

SECOND DIVISION

[G.R. No. 191336, January 25, 2012]

CRISANTA ALCARAZ MIGUEL, PETITIONER, VS. JERRY D. MONTANEZ, RESPONDENT.

D E C I S I O N

REYES, J.:

Before this Court is a Petition for Review on *Certiorari* under Rule 45 of the Rules of Court. Petitioner Crisanta Alcaraz Miguel (Miguel) seeks the reversal and setting aside of the September 17, 2009 Decision^[1] and February 11, 2010 Resolution^[2] of the Court of Appeals (CA) in CA-G.R. SP No. 100544, entitled "*Jerry D. Montanez v. Crisanta Alcaraz Miguel*."

Antecedent Facts

On February 1, 2001, respondent Jerry Montanez (Montanez) secured a loan of One Hundred Forty-Three Thousand Eight Hundred Sixty-Four Pesos (P143,864.00), payable in one (1) year, or until February 1, 2002, from the petitioner. The respondent gave as collateral therefor his house and lot located at Block 39 Lot 39 Phase 3, Palmera Spring, Bagumbong, Caloocan City.

Due to the respondent's failure to pay the loan, the petitioner filed a complaint against the respondent before the *Lupong Tagapamayapa* of *Barangay* San Jose, Rodriguez, Rizal. The parties entered into a *Kasunduang Pag-aayos* wherein the respondent agreed to pay his loan in installments in the amount of Two Thousand Pesos (P2,000.00) per month, and in the event the house and lot given as collateral is sold, the respondent would settle the balance of the loan in full. However, the respondent still failed to pay, and on December 13, 2004, the *Lupong Tagapamayapa* issued a certification to file action in court in favor of the petitioner.

On April 7, 2005, the petitioner filed before the Metropolitan Trial Court (MeTC) of Makati City, Branch 66, a complaint for Collection of Sum of Money. In his Answer with Counterclaim,^[3] the respondent raised the defense of improper venue considering that the petitioner was a resident of Bagumbong, Caloocan City while he lived in San Mateo, Rizal.

After trial, on August 16, 2006, the MeTC rendered a Decision,^[4] which disposes as follows:

WHEREFORE, premises considered[,] judgment is hereby rendered ordering defendant **Jerry D. Montanez** to pay plaintiff the following:

1. The amount of [Php147,893.00] representing the obligation with legal rate of interest from February 1, 2002 which was the date of the loan maturity until the account is fully paid;
2. The amount of Php10,000.00 as and by way of attorney's fees; and the costs.

SO ORDERED. [5]

On appeal to the Regional Trial Court (RTC) of Makati City, Branch 146, the respondent raised the same issues cited in his Answer. In its March 14, 2007 Decision, [6] the RTC affirmed the MeTC Decision, disposing as follows:

WHEREFORE, finding no cogent reason to disturb the findings of the court *a quo*, the appeal is hereby DISMISSED, and the DECISION appealed from is hereby AFFIRMED in its entirety for being in accordance with law and evidence.

SO ORDERED. [7]

Dissatisfied, the respondent appealed to the CA raising two issues, namely, (1) whether or not venue was improperly laid, and (2) whether or not the *Kasunduang Pag-aayos* effectively novated the loan agreement. On September 17, 2009, the CA rendered the assailed Decision, disposing as follows:

WHEREFORE, premises considered, the petition is hereby **GRANTED**. The appealed Decision dated March 14, 2007 of the Regional Trial Court (RTC) of Makati City, Branch 146, is **REVERSED and SET ASIDE**. A new judgment is entered dismissing respondent's complaint for collection of sum of money, without prejudice to her right to file the necessary action to enforce the *Kasunduang Pag-aayos*.

SO ORDERED. [8]

Anent the issue of whether or not there is novation of the loan contract, the CA ruled in the negative. It ratiocinated as follows:

Judging from the terms of the *Kasunduang Pag-aayos*, it is clear that no novation of the old obligation has taken place. Contrary to petitioner's assertion, there was no reduction of the term or period originally stipulated. The original period in the first agreement is one (1) year to be counted from February 1, 2001, or until January 31, 2002. When the complaint was filed before the *barangay* on February 2003, the period of the original agreement had long expired without compliance on the part of petitioner. Hence, there was nothing to reduce or extend. There was only a change in the terms of payment which is not incompatible with the old agreement. In other words, the *Kasunduang Pag-aayos* merely supplemented the old agreement. [9]

