

## THIRD DIVISION

[ G.R. No. 195072, August 01, 2016 ]

**BONIFACIO DANAN, PETITIONER, VS. SPOUSES GREGORIO SERRANO AND ADELAIDA REYES, RESPONDENTS.**

### DECISION

**PERALTA, J.:**

Before the Court is a petition for review on *certiorari* under Rule 45 of the Rules of Court seeking to reverse and set aside the Decision<sup>[1]</sup> dated May 18, 2010 and Resolution<sup>[2]</sup> dated January 7, 2011 of the Court of Appeals (CA) in CA-G.R. CV No. 80277, which reversed and set aside the Decision<sup>[3]</sup> dated July 22, 2003 of the Regional Trial Court (RTC), Branch 50, Guagua, Pampanga.

The factual antecedents are as follows.

Respondents spouses Gregorio Serrano and Adelaida Reyes (*Spouses Serrano*) are the registered owners of a parcel of land consisting of a total area of 23,981 square meters, situated in Sta. Cruz, Lubao, Pampanga, and covered by Original Certificate of Title (OCT) No. 6947.<sup>[4]</sup> Sometime in the years 1940 and 1950, when the property was still co-owned by respondent Gregorio and his siblings, Gregorio's sisters, Marciana and Felicidad, gave petitioner Bonifacio Danan and a certain Artemio Vitug permission to possess 400 square meters each of the total estate and to build their homes thereon in exchange for one cavan of palay every year.<sup>[5]</sup> Thereafter, in separate documents denominated as "Agreement in Receipt Form"<sup>[6]</sup> dated June 27, 1976, Gregorio sold to Bonifacio and Artemio their respective 400-square-meter portions of the property. Except for the names of the vendee, both documents uniformly provide as follows:

RECEIVED the amount of Two Thousand (P2,000.00) Pesos, Philippine Currency, as partial payment of the lot I am selling to x x x of Sta. Cruz, Lubao, Pampanga, specifically the portion where his house is presently built, consisting of FOUR HUNDRED (400) SQUARE METERS, situated at Mansanitas, Sta. Cruz, Lubao, Pampanga, declared under Tax Declaration No. 6185 in the Office of the Provincial Assessor, San Fernando, Pampanga. The full consideration of this contract is P6,000.00, subject to the following conditions:

1. The amount of P2,000.00 should be paid by x x x to the undersigned vendor upon the signing of this contract.
2. The amount of P2,000.00 should be paid to the vendor at his residence at Sta. Cruz, Lubao, Pampanga, on or before June 30, 1977.

3. The last instalment of P2,000.00 should be paid to the vendor at his abovementioned residence on or before June 30, 1978.

4. That on July 2, 1976, Mr. Gregorio Serrano, the herein vendor will execute a document (Deed of Conditional Sale) incorporating the herein stipulations.

It is further agreed that in June 1978, upon the completion of the full payment of the agreed price, the herein vendor will deliver to the vendee a title corresponding to the lot or portion sold.

It is further agreed that any violation of the stipulations herein stated will entitle the innocent or aggrieved party a right to ask for damages.<sup>[7]</sup>

While Bonifacio and Artemio paid the P2,000.00 upon the signing of the Agreement, they were both unable to pay the balance of the purchase price when they fell due on June 30, 1977 and June 30, 1978. Nevertheless, they remained in possession of their respective lots.<sup>[8]</sup>

In a Complaint<sup>[9]</sup> dated September 10, 1998, the Spouses Serrano, through their son and attorney-in-fact, Arnel Francisco Serrano, instituted ejectment proceedings against Bonifacio and Artemio, alleging: (1) that they are the owners of the subject properties; (2) that Bonifacio and Artemio were merely caretakers thereof; and (3) that demand was made for the latter to vacate, but to no avail. Thus, they prayed that Bonifacio and Artemio be ordered to vacate the premises and to pay monthly rentals and attorney's fees. The complaint, however, was dismissed on the ground of lack of jurisdiction by the Municipal Trial Court (MTC) of Lubao, Pampanga, in its Decision<sup>[10]</sup> dated February 26, 1999.

