaged the land to Filoil. Filoil, for its part, acted in bad faith if not in complicity with the other defendants when it purchased the land at the foreclosure sale knowing the property belonged not to Villa Rey Transit but to her, from whom it had earlier leased the land. Pabalan asked for the rescission of the contract and for damages.[9]

In their answer, Villa Rey Transit and Villarama contended that by its terms the contract of sale effected

immediate transfer of ownership over the land to them although payment was to be made in installments. The transaction was not a mere contract to sell. Hence, they had the right to mortgage it after securing a new certificate of title over it in the name of Villarama.[10]

Filoil's defense was that of an innocent purchaser for value. It argued that it had a right to rely on TCT No. 94229 and the warranties of the mortgagor and could not be held liable for the acts of the other defendants. Neither should it be prejudiced by a rescission of the contract.[11]

The trial court[12] held in favor of the complainant. It declared the contract of sale rescinded for violation of its conditions by the vendee; annulled TCT No. 94229, the deed of mortgage, and the auction sale of the land to Filoil; and reinstated TCT No. 87322 in the complainant's name. Filoil was required to pay the rentals on the land. The defendants were also held solidarily liable to the plaintiff in the amounts of P100,000.00 as moral damages; P25,000.00 as exemplary damages, and P45,000.00 as attorney's fees plus the costs of the suit.[13]

Villa Rey Transit and Filoil appealed to the then Intermediate Appellate Court,[14] which affirmed the decision of the trial court in toto.[15] In due time, the petitioner came to this Court to challenge this affirmance. Its claim is that the respondent court erred in imputing bad faith to Filoil and in canceling the questioned transactions notwithstanding the protection extended to it by law and jurisprudence as an innocent purchaser for value of the disputed property.

The contract of sale reads as follows:

"DEED OF SALE OF REAL PROPERTY

"KNOW ALL MEN BY THESE PRESENTS:

"This contract entered into by and between

JOSEFINA ALBERTO DE PABALAN, of legal age, married to Javier Pabalan, residing at 1812 Singalong Street, Malate, Manila, hereinafter called the VENDOR,

- a n d -

VILLA REY TRANSIT, INC. a domestic corporation duly organized and existing according to the laws of the Philippines, represented in this act by its President, JOSE M. VILLARAMA, of legal age, with principal office at 942 Gov. Forbes, Sampaloc, Manila, hereinafter called the VENDEE,

WITNESSETH

"1. WHEREAS, the VENDOR is the owner in fee simple of certain parcel of land covered by TCT No. 87322 of the Registry of Deeds of Pangasinan, located at Carmen Rosales, Pangasinan, may be specifically described as follows:

"A parcel of land (Lot 2-A-4-B-2-B-3 of the subdivision plan, [LRC] psd-131340, being a portion of Lot 2-A-4-B-2-B, described on plan [LRC] psd-89635, LRC Record No. 5463), situated in the Barrio of Carmen, Municipality of Rosales, Province of Pangasinan, Island of Luzon. Bounded on the NE., points 2 to 3, by Provincial Road; on the SE., points 3 to 4, Lot 2-A-4-B-2-B-2 of the subdivision plan; on the SW., points 4 to 1, Lot 2-A-4-B-2-A, [LRC] psd-89635; and on the NW., points 1 to 2, by Lot 2-A-4-A, [LRC] psd-38571. Beginning at a point marked 1 on plan, being N. 72 deg. 44' E., 1664.57 m. from B.L.L.M. 1, Mp. of Sto. Tomas, Pangasinan; thence N. 65 deg. 27' E., 35.00 m. to point 2; thence S. 27 deg. 51' E., 40.20 m. to point 3; thence S. 65 deg. 46' W., 35.02 m. to point 4; thence N. 27 deg. 51' W., 40.00 m. to the point of beginning; containing an area of one thousand three hundred and ninety-eight (1,398) square meters, more or less. All points referred to are indicated on the plan and are marked on the ground as follows; point 3, by P.S. cyl. conc. mons. 15 x 60 cms., and the rest, by old P.S. cyl. conc. mons. 15 x 60 cms.; bearings true; declination 0 deg. 44' E.; date of the original

survey, July, 1924 - June, 1925, and that of the Subdivision Survey, November 3, 1970.

