

IRENE P. RELUCIO, PETITIONER, VS. ZEIDA B. BRILLANTE--GARFIN AND COURT OF APPEALS, RESPONDENTS.

G.R. No. 76518. July 13, 1990

Ponente: FELICIANO, J.

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FELICIANO, J.:

On 22 October 1979, private respondent Zeida B. Brillante-Garfin filed a complaint in the lower court for specific performance with damages against petitioner Irene P. Relucio, to compel the latter to: (a) execute, in compliance with the Contract to Buy and Sell in question, a final deed of sale in favor of the former over two (2) residential subdivision lots in the Mariano Village Subdivision, Naga City; and (b) construct paved roads on the northern and southern sides of the lots, as well as "necessary facilities, improvements, infrastructures and other forms of development of the subdivision area." Private respondent alleged that the lots, which have a total contract price of P10,800.00, have already been paid for, as she had already paid P200.00 as down payment, and had subsequently completed payment of 128 equal monthly installments of P89.45 each amounting to P11,450.00; that as the law allows the charging of interest only as monetary interest or as compensatory interest, none of which have obtained in her case, as she had never incurred in delay in the payment of installments due, the stipulated interest of six percent (6%) per annum on the outstanding balance is null and void; and that the amount of P650.00 representing overpayment be returned to her.

Petitioner resisted the complaint, maintaining that private respondent, contrary to the latter's allegations, is obliged to pay interest on the installment payments of the unpaid outstanding balance even if paid on their "due dates" per schedule of payments; that private respondent had actually been in arrears in the amount of P4,269.40, representing such interest as of June 1979, which therefore entitled petitioner to cancel the contract in question. Petitioner then prayed for judicial affirmance of her Notarial Notice of Cancellation over the said contract in question.

The lower court ordered petitioner:

- "1. To execute a deed of absolute sale of the two lots described in the complaint in favor of the plaintiff to enable the latter to secure the corresponding certificate of title in her name within thirty (30) days from the finality of this Decision;
2. To construct or cause the construction of roads on the Northern and Southern sides of the said two lots in accordance with the contract, if any, and in conformity with the City of Naga planning ordinance relative to this case;
3. The return to the plaintiff the excess payment of P650.00, plus 6% interest per annum from the date of the filing of the complaint; and

To pay to the plaintiff attorney's fees in the sum of P1,000.00 and the costs of suit."^[1]

The Court of Appeals affirmed in A.C.-G.R. CV No. 03184 by a Decision^[2] dated 17 July 1986.

Petitioner now comes to this Court, arguing that she has the right to rescind the contract for private respondent's continued refusal to pay the monthly installments on the contract price.

Two issues are presented for resolution in this petition: (1) whether or not private respondent has fully paid the stipulated price in the contract so as to be entitled lawfully to demand the execution of a deed of absolute sale in her favor. This issue in turn will depend on the question of whether or not petitioner may validly charge interest on installment payments, notwithstanding that private respondent had been prompt in her monthly payments; and (2) whether or not petitioner's notice of cancellation was valid and effective.

Examination of the record shows that the questioned Contract to Buy and Sell the subdivision lots provided for payment by private respondent of the sum of P200.00 as downpayment, and that "the balance [of P10,600.00] shall be paid in 180 monthly installments at P89.45 per month, including interest rate at six percent (6%) per annum, until the purchase price is fully paid." [3] This stipulation clearly specified that an interest charge of six percent (6%) per annum was included in the monthly installment price: private respondent could not have helped noticing that P89.45 multiplied by 180 monthly installments equals P16,101.00, and not P10,600.00. The contract price of P10,800.00 may thus be seen to be the cash price of the subdivision lots, that is, the amount payable if the price of the lots were to be paid in cash and in full at the execution of the contract; it is not the amount that the vendor will have received in the aggregate after fifteen (15) years if the vendee shall have religiously paid the monthly installments. The installment price, upon the other hand, of the subdivision lots -- the sum total of the monthly installments (i.e., P16,101.00) -- typically, as in the instant case, has an interest component which compensates the vendor for waiting fifteen (15) years before receiving the total principal amount of P10,600.00. Economically or financially, P10,600.00 delivered in full today is simply worth much more than a long series of small payments totalling, after fifteen (15) years, P10,600.00. For the vendor, upon receiving the full cash price, could have deposited that amount in a bank, for instance, and earned interest income which at six percent (6%) per year and for fifteen (15) years, would precisely total P5,501.00 (the difference between the installment price of P16,101.00 -- and the cash price of P10,600.00--). To suppose, as private respondent argues, that mere prompt payment of the monthly installments as they fell due would obviate application of the interest charge of six percent (6%) per annum, is to ignore that simple economic fact. That economic fact is, of course, recognized by law, which authorizes the payment of interest when contractually stipulated for by the parties [4] or when implied in recognized commercial custom or usage.