Meanwhile, in a Complaint<sup>[11]</sup> for specific performance dated November 3, 1998, Bonifacio and Artemio alleged that they purchased their respective portions of land via the Agreement in Receipt Form<sup>[12]</sup> dated June 27, 1976 and since then, stopped paying the yearly rental of one cavan of *palay*.<sup>[13]</sup> While they admitted to their failure to pay the remaining balance of the purchase price in the amount of P4,000.00, they claimed that such was due to the continuous absence of the Spouses Serrano. Despite their ability and willingness to pay the aforesaid amount, however, Bonifacio and Artemio were shocked to have found that as early as September 1994, the Spouses Serrano had already obtained the title over the subject properties in their names. According to Bonifacio and Artemio, Gregorio intentionally deceived them into signing the documents in May 1992 purportedly intended to facilitate the processing and issuance of their titles over their respective portions of land but which turned out to be a declaration that they were merely caretakers of the same.<sup>[14]</sup> Said documents were eventually used for the ejectment case against them. Thus, Bonifacio and Artemio prayed that judgment be rendered ordering the Spouses Serrano to sign, execute, and deliver the proper deed of sale, together with the corresponding titles over the portions of land in their favor, declaring the documents in May 1992 as null and void, and awarding moral damages, exemplary damages, attorney's fees and litigation expenses.<sup>[15]</sup>

In their Answer,<sup>[16]</sup> respondents spouses asserted that they are the owners of the subject properties; that the possession thereof by Bonifacio and Artemio are merely by tolerance; and, that the Agreements in Receipt Form dated June 27, 1976 are mere contracts to sell, of which failure by the vendees to fully pay the price agreed thereon prevents the transfer of ownership from the vendor to the vendees.<sup>[17]</sup> As special and administrative defenses, the Spouses Serrano raised prescription, alleging that any right of action, if any, arising from the agreements dated June 27, 1976, had long prescribed when the complaint was filed in 1998. The Spouses Serrano likewise raised the defense of laches on the part of Bonifacio and Artemio for their neglect to assert their right for an unreasonable and unexplained length of time.<sup>[18]</sup> As their counterclaim, moreover, the Spouses Serrano claimed to be entitled to the payment of monthly rentals in the amount of P3,000.00, moral damages, exemplary damages, and attorney's fees.<sup>[19]</sup>

In its Decision dated July 22, 2003, the RTC granted the Complaint of Bonifacio and Artemio and ordered the Spouses Serrano to execute and sign the proper Deed of Sale, deliver the corresponding titles after receiving the P4,000.00 balance, and pay consequent moral and exemplary damages and attorney's fees.<sup>[20]</sup> According to the trial court, the acceptance of a down payment means that the contract is no longer executory but partly executed, removing the same from the coverage of the Statute of Frauds. Thus, Bonifacio and Artemio should be allowed to file an action for specific performance of their partially executed contract with the Spouses Serrano. Moreover, the RTC found that the spouses took advantage of the low educational background of Bonifacio and Artemio, and persuaded them into believing that the May 1992 documents were intended to facilitate the issuance of their titles over their respective portions of land but were actually the very documents that were used as the basis for the filing of the ejectment suit against them.<sup>[21]</sup> As to the non-payment of the P4,000.00 balance, the trial court sustained the reasoning of Bonifacio and Artemio that despite the fact that they were more than willing to pay the same, they were sufficiently prevented from doing so because of the continued absence of the Spouses Serrano, who were busy trying to gain their US citizenship abroad.<sup>[22]</sup>

In its Decision dated May 18, 2010, however, the CA reversed and set aside the RTC Decision finding that the trial court seemed to have failed to properly determine the true nature of the agreement between the parties for being primarily impelled by supposed impulses of equity, stressing that Bonifacio and Artemio were allegedly unschooled and easily induced by the wealthy spouses.<sup>[23]</sup> It ruled that while equity might tilt on the side of one party, the same cannot be enforced so as to overrule a positive provision of law in favor of the other. According to the appellate court, the provisions of the "Agreement in Receipt Form" clearly show that the parties agreed on a conditional sale and not an absolute sale as Bonifacio and Artemio would like to believe. This is because by the express terms of the agreement, the title was reserved and remained with the Spouses Serrano, to be transferred only when Bonifacio and Artemio paid the last installment of the purchase price in June 1978. If it were indeed an absolute sale, Bonifacio and Artemio would not have prayed in their complaint that a proper deed of sale, together with the corresponding title over the subject properties, be signed, executed and delivered. Indeed, compliance with the stipulated payments was a suspensive condition and the failure by Bonifacio and Artemio thereof prevented the obligation of the Spouses Serrano to convey the title

from acquiring binding force. Thus, the parties now stand as if the conditional obligation never existed.<sup>[24]</sup>

Moreover, contrary to the findings of the trial court, the appellate court did not find any merit in the reasoning of Bonifacio and Artemio that despite the fact that they were more than willing to pay the balance of the purchase price, they were sufficiently prevented from doing so because of the continued absence of the Spouses Serrano. While it is true that the spouses were abroad at times, they were not absent from the Philippines for long periods of time, returning to the country every year. In fact, Gregorio testified that he went to see Bonifacio and Artemio personally to collect the amounts on the due dates, but was told that they did not have the money to pay.<sup>[25]</sup> At any rate, the appellate court held that the absence of the vendor at the time of the stipulated dates does not relieve the vendee of his obligation to pay for under Article 1256 of the New Civil Code, consignation is the proper remedy. Thus, contrary to Bonifacio and Artemio's claims, they were not prevented from complying with their obligation to pay for if they were really willing to pay, they could have consigned the amounts in court. Considering, therefore, that Bonifacio and Artemio failed to pay the purchase price in accordance with their agreement, they had no right to compel the Spouses Serrano to sell the subject properties to them.

