

SECOND DIVISION

[G.R. No. 156627, June 04, 2004]

**SPOUSES MANUEL AND JOCELYN BARREDO, PETITIONERS, VS.
SPOUSES EUSTAQUIO AND EMILDA LEAÑO, RESPONDENTS.**

D E C I S I O N

PUNO, J.:

In resolving the case at bar, we hearken back to the time-honored principle in obligations and contracts enunciated by this Court some 80 years ago in **Song Fo & Co. v. Hawaiian Philippine Co.**^[1] that the rescission of contracts will not be permitted for a slight or casual breach thereof.

The factual antecedents are undisputed. Sometime in 1979, petitioners spouses Manuel and Jocelyn Barredo (Barredo Spouses) bought a house and lot located along Lilac Road, Pilar Village, Las Piñas, Metro Manila, with the proceeds of a P50,000.00 loan from the Social Security System (SSS) which was payable in 25 years and an P88,400.00 loan from the Apex Mortgage and Loans Corporation (Apex) which was payable in 20 years. To secure the twin loans, they executed a first mortgage over the house and lot in favor of SSS and a second one in favor of Apex.

On July 10, 1987, the Barredo Spouses sold their house and lot to respondents Eustaquio and Emilda Leaño (Leaño Spouses) by way of a Conditional Deed of Sale with Assumption of Mortgage. The Leaño Spouses would pay the Barredo Spouses P200,000.00, P100,000.00 of which would be payable on July 15, 1987, while the balance of P100,000.00 would be paid in ten (10) equal monthly installments after the signing of the contract. The Leaño Spouses would also assume the first and second mortgages and pay the monthly amortizations to SSS and Apex beginning July 1987 until both obligations are fully paid.

In accordance with the agreement, the purchase price of P200,000.00 was paid to the Barredo Spouses who turned over the possession of the house and lot in favor of the Leaño Spouses. Two (2) years later, on September 4, 1989, the Barredo Spouses initiated a complaint before the Regional Trial Court of Las Piñas seeking the rescission of the contract on the ground that the Leaño Spouses despite repeated demands failed to pay the mortgage amortizations to the SSS and Apex causing the Barredo Spouses great and irreparable damage. The Leaño Spouses, however, answered that they were up-to-date with their amortization payments to Apex but were not able to pay the SSS amortizations because their payments were refused upon the instructions of the Barredo Spouses.

Meanwhile, allegedly in order to save their good name, credit standing and reputation, the Barredo Spouses took it upon themselves to settle the mortgage loans and paid the SSS the sum of P27,494.00 on September 11, 1989, and

P41,401.91 on January 9, 1990. The SSS issued a Release of Real Estate Mortgage Loan on January 9, 1990. They also settled the mortgage loan with Apex and paid the sum of P5,379.23 on October 3, 1989, and P64,000.00 on January 9, 1990. Likewise, Apex issued a Certification of Full Payment of Loan on January 12, 1990. They also paid the real estate property taxes for the years 1987 up to 1990.

On October 5, 1993, the Regional Trial Court of Las Piñas, Br. 275,^[2] ruled that the assumption of mortgage debts of the Barredo Spouses by the Leaño Spouses "is a very substantial condition x x x x The credit standing of the (Barredo Spouses) will be greatly prejudiced should they appear delinquent or not paying at all. This is what the (Barredo Spouses) feared so much, if foreclosure proceedings are resorted to because of their failure to pay their obligations."^[3] The trial court thus rendered judgment in favor of the plaintiff, the Barredo Spouses –

WHEREFORE, and in consideration of the foregoing, by preponderance of evidence, judgment is hereby rendered in favor of the plaintiffs and against the defendants by: (1) declaring the Conditional Deed of Sale with Assumption of Mortgage entered into by the plaintiffs and the defendants on July 10, 1987, as rescinded and therefore null and void as of this date; (2) ordering the defendants jointly and severally to pay the sum of P15,000.00 as actual and litigation expenses, and the sum of P25,000.00 as and by way of attorney's fees; and (3) to pay the costs.