Vendor and vendee are legally free to stipulate for the payment of either the cash price of a subdivision lot or its installment price. Should the vendee opt to purchase a subdivision lot via the installment payment system, he is in effect paying interest on the cash price, whether the fact and rate of such interest payment is disclosed in the contract or not. The contract for the purchase and sale of a piece of land on the installment payment system in the case at bar is not only quite lawful; it also reflects a very wide spread usage or custom in our present day commercial life.

Applying the foregoing analysis to the case at bar: when private respondent started paying monthly installments in September 1968, the initial P89.45 was apportioned between the principal and the interest, with P53.00 [5] being allocated to service the interest charge and P36.45 [6] being credited to the principal. During the succeeding monthly payments, however, as the outstanding balance on the principal gradually declined, the interest component (in absolute terms) correspondingly fell while the component credited to the principal increased proportionately, thus amortizing the balance of the principal purchase price as that balance gradually declined. [7] This explains petitioner's theory of declining balance, which unfortunately was not appreciated by both the trial and appellate courts.

Despite private respondent's failure to fully pay the stipulated price of the two lots in question, petitioner,

however, could not validly rescind the contract not being lawfully entitled to do so. Petitioner failed to rebut private respondents' allegations that the former had failed to introduce required improvements in the subdivision; the former's bare allegation that the improvements have already been donated to the city government was not accepted by the trial court. Section 23 of Presidential Decree No. 957, otherwise known as The Subdivision and Condominium Buyers' Protective Decree, provides:

“Section 23. Non-forfeiture of Payments. -- No installment payment made by the buyer in a subdivision or condominium project for the lot or unit he contracted to buy shall be forfeited in favor of the owner or developer when the buyer, after due notice to the owner or developer desists from further payment due to the failure of the owner or developer to develop the subdivision or condominium project according to the approved plans and within the time limit for complying with the same. Such buyer may, at his option, be reimbursed the total amount paid...” (Underscoring supplied)

In this respect, the trial court was correct in holding that petitioner could not rescind the contract. As the law vests upon the buyer the option to demand reimbursement of the total amount paid, or to wait for further development of the subdivision, private respondent who opted for the latter alternative by waiting for the proper development of the site, may not be ousted from the subdivision.[8]

ACCORDINGLY, the Court Resolved to GRANT the Petition due course and to SET ASIDE and NULLIFY the Decision of the Court of Appeals. In lieu thereof, a new Decision is hereby RENDERED requiring --

1. the petitioner to complete the necessary improvements and developments in the subdivision area in accordance with the approved subdivision plans and applicable provisions of P.D. No. 957 as well as applicable implementing administrative regulations and City of Naga zoning ordinances, if any;
2. private respondent immediately to resume paying installment payments under her Contract to Buy and Sell with petitioner, subject to her right to proceed against petitioner should petitioner fail again to comply with her obligations under P.D. No. 957; and
3. petitioner to execute the Deed of Absolute Sale when private respondent shall have fully paid the purchase price in accordance with the mentioned Contract to Buy and Sell.

No pronouncement as to costs.

SO ORDERED.

Fernan, C.J., (Chairman), Gutierrez, Jr., and Cortes, JJ., concur.

Bidin, J., No part. I participated in the appealed decision.

[1] Rollo, pp. 26-27.

[2] Ponente, Sison, PV, J.

[3] Rollo, p. 24.

[4] Article 1956 of the Civil Code authorizes payment of interest in a contract of loan when expressly stipulated in writing. In the case at bar, the financial situation is no different from that obtaining had private respondent buyer borrowed P10,600.00 from a bank, and used that amount to pay the cash price of the two (2) lots to petitioner, and repaying the loan from the bank by installments over fifteen (15) years with six percent (6%) interest per annum. Petitioner vendor has in effect herself financed the purchase of the two (2) lots on the installment plan.

[5] $P10,600.00 \times 0.06 \times 1/12 = P53.00$.

$$[6] \text{ P89.45} - \text{P53.00} = \text{P36.45}.$$

[7] In partial illustration:

Month

Outstanding

Balance

Installment

Payment

Amount

Credited

to Interest

Amount

Credited to

Outstanding Bal.

1968

Sept.

P10,600.00

P89.45

P53.00

P36.45

Oct.

10,563.55

89.45

52.82

36.63

Nov.

10,526.92

89.45

52.63

36.82

Dec.

10,490.10

89.45

52.45

37.00

1969

Jan.

10,453.10

89.45

52.26

37.19

Feb.

10,415.91

89.45

52.08

37.37

Mar.

10,378.54

89.45

51.89

37.56

Apr.

10,340.98

89.45

51.70

37.75

x x x

x x x

x x x

1983

Jan.

699.74

89.45

3.50

85.95

Feb.

613.79

89.45

3.07

86.38

Mar.

527.41

89.45

2.64

86.81

Apr.

440.60

89.45

2.21

87.24

May

353.36

89.45

1.77

87.68

June

265.68

89.45

1.38

88.12

July

177.56

89.45

0.89

88.56

Aug.

89.00

89.45

0.45

89.00

Sept.

- 0 -

(payment completed upon 180th monthly installment in August 1983)

[8] Antipolo Realty Corporation v. National Housing Authority, 153 SCRA 399 (1987).

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