"2. WHEREAS, the VENDOR is fully authorized to SELL, among others, the aforementioned parcel of land by her spouse Javier Pabalan, as described in the General Absolute and Irreparable Power of Attorney executed by the latter in favor of the former in Document No. 269, Page No. 97, Book No. 4, Series of 1958 rectified before Notary Public, Atty. Antonio R. Ramaat;

"3. WHEREAS, all real estate taxes on the aforementioned parcel of land are correct and paid as evidenced by Official Receipt No. 2975212, of the Treasurer's Office of Pangasinan;

"4. WHEREAS, the aforementioned parcel of land is free from all liens and encumbrances except for the Lease Agreement between the Vendor and Filoil Marketing Corporation, dated January 25, 1960, as described in Document No. 8, Page No. 5, Book No. 1, Series of 1960, of Notary Public Cesar Generoso for the City of Manila;

"5. WHEREAS, the VENDOR is willing to sell and the VENDEE is willing to buy the aforementioned parcel of land and for the following terms and conditions:

"That the total consideration shall be in the sum of ONE HUNDRED FORTY THOUSAND (P140,000.00) PESOS, payable annually at TEN THOUSAND (P10,000.00) PESOS, commencing from 1972 to 1975 inclusive, provided that the payments corresponding to the first four (4) years (1972, 1973, 1974, 1975) shall be advanced as follows: TEN THOUSAND (P10,000.00) PESOS upon the signing of this Deed, FIFTEEN THOUSAND (P15,000.00) PESOS on or before January 5, 1972 and FIFTEEN THOUSAND (P15,000.00) PESOS on or before March 31, 1972, provided, that the VENDOR may request advance payments not exceeding the equivalent of four (4) years at a discounted rate according to prevalent rates charged by financing institutions; provided further that the VENDEE shall honor and respect the lease contract entered into between the VENDOR and FILOIL MARKETING CORPORATION, as described in the Document aforementioned provided finally that should the VENDEE, prior to full payment of all the amounts aforementioned, shall decide to sell or to assign part or all of the aforementioned parcel of land the VENDOR shall be informed in writing and shall have the option to repurchase the property at the same price and or the same terms and conditions as may be offered to this person. Upon receipt of each written offer from any third person, the VENDEE shall submit the same to the VENDOR who shall be entitled to thirty (30) days to decide whether or not to repurchase. Should the VENDOR herein decide to repurchase and the property is sold or transferred to a third person, the balance of the consideration herein still due to the vendor shall constitute automatically a prior lien on the consideration to be paid by the third person to herein VENDEE.

"NOW, therefore, for and in consideration of the sum of ONE HUNDRED FORTY THOUSAND (P140,000.00) PESOS, payable under the terms and conditions stated in the foregoing premises, the VENDOR sells, transfers, and conveys unto the VENDEE its successors or assigns the above-described parcel of land, free from all liens and encumbrances except for the lease contract by the VENDOR and FILOIL MARKETING CORPORATION, the terms of which shall be respected by the VENDEE.

"IN WITNESS HEREOF, the parties are hereunto set forth their signature in the City of Manila, this 22nd day of December, 1971.

"VILLA REY TRANSIT, INC.
(Vendee)

"By:

"(Sgd.) JOSE M. VILLARAMA

"(T) JOSE M. VILLARAMA

President

"(Sgd.) JOSEFINA ALBERTO

"(T) JOSEFINA ALBERTO

Vendor"[*]

It is obvious that the above instrument is not a contract to sell as contended by the private respondent. We read it as a deed of sale in which title to the subject land was transferred to the vendee as of the date of the transaction notwithstanding that the purchase price had not yet been fully paid at that time.

