

THIRD DIVISION

[G.R. No. 202820, January 13, 2021]

HOME GUARANTY CORPORATION, PETITIONER, VS. ELVIRA S. MANLAPAZ, RESPONDENT.*

D E C I S I O N

HERNANDO, J.:

This Petition for *Certiorari*^[1] assails the April 20, 2012 Decision^[2] and June 14, 2012 Resolution^[3] of the Court of Appeals (CA) in CA-GR. SP No. 112466 which set aside the June 26, 2009 Decision^[4] and January 5, 2010 Resolution^[5] of the Office of the President (OP) holding that petitioner Home Guaranty Corporation (HGC) is under no obligation to release the title to the disputed property to respondent Elvira S. Manlapaz (Manlapaz).

The Facts:

On September 20, 1995, Vive Eagle Land, Inc. (VELI), Planters Development Bank (Bank), and petitioner HGC entered into the VELI Asset Pool Formation and Trust Agreement^[6] (Asset Pool) for the development of the lots in Eagle Crest Village (Village) in Baguio City which included the property in dispute, a parcel of land with an area of 166 square meters located at Lot 2, Block 5, Phase III of the Village.^[7]

Housing and Development Participation Certificates backed up VELI's properties and were floated and sold to investors. HGC extended a P130 Million guaranty^[8] on the Participation Certificates in the event the Asset Pool fails to service the interest due to the investors or to redeem the said Certificates upon maturity. Meanwhile, the Bank acted as trustee and held the titles to the lots covered by the Asset Pool.^[9]

Due to the delay in the project's development, the Asset Pool was declared in default. Consequently, the investors, through the Bank, called on HGC's guaranty. On August 19, 1998, after HGC's payment of the guaranty call in the amount of P135,691,506.85, the Bank assigned and transferred the possession and ownership of the assets of the Asset Pool to HGC through a Deed of Assignment and Conveyance.^[10] Notably, this included the contested land.^[11]

Prior thereto, or on January 8, 1998, VELI entered into a Contract to Sell^[12] with First La Paloma Properties, Inc. (FLPPI) involving the bulk of the properties in the Village which included the property in question. On June 22, 1998, FLPPI, through its President, Marcelino Yumol (Yumol), entered into a Contract to Sell^[13] with respondent Manlapaz over the disputed property for P913,000.00.^[14]

Given that a substantial part of the properties which were assigned to HGC was apparently sold by VELI to FLPPI,^[15] on October 8, 1998, VELI, FLPPI and HGC

entered into a Memorandum of Agreement^[16] (superseding the Contract to Sell dated January 8, 1998 and other agreements between FLPPPI and VELI) in which FLPPPI assumed to pay HGC the value of the properties in the total amount of P153,029,200.00. Accordingly, HGC and FLPPPI executed a Contract to Sell^[17] dated October 15, 1998 over the real properties.^[18] When FLPPPI failed to pay, HGC informed FLPPPI on November 15, 2000 in a letter^[19] addressed to Yumol that it is invoking its right to cancel their contract.^[20]

Meanwhile, after failing to secure the title to the disputed land, Manlapaz filed a Complaint^[21] for delivery of title with prayer for damages with the Legal Services Group (LSG) of the Housing and Land Use Regulatory Board (HLURB). Manlapaz claimed that despite full payment and demands for delivery, FLPPPI failed to execute the final deed of sale and to deliver the title of the lot in her favor. She alleged that she was deprived of her title and ownership to the contested property and prayed for the award of moral and exemplary damages as well as attorney's fees.^[22]

The Bank contended that Manlapaz has no cause of action against it and that it was not privy to her contract with FLPPPI. The property in question, along with the properties of the Asset Pool, had already been the subject of the Deed of Assignment and Conveyance between the Bank and HGC.^[23]

Similarly, HGC averred that Manlapaz has no cause of action against it because it is also an unpaid seller based on the Contract to Sell it entered into with FLPPPI. HGC argued that it was not privy to the Contract to Sell dated June 22, 1998 which Manlapaz executed with FLPPPI and that the said contract violated its (HGC's) Contract to Sell dated October 15, 1998 with FLPPPI which prohibited the disposition of the properties without full payment and the written consent of HGC.