When his Motion for Reconsideration was denied by the CA in its Resolution dated January 7, 2011, Bonifacio filed the instant petition invoking the following arguments:

I.

THE COURT OF APPEALS GRAVELY ERRED IN RULING THAT PETITIONER DID NOT HAVE A CAUSE OF ACTION AGAINST THE RESPONDENT SPOUSES SERRANO.

II.

THE COURT OF APPEALS GRAVELY ERRED IN RULING THAT PETITIONER CANNOT DEMAND RESPONDENT SPOUSES SERRANO TO TRANSFER THE SUBJECT PROPERTY BECAUSE OF HIS FAILURE TO COMPLY WITH THE SUSPENSIVE CONDITION OF FULL PAYMENT OF THE PURCHASE PRICE.

III.

THE COURT OF APPEALS ERRED IN GRANTING RESPONDENT SPOUSES SERRANO'S COUNTERCLAIM.

In the instant petition, Bonifacio argues that since he did not receive any formal demand from the Spouses Serrano, he did not incur delay. Consequently, he cannot be said to have violated any of their rights, which means, therefore, that the prescriptive period does not begin to run against him. In addition, Bonifacio also raises the provisions of Republic Act (RA) No. 6552, otherwise known as the *Realty Installment Buyer Protection Act*, insofar as his rights as a buyer of real property are concerned. In response, the Spouses Serrano reiterated the ruling of the CA that due to the fact that their agreement was merely a contract to sell, their obligation to transfer the title of the subject parcel of land did not arise as a result of Bonifacio's

failure to fully pay the purchase price.

At the onset, the Court concurs with the CA's finding that the nature of the agreement between the parties in this case is one that is akin to a contract to sell. Time and again, the Court had ruled that in a contract of sale, the title to the property passes to the vendee upon the delivery of the thing sold whereas in a contract to sell, the ownership is, by agreement, retained by the vendor and is not to pass to the vendee until full payment of the purchase price. In a contract of sale, the vendee's non-payment of the price is a negative resolutory condition, while in a contract to sell, the vendee's full payment of the price is a positive suspensive condition to the coming into effect of the agreement. In the first case, the vendor has lost and cannot recover the ownership of the property unless he takes action to set aside the contract of sale. In the second case, the title simply remains in the vendor if the vendee does not comply with the condition precedent of making payment at the time specified in the contract.<sup>[26]</sup> Verily, in a contract to sell, the prospective vendor binds himself to sell the property subject of the agreement exclusively to the prospective vendee upon fulfilment of the condition agreed upon which is the full payment of the purchase price but reserving to himself the ownership of the subject property despite delivery thereof to the prospective buyer.<sup>[27]</sup>

A cursory reading of the "Agreement in Receipt Form" would readily reveal that the same is a contract to sell and not a contract of sale. As expressly stipulated therein, the parties "agreed that in June 1978, upon the completion of the full payment of the agreed price, the herein vendor will deliver to the vendee a title corresponding to the lot or portion sold."<sup>[28]</sup> Clearly, the title to the property was to remain with the Spouses Serrano, to pass only to Bonifacio until his full payment of the purchase price. As pointed out by the appellate court, if the agreement was one of absolute sale, Bonifacio would not have prayed in his complaint that a proper deed of sale, together with the corresponding title over the subject properties, be signed, executed and delivered.

It is imperative to note, however, that in view of the nature of the agreement herein, a contract to sell real property on installment basis, the provisions of RA No. 6552 must be taken into account insofar as the rights of the parties in cases of default are concerned. In conditional sales of all kinds of real estate (industrial, commercial, residential), RA No. 6552 not only recognizes the right of the seller to cancel the contract upon nonpayment of an installment by the buyer, an event that prevents the obligation of the seller to convey title from acquiring binding force, it also provides for the rights of the buyer in case of such cancellation.<sup>[29]</sup> Its salient provisions provide:

Sec. 3. In all transactions or contracts involving the sale or financing of real estate on installment payments, including residential condominium apartments but excluding industrial lots, commercial buildings and sales to tenants under Republic Act Numbered Thirty-eight hundred forty-four, as amended by Republic Act Numbered Sixty-three hundred eighty-nine, where the buyer has paid at least two years of installments, **the buyer is entitled to the following rights in case he defaults in the payment of succeeding installments:**