In the first place, the dispositive part of the deed states that "for and in consideration of the sum of ONE HUNDRED FORTY THOUSAND (P140,000.00) PESOS, payable under the terms and conditions stated in the foregoing premises, the VENDOR sells, transfers and conveys unto the VENDEE x x x" the property in question as of December 22, 1971, the date of the said document.

Secondly, and more importantly, it is provided in paragraph 5 thereof that "should the VENDEE, prior to full payment of all the amounts aforementioned, decide to sell or to assign part or all of the aforementioned parcel of land, the VENDOR shall be informed in writing and shall have the option to repurchase the property x x x. Should the VENDOR herein decide to repurchase and the property is sold or transferred to a third person, the balance of the consideration herein still due to the VENDOR shall constitute automatically a prior lien on the consideration to be paid by the third person to herein VENDEE."

Under the first-cited stipulation, what is deferred is not the transfer of ownership but the full payment of the purchase price, which is to be made in installments, on the dates indicated. Under the second stipulation, it is recognized that the vendee may sell the property even "prior to full payment of all the amounts aforementioned," which simply means that although the purchase price had not yet been completely paid, the vendee had already become the owner of the land. As such, he could sell the same, subject to the right of repurchase reserved to the vendor. In fact, the contract also provides for the possibility of the vendee selling the property to a third person, in which case the vendor, if she wishes to repurchase the land, shall have a lien on any balance of the consideration to be paid by the third person to the vendee.

But all this notwithstanding, we agree with the trial court, as sustained by the respondent court, that Villarama acted with less than good faith and candor when he secured the cancellation of the vendor's certificate of title and replaced it with one in his name without even informing the complainant about it. Worse, he thereafter mortgaged the property, also without her knowledge, and then, to add insult to injury, also omitted to advise her that it had been sold at public auction because he had defaulted in the payment of his mortgage debt. He did not even share the P350,000.00 loan with her and pay her therefrom the P100,000.00 balance of the purchase price.

All the while, the plaintiff had thought Villarama had taken TCT No. 87322 from her only for the purpose of having the deed of sale annotated thereon.[16] She believed, not being a lawyer, that title to the property would not pass to the vendee until the purchase price had been paid in full. The deed of sale, as the plaintiff testified, had been drawn up by the legal staff of Villa Rey Transit.[17] As far as she understood it, the land she was selling would pass to Villa Rey Transit only after the purchase price had been paid in full.[18]

It is true that she should have consulted a lawyer of her own to advise her and protect her interests, but the fact is she did not. She just left the drafting of the deed to Villarama, whom she trusted. This circumstance alone

imposed upon Villarama the moral if not legal responsibility to explain the meaning and consequences of the contract she was signing. But he did not discharge this responsibility. On the contrary, what he did was take advantage of the private respondent's confidence and use the subject property to enable him to secure the loan he did not repay.

The fact that he mortgaged the property the very day he secured the transfer certificate in his name is meaningful, if not suspicious. It suggests that he had meant all the while to use the transaction with the complainant to support the loan he was then negotiating with Filoil, and that his purpose was not only not to inform the plaintiff about it but indeed to conceal it from her to prevent her from obstructing his plan. While, in the strict legal sense, Villarama had the right as owner to mortgage the property to Filoil, we feel he did so with demonstrated bad faith toward the private respondent, who had placed her confidence in him.

At any rate, Villarama has not appealed the decision of the trial court and is now deemed to have accepted it, including the imputation to him of malice and deceit, as affirmed by the Court of Appeals.

What we are concerned with in this petition is the appeal of Filoil, the other defendant which has been held solidarily liable with Villarama and Villa Rey Transit. Filoil, the herein petitioner, claims the status of an innocent purchaser for value and insists that the deed of sale is not subject to rescission as far as it is concerned. Moreover, even assuming that the contract is rescissible as between Pabalan and Villa Rey Transit, it cannot now be canceled as to the petitioner because it had no participation therein.