SO ORDERED.^[4]

Aggrieved, the Leaño Spouses who have turned over the possession of the subject house and lot to the Barredo Spouses appealed to the Court of Appeals. On May 21, 2002, the appellate court reversed and set aside the decision of the trial court on the ground that the payments of amortization to Apex and SSS were mere collateral matters which do not detract from the condition of paying the principal consideration.^[5] The dispositive portion of the decision reads –

WHEREFORE, the questioned decision of the Regional Trial Court of Las Piñas, Branch 275, is hereby **REVERSED** and **SET ASIDE**, and another one is entered **DISMISSING** the complaint for lack of cause of action, and ordering plaintiff-appellees to:

- a) execute the Deed of Absolute Sale and to deliver TCT No. S-104634 in favor of defendants-appellants upon full payment of the amounts of P68,895.91, P69,379.23 and P2,217.60, or a total of P140,492.74, subject to the legal rate of interest per annum from the time said payments were made by plaintiffs-appellees until the same are fully paid;
- b) to vacate and/or turn over the said property to defendants-appellants;
- c) to pay attorney's fees in the sum of P20,000.00 and

d) to pay the costs of litigation.

SO ORDERED.^[6]

On December 10, 2002, the appellate court denied the motion for reconsideration for lack of merit. Hence, this petition for review on certiorari on a sole assignment of error –

CONTRARY TO THE EXPRESS FINDINGS OF THE TRIAL COURT THAT THERE WAS SUBSTANTIAL AND FUNDAMENTAL BREACH BY THE RESPONDENTS OF THEIR RECIPROCAL OBLIGATIONS TO ASSUME AND PAY THE MORTGAGE OBLIGATION OF PETITIONERS WITH THE SSS AND APEX, THE COURT OF APPEALS ERRED IN HOLDING THAT THE PAYMENTS OF AMORTIZATION TO APEX AND SSS ARE MERE COLLATERAL MATTERS AND DISMISSING PETITIONERS' COMPLAINT FOR LACK OF CAUSE OF ACTION.^[7]

Petitioners argue that the terms of the agreement called for the strict compliance of two (2) equally essential and material obligations on the part of the Leaño Spouses, namely, the payment of the P200,000.00 to them and the payment of the mortgage amortizations to the SSS and Apex. And, the Barredo Spouses undertook to execute the corresponding Deed of Absolute Sale only upon the faithful compliance by the Leaño Spouses of the conditions set forth in their agreement. Thus, the failure of the Leaño Spouses to pay the mortgage amortizations to the SSS and Apex gave rise to the right of the Barredo Spouses to refrain from executing the deed of sale and in fact ask for rescission, a right accorded to an injured party.

Respondents Leaño Spouses, however, contend that they were only obliged to assume the amortization payments of the Barredo Spouses with the SSS and Apex, which they did upon signing the agreement. The contract does not stipulate as a condition the full payment of the SSS and Apex mortgages. Granting for argument's sake that their failure to pay in full the mortgage was not a full compliance of their obligation, they could not be faulted because their payments were not accepted by the SSS since the Barredo Spouses failed to notify the SSS of the assignment of their debt. In fine, the alleged breach, if any, was only casual or slight and does not defeat the very object of the parties in entering into the agreement. Moreover, the Barredo Spouses were not and will never be injured parties since if the amortizations were not paid, it would be the Leaño Spouses who would eventually lose the house and lot. As such, rescission does not obtain.

We quote the pertinent provisions of the Conditional Deed of Sale with Assumption of Mortgage –

1. ONE HUNDRED THOUSAND PESOS (P100,000.00) Philippine Currency, shall be paid by the VENDEES to the VENDORS on July 15, 1987.
2. The balance of ONE HUNDRED THOUSAND PESOS (P100,000.00) Philippine Currency, shall be paid by the VENDEES to the VENDORS in ten (10) equal monthly installments at the VENDORS' residence, after the signing of this Contract, consisting of ten (10) post-dated checks drawn against the checking account of the VENDEES beginning August 1, 1987, and the succeeding months x x x x until