HGC argued that it cancelled the Contract to Sell with FLPPPI due to the latter's breach thereof.^[24] By way of cross-claim, HGC asserted that in the event that it would be required to pay Manlapaz's claim or to deliver the title, FLPPPI should reimburse it for the awarded amounts and the value required to cover the issuance of title.^[25]

In the same way, VELI asserted that Manlapaz has no cause of action against it since it was not privy to the Contract to Sell between Manlapaz and FLPPPI, and that pursuant to the October 8, 1998 Memorandum of Agreement, VELI is no longer involved in any subsequent transactions involving the lots, which included TCT No. T-64208 or the lot in question.^[26]

Ruling of the Legal Services Group - Housing and Land Use Regulatory Board:

In a Decision^[27] dated July 26, 2004, the LSG-HLURB held that as the subdivision owner or developer, FLPPPI has the obligation to deliver the title to Manlapaz upon full payment pursuant to Section 25 of Presidential Decree (PD) No. 957.^[28]

Insofar as the Bank is concerned, the LSG-HLURB noted that pursuant to the Deed of Assignment and Conveyance dated August 19, 1998, it already transferred the possession and ownership of the properties of the Asset Pool, including the lot

claimed by Manlapaz, to HGC. The trusteeship agreement had been terminated and possession of the Transfer Certificate of Title (TCT) for the contested lot was transferred to HGC. Thus, Manlapaz has no cause of action against the Bank.^[29]

Likewise, Manlapaz has no cause of action against VELI as the latter was not privy to the contract between Manlapaz and FLPPi. Before the execution of said contract, VELI had already finalized the Contract to Sell with FLPPi. After Manlapaz transacted with FLPPi through a Contract to Sell, VELI, HGC and FLPPi then entered into a Memorandum of Agreement which caused the execution of another Contract to Sell between FLPPi and HGC involving the same properties.^[30]

However, the LSG-HLURB found that Manlapaz has a cause of action against HGC. When HGC entered into a Memorandum of Agreement with FLPPi and VELI, and the Contract to Sell with FLPPi, HGC became aware of the Contract to Sell between VELI and FLPPi.

Thus, HGC's claim that the Contract to Sell between Manlapaz and FLPPi violated the Contract to Sell between HGC and FLPPi has no merit since the contract between Manlapaz and FLPPi was executed before the contract between HGC and FLPPi. The HLURB held that the intention of PD No. 957 is to protect innocent lot buyers from scheming subdivision developers. Ergo, HGC is liable to execute the deed of sale and to deliver the title to Manlapaz.^[31]

The dispositive portion of the LSG-HLURB's Decision states:

WHEREFORE, judgment is rendered as follows:

1. Dismissing the complaint against PDB and VELI for lack of cause of action;
2. Ordering HGC to execute the Deed of Absolute Sale over Lot 2 Block 5, Phase III of Eagle Crest Villa, Bagnio City, in favor of the complainant and deliver the transfer certificate of title thereof to the latter free from liens and encumbrances.

IT IS SO ORDERED.^[32]

Aggrieved, HGC filed a Petition for Review^[33] before the Board of Commissioners (BOC) of the HLURB.

Ruling of the Board of Commissioners of the Housing and Land Use Regulatory Board:

In a Decision^[34] dated October 5, 2005, the BOC-HLURB dismissed the complaint filed by Manlapaz. It ruled that "[u]nder the contract to sell executed between HGC and FLPPi, the latter was not authorized to sell the properties covered thereby without the purchase price first being fully paid to the HGC. Thus, HGC is not under any obligation to honor the contract between FLPPi and [Manlapaz]. Under the circumstances, only FLPPi is liable to the [Manlapaz]."^[35] It ordered FLPPi to refund the purchase price paid by Manlapaz with interest. The dispositive portion of the BOC-HLURB's Decision reads:

Wherefore, the petition for review is granted. The decision of the Office below is set aside and a new decision is rendered dismissing the complaint against HGC. Respondent FLPPPI is directed to refund the amounts complainant [Manlapaz] paid plus legal interest per annum from the time of the filing of this complaint. Respondent FLPPPI is further directed to pay the amount of P50,000.00 as moral damages, and P50,000.00 as exemplary damages and P50,000.00 as attorney's fees.

So ordered.^[36]

Manlapaz filed a Motion for Reconsideration,^[37] arguing that the alleged violation by FLPPPI of its contract with HGC cannot be a valid ground to deprive her of her rights over the contested property. However, the BOC-HLURB denied her motion in a Resolution^[38] dated October 18, 2007.

Manlapaz then filed a Notice of Appeal^[39] with the Office of the President (OP).