Legally speaking, except only for the circumstance that Villarama and Villa Rey Transit have not appealed to this Court, the rescission could not have been valid even as to them under the Civil Code. The Court of Appeals erred in holding that the contract of sale was subject to rescission on the ground of non-compliance with one of its conditions, presumably the payment of the purchase price, under Article 1191 of the said Code. That ground was merely assumed and not established. In fact, it did not exist at the time of the filing of the complaint.

Under the provisions of the deed, the purchase price of P100,000.00 was to be paid in annual installments of P10,000.00, beginning 1972, except that there was to be an advance payment of P40,000.00 covering the installments for 1972 until 1975. It is not denied by Pabalan that she received this advance payment. Payment in installments of the balance of P100,000.00 would thus begin only in 1976. Hence, when Pabalan filed her complaint for rescission in 1974, the contract could not yet be faulted for non-performance by the vendee of its obligation to pay the balance of the purchase price.

It follows that if the contract was not rescissible as to the other defendants (who are nevertheless bound by the decision of the respondent court), much less would it be rescissible as to the petitioner, which was not even a party to that contract.

We nevertheless must examine Filoil's defense of an innocent purchaser for value, as the private respondent contends that it was privy to the plans of Villarama and Villa Rey Transit and so equally liable with them to her in damages.

It is noted that at the time the contract of sale between Pabalan and Villa Rey was concluded on December 22, 1971, the subject property was under lease to and occupied by Filoil. Filoil had earlier recognized that the owner of the land was Pabalan, who had been its lessor since 1960. However, when that same land (which it continued to occupy by virtue of the lease) was later mortgaged to it, the registered owner thereof had been changed and now appeared to be Villarama, who had TCT No. 94229 to prove it. Filoil seems to have accepted this change without question.

It is curious that despite this important development which directly affected its lease, Filoil appears to have done

nothing at all to verify it. Filoil could have at least checked with Pabalan about the matter if only because of their existing contract of lease. It is also strange that Villarama's deed of mortgage over the property was executed, as if by pre-arrangement with Filoil, on the very day he obtained the transfer certificate in his own name. The decision to extend the not inconsiderable loan of P350,000.00 to Villarama seems to have been readily made by Filoil, on the spur of the moment as it were.

Somehow Filoil's claim that it was ignorant of Villarama's acts vis-a-vis Pabalan does not ring true. We are not convinced when it insists it had a right to rely alone on the assurances of the mortgagor and its own examination of the transfer certificate of title that the subject land was unencumbered save for the lease in its favor. The doctrine it invokes,[19] while normally acceptable, is not exactly applicable in this case. We feel that more vigilance was required of Filoil under the circumstances. As a business corporation with its own legal staff, and in view of its direct involvement as the actual occupant and lessee of the disputed land, it was bound to inquire more closely into the antecedents of its transfer to Villarama. Filoil had the legal staff to do this but it did not see fit to probe further. This omission might fuel the suspicion that Filoil already knew about Villarama's plans and was in effect going along with him as its new landlord and prospective borrower.

Given this situation, the Court hesitates to fully accept Filoil's wounded claim of innocence. At the same time, however, we are also not certain it was deliberately involved in the scheme of the other defendants to take advantage of the private respondent. In fine, while we are not prepared to acknowledge its claimed naivete, neither are we disposed, in fairness, to denounce its alleged malice.

But one thing is certain in this maze of surmises and suspicions. We find that the petitioner, if not knowingly involved in the scheme to deceive Pabalan, was at least negligent in not closely examining the facts before accepting the land as security for the loan to Villa Rey Transit. Filoil must bear the consequences of its own omission. But more than this, it must also share the blame for the injury suffered by the private respondent, who now finds herself with neither the disputed property nor the balance of the purchase price. Whether or not it acted in good faith, Filoil must also be held liable to Pabalan, albeit not in equal degree with Villarama and Villa Rey Transit, for its part in her deception.

On page 33 of its brief,[20] the petitioner makes the following statement:

"Be this as it may, the circumstance that the lawyers of Filoil could have discovered that the sale is on installment basis, would, given the most favorable implication in favor of the vendor, at most render Filoil liable for the unpaid balance of the purchase price in the amount of P100,000.00."

