

## SECOND DIVISION

**[ G.R. No. 174966, February 14, 2008 ]**

**DEVELOPMENT BANK OF THE PHILIPPINES, Petitioner, vs.  
ROMEO TESTON, represented by his Attorney-in-Fact, CONRADO  
O. COLLARINA, Respondent.**

### D E C I S I O N

**CARPIO MORALES, J.:**

By a Deed of Conditional Sale dated June 15, 1987, Romeo Teston (respondent) purchased on installment basis from petitioner, Development Bank of the Philippines (DBP), two (2) parcels of land situated in Mandaon, Masbate, covered by Transfer Certificate of Title Nos. T-6176 and T-6177.

Respondent defaulted in the payment of his amortizations which had amounted to P3,727,435.57 as of September 1990. The DBP thus rescinded their contract by letter dated September 24, 1990 addressed to respondent.

DBP soon transferred the two (2) parcels of land to the government in compliance with Republic Act No. 6657 (COMPREHENSIVE AGRARIAN REFORM LAW OF 1988) and Executive Order 407 dated June 14, 1990 (ACCELERATING THE ACQUISITION AND DISTRIBUTION OF AGRICULTURAL LANDS, PASTURE LANDS, FISHPONDS, AGRO-FORESTRY LANDS AND OTHER LANDS OF THE PUBLIC DOMAIN SUITABLE FOR AGRICULTURE).<sup>[1]</sup>

It turned out that on December 1, 1988, respondent had voluntarily offered the two parcels of land for inclusion in the Comprehensive Agrarian Reform Program (CARP).

On September 18, 1995, respondent filed before the Department of Agrarian Reform Adjudication Board (DARAB) Regional Office in Legazpi City a Petition<sup>[2]</sup> against DBP and the Land Bank of the Philippines (Land Bank), alleging that under Republic Act No. 6657, his obligation to DBP was assumed by the government through the Land Bank after the two parcels of land became covered by the CARP, and that the operation of said law extinguished DBP's right to rescind the sale.

Respondent thus prayed that judgment be rendered:

1. Declaring that the right of the respondent DBP to rescind the Deed of Conditional Sale for non-payment of amortization was extinguished by operation of law;
2. That the Land Bank be ordered to pay the just compensation of the property which the Special Agrarian Court may determine to be paid to the petitioner after deducting the balance of the petitioner to the DBP.<sup>[3]</sup>

In its Answer/Position Paper,<sup>[4]</sup> DBP alleged that, among other things, since respondent had not acquired title to the two parcels of land, he had no right to voluntarily offer them to the CARP.

The Land Bank raised substantially the same defenses as those raised by DBP.<sup>[5]</sup>

By Order of March 30, 1998, the DARAB Regional Adjudicator dismissed respondent's petition in this wise:

Petitioner has never been the owner of the land, hence could not have validly offered the property under the [Voluntary Offer to Sell] scheme. Under Section 72 of Republic Act No. 6657, "*Other claims*" can not refer to payment of amortizations, more specifically if such claim is made after the rescission of the contract. Petitioner may well have questioned the rescission of the contract in 1990 if he felt aggrieved by it and should not have allowed five (5) years to elapse before acting on the same. This creates the presumption that the rescission was reasonable and valid and the non-impairment of contracts must be respected.

As against Land Bank, petitioner has no right of action whatsoever, as there is nothing Land Bank could act on to favor their petition.

In fine, DBP being still the owner, the government cannot step in and assume the obligation to pay petitioner's amortization after his default to make him the owner of the land and to bar DBP from rescinding the conditional sale. x x x<sup>[6]</sup> (Italics in the original; underscoring supplied)

On appeal, the DARAB affirmed the Regional Adjudicator's decision, thus:

There is no doubt that the title to the subject property has not been transferred to petitioner-appellant. The contract which he entered into with the DBP is a conditional sale, the transfer of property being conditioned upon compliance with the terms of the sale, specifically the payment in full of the purchase price. As petitioner-appellant failed to fulfill his obligation, DBP rescinded the conditional Sale. Thus, petitioner-appellant has lost whatever right he may have over the property pursuant to the contract. It is clear on the records that the Deed of Conditional Sale dated July 15, 1987 was rescinded on September 24, 1990 or long before the property was turned over to the DAR on November 29, 1990. Evidently, petitioner-appellant had long lost his interest over the property in question when the same was turned over to the national government. Hence, petitioner-appellant could not have validly offered the property under the Voluntary Offer to Sell (VOS) scheme.

Moreover, the assertion of appellant that Section 72 of RA No. 6657 "extinguishes his obligation to pay full amount to the DBP because it is already assumed by DAR or LBP is misplaced. Section 72 provides:

**"Section 72 Lease, Management, Grower or Service Contract, Mortgages and *Other Claims*"**

x x x x

**(b) Mortgages and other claims registered with the [Register] of Deeds shall be assumed by the government to an amount equivalent to the landowner's compensation value as provided in this Act"** (Underscoring supplied.)

Surely, the other claims alluded to by law refer to payment of amortizations under a contract of sale which have not been extinguished by rescission. The government cannot assume an obligation which does not exist.

Lastly, this Board has jurisdiction over agricultural landholdings covered by CARP in respect to the preliminary determination and payment of just compensation. (Sec. 1(b) of RULE II, DARAB New Rules of Procedure). However, as elucidated above, since petitioner-appellee is not the owner of the disputed landholdings, [h]e has no cause of action against respondents-appellees.

**WHEREFORE**, the Decision of the Adjudicator a quo dated March 30, 1998 is **AFFIRMED** in toto.<sup>[7]</sup> (Emphasis in the original; underscoring supplied)

Respondent assailed the DARAB decision via Petition for Review<sup>[8]</sup> before the Court of Appeals. By Decision<sup>[9]</sup> of January 11, 2006, the appellate court **modified** the trial court's decision by ordering DBP to return to respondent "the P1,000,000 which [respondent] paid as downpayment," following the law on rescission.

We cannot write *finis* in this case without ordering respondent DBP to return the payment made by herein petitioner in view of the rescission of the subject *Deed of Conditional Sale*. Under Article 1385 of the Civil Code, "**rescission creates the obligation to return the things which were the object of the contract, together with their fruits, and the price with its interests** x x x." Hence, equity demands that the amount paid by the petitioner be returned to him.

**WHEREFORE**, the assailed Decision dated February 23, 2004 is **MODIFIED**. With DBP's rescission of the contract it executed with petitioner, DBP is consequently directed to return petitioner the P1,000,000.00 which the latter paid as down payment for the intended purchase of the subject parcels of land, plus 12% annual interest thereon. The decision stands in all other respects.<sup>[10]</sup> (Italics and underscoring in the original.)

By a Partial Motion for Reconsideration,<sup>[11]</sup> DBP questioned the order to return the P1,000,000 which respondent had allegedly given as down payment. Respondent, upon the other hand, filed a "Motion to Fix Date When [the P1,000,000 Would] Earn Interest."<sup>[12]</sup>

The Court of Appeals denied DBP's Motion for Partial Reconsideration. It granted respondent's motion and accordingly held that interest on the P1,000,000 would