The CA went on saying that since the parties entered into a *Kasunduang Pag-aayos* before the *Lupon ng Barangay*, such settlement has the force and effect of a court judgment, which may be enforced by execution within six (6) months from the date of settlement by the *Lupon ng Barangay*, or by court action after the lapse of such time.^[10] Considering that more than six (6) months had elapsed from the date of settlement, the CA ruled that the remedy of the petitioner was to file an action for the execution of the *Kasunduang Pag-aayos* in court and not for collection of sum of money.^[11] Consequently, the CA deemed it unnecessary to resolve the issue on venue.^[12]

The petitioner now comes to this Court.

Issues

- (1) Whether or not a complaint for sum of money is the proper remedy for the petitioner, notwithstanding the *Kasunduang Pag-aayos*;^[13] and
- (2) Whether or not the CA should have decided the case on the merits rather than remand the case for the enforcement of the *Kasunduang Pag-aayos*.^[14]

Our Ruling

Because the respondent failed to comply with the terms of the *Kasunduang Pag-aayos*, said agreement is deemed rescinded pursuant to Article 2041 of the New Civil Code and the petitioner can insist on his original demand. Perforce, the complaint for collection of sum of money is the proper remedy.

The petitioner contends that the CA erred in ruling that she should have followed the procedure for enforcement of the amicable settlement as provided in the *Revised Katarungang Pambarangay Law*, instead of filing a collection case. The petitioner points out that the cause of action did not arise from the *Kasunduang Pag-aayos* but on the respondent's breach of the original loan agreement.^[15]

This Court agrees with the petitioner.

It is true that an amicable settlement reached at the *barangay* conciliation proceedings, like the *Kasunduang Pag-aayos* in this case, is binding between the contracting parties and, upon its perfection, is immediately executory insofar as it is not contrary to law, good morals, good customs, public order and public policy.^[16] This is in accord with the broad precept of Article 2037 of the Civil Code, viz:

A compromise has upon the parties the effect and authority of *res judicata*; but there shall be no execution except in compliance with a judicial compromise.

Being a by-product of mutual concessions and good faith of the parties, an amicable settlement has the force and effect of *res judicata* even if not judicially approved.

[17] It transcends being a mere contract binding only upon the parties thereto, and is akin to a judgment that is subject to execution in accordance with the Rules.[18]

Thus, under Section 417 of the Local Government Code,[19] such amicable settlement or arbitration award may be enforced by execution by the *Barangay Lupon* within six (6) months from the date of settlement, or by filing an action to enforce such settlement in the appropriate city or municipal court, if beyond the six-month period.

Under the first remedy, the proceedings are covered by the Local Government Code and the *Katarungang Pambarangay* Implementing Rules and Regulations. The *Punong Barangay* is called upon during the hearing to determine solely the fact of non-compliance of the terms of the settlement and to give the defaulting party another chance at voluntarily complying with his obligation under the settlement. Under the second remedy, the proceedings are governed by the Rules of Court, as amended. The cause of action is the amicable settlement itself, which, by operation of law, has the force and effect of a final judgment.[20]

It must be emphasized, however, that enforcement by execution of the amicable settlement, either under the first or the second remedy, is only applicable if the contracting parties have not repudiated such settlement within ten (10) days from the date thereof in accordance with Section 416 of the Local Government Code. If the amicable settlement is repudiated by one party, either expressly or impliedly, the other party has two options, namely, to enforce the compromise in accordance with the Local Government Code or Rules of Court as the case may be, or to consider it rescinded and insist upon his original demand. This is in accord with Article 2041 of the Civil Code, which qualifies the broad application of Article 2037, *viz*:

If one of the parties fails or refuses to abide by the compromise, the other party may either enforce the compromise or regard it as rescinded and insist upon his original demand.

In the case of *Leonor v. Sycip*, [21] the Supreme Court (SC) had the occasion to explain this provision of law. It ruled that Article 2041 does not require an action for rescission, and the aggrieved party, by the breach of compromise agreement, may just consider it already rescinded, to wit:

It is worthy of notice, in this connection, that, unlike Article 2039 of the same Code, which speaks of "*a cause of annulment or rescission of the compromise*" and provides that "*the compromise may be annulled or rescinded*" for the cause therein specified, thus suggesting an action for annulment or rescission, said Article 2041 confers upon the party