Considering the antecedents of this case as above discussed, the Court will accept this expressed willingness of Filoil to make amends, to the extent indicated and offered. Accordingly, we hereby order the petitioner to pay the private respondent, in atonement for its part in the impairment of her interests, the balance of the purchase price in the sum of P100,000.00 plus interest. Its payment was not decreed by the Court of Appeals because it had rescinded the contract instead; hence, it is not recoverable from Villarama and Villa Rey Transit under the challenged decision. As it does not appear in the record that this amount has been received by Pabalan from them, it is only fair that Filoil pay her this balance now, subject to its right to demand reimbursement from Villarama and Villa Rey Transit in a separate appropriate action. What is important is that, in justice to the private respondent, she should not be left holding the bag, so to speak, and without recourse to collect this amount.

Filoil's obligation includes the payment of interest at 6% per annum beginning 1976 and until the balance of P100,000.00 is fully settled, to be compounded yearly, on the annual installments of P10,000.00 stipulated in the contract of sale. As of December 31, 1988, the total amount due to Pabalan from Filoil on the balance plus interest is P166,404.63.

For the reasons already given, Filoil is absolved from all other liabilities under the challenged decision. The award of moral and exemplary damages and attorney's fees shall be enforceable only on the other defendants pursuant to the said decision. TCT No. 94229 is declared valid as to Filoil. The deed of mortgage and the auction sale of the disputed land in its favor are also recognized as lawful and entitle Filoil now, in view of the lapse of the redemption period, to register the property in its name.

Corporations and businessmen should exercise more fairness in dealing with ordinary persons, especially if they do not have the assistance and advice of counsel. Such persons are not likely to read the fine print in a contract or to understand the instruments they are signing unless they are properly informed of the implications of their unsuspecting and heedless acts. This is not to say that such instruments are per se invalid without such explanation. What it simply means is that in proper cases, like the one at bar, contracts should be read in the light of the layman's understanding of their esoteric legal language, that they may not ensnare him, because of his trusting lack of caution, in their intricate stipulations.

WHEREFORE, the challenged decision is modified as applied to the petitioner in the sense that:

- (1) TCT No. 94229, the deed of mortgage and the foreclosure sale in its favor over the subject land are declared valid.
- (2) The petitioner shall pay the private respondent the sum of P166,404.63, representing the balance of the purchase price and 6% interest thereon as of December 31, 1988, plus 6% interest from that date until full payment is made.
- (3) The award against it of moral and exemplary damages and the attorney's fees is disallowed.

This decision is immediately executory.

SO ORDERED.

Narvasa, (Chairman), Gancayco, Griño-Aquino, and Medialdea, JJ., concur.

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- [1] Exhibit 1, list of exhibits for defendant Filoil.
 - [2] TSN, June 16, 1977, p. 28.
 - [3] Exhibit 2, list of exhibits for defendant Filoil.
 - [4] Exhibit 3, list of exhibits for defendant Filoil.
 - [5] Annex D, Record on Appeal.
 - [6] Annex D-1, Record on Appeal.
 - [7] Exhibit 5, list of exhibits for defendant Filoil.
 - [8] Annex A, Original Records, p. 7.
 - [9] Ibid., pp. 9-13.
 - [10] Annex 2, Original Records, pp. 17-21.
 - [11] Annex D, Original Records, pp. 26-32.
 - [12] Presided by Judge Narciso A. Aquino.

[13] Ibid., pp. 124-125.

[14] Annex FF, Original Records, p. 126; Annex 32, Original Records.

[15] Penned by Jurado, J., Sison, Veloso and Bidin, JJ., concurring.

[*] Rollo, pp. 147-149.

[16] TSN, June 16, 1977, p. 28.

[17] Ibid., p. 26.

[18] Id., p. 32.

[19] Petitioner's Brief, pp. 31-32; Rollo, pp. 168-169.

[20] Rollo, p. 170.

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