Ruling of the Office of the President:

In a Decision^[40] dated June 26, 2009, the OP affirmed *in toto* the October 5, 2005 Decision of the BOC-HLURB.^[41] It found that there were two contracts to sell involved in the case: the first contract dated June 22, 1998 between FLPPPI and Manlapaz and the second contract dated October 15, 1998 between FLPPPI and HGC, pursuant to the Memorandum of Agreement dated October 8, 1998 entered into among FLPPPI, VELI and HGC. HGC cancelled the second contract because FLPPPI failed to pay the purchase price to HGC.^[42] The OP held that FLPPPI's right as a would-be seller was to be derived from the second contract with HGC. However, because of FLPPPI's failure to pay the purchase price, HGC cancelled the second contract. As a consequence, FLPPPI's authority to sell was likewise cancelled, including its sale to Manlapaz.^[43]

The OP noted that HGC was not privy to the contracts which FLPPPI executed with both VELI (on January 8, 1998) and Manlapaz (on June 22, 1998) since HGC became the assignee and transferee of the properties only after the execution of the Deed of Assignment and Conveyance on August 19, 1998. It explained that "[a]ny prior or subsequent transactions between VELI, FLPPPI and the latter's buyers cannot bind HGC, as owner, without its acquiescence, knowledge or consent to the transaction."^[44]

Also, the OP ruled that there was no express or implied ratification of the first contract by FLPPPI and Manlapaz in the second contract by FLPPPI and HGC, as the purpose of the Memorandum of Agreement which HGC executed with FLPPPI and VELI on October 8, 1998 was for the protection of HGC's rights over the properties and to establish its rightful claim thereto. The execution of the second contract pursuant to the Memorandum of Agreement was to carry the obligation of FLPPPI as buyer and to comply with the provisions of the said contract. Pursuant to the second contract, HGC is empowered to retain in its possession all certificates of title, including the one being claimed by Manlapaz, only to be released after FLPPPI's payment and compliance with the provisions of the second contract.^[45]

The OP explained that in a contract to sell, ownership is retained by the seller whether or not there is delivery, as ownership only passes to the buyer upon full

payment of the purchase price.^[46] Since the second contract between HGC and FLPPPI was cancelled, HGC retained ownership over the subject properties and FLPPPI had no right to sell the same. Additionally, all previous sales or transfers by FLPPPI to its buyers cannot be given effect since it had no authority from the rightful owner to do so.^[47]

It declared that "[c]onsidering that no payment was made by FLPPPI to HGC for TCT No. 64208, and considering the cancellation of the contract to sell between FLPPPI and HGC, the latter has no legal obligation to release the title to the former or to any of its assigns or successors. Hence, there is no legal basis to order [HGC] to deliver the TCT covering the subject property or to execute the Deed of Sale in favor of [Manlapaz]. As correctly held by the HLURB-BOC, HGC is not under any obligation to honor the contract between FLPPPI and [Manlapaz], since under the circumstances, only FLPPPI is liable to her."^[48]

Manlapaz asked for reconsideration^[49] which the OP denied in a Resolution^[50] dated January 5, 2010.

Undeterred, Manlapaz appealed^[51] to the CA via Rule 43 of the Rules of Court.

Ruling of the Court of Appeals:

The CA, in its assailed April 20, 2012 Decision granting Manlapaz's appeal,^[52] held that PD No. 957 aims to protect innocent lot buyers from fraudulent transactions.^[53] It extensively explained that:

There is no denying that [HGC] is a party to the VELI Asset Pool Formation and Trust Agreement dated September 20, 1995 and Contract of Guaranty of the same date, that [VELI] was authorized to sell the parcels of land in Eagle Crest, and that on January 8, 1998, [VELI] contracted to sell the parcels of land in Eagle Crest (including the subject property) to [FLPPPI]. Moreover, in the [M]emorandum of [A]greement dated October 15, 1998 entered into by [HGC, VELI and FLPPPI], the existence of the January 8, 1998 [C]ontract to [S]ell between [VELI and FLPPPI] was recognized.

It cannot be said that the [C]ontract to [S]ell entered into between [FLPPPI] and [Manlapaz] on June 22, 1998 over the subject property contravened the aforementioned [M]emorandum of [A]greement entered into by [HGC, VELI and FLPPPI] on October 15, 1998, for the simple reason that the [M]emorandum of [A]greement was not yet then in existence when said [C]ontract to [S]ell was executed. Apart from this and more importantly, [Manlapaz] is an innocent purchaser for value and not a party to the [M]emorandum of [A]greement or any other agreement or transaction entered into by [HGC, VELI and FLPPPI] among themselves. Moreover, the [C]ontract to [S]ell between [FLPPPI and Manlapaz] was made on June 22, 1998, before the Asset Pool was declared in default and before a Deed of Assignment and Conveyance was executed in favor of [HGC] on August 19, 1998. [Manlapaz], who had fully paid the purchase price of the property, should not be made to suffer the consequences of the default of the Asset Pool, including the