

## SECOND DIVISION

[ G.R. NO. 157318, August 09, 2006 ]

**GENEROSO V. VILLANUEVA AND RAUL C. VILLANUEVA, JR.,  
PETITIONERS, VS. STATE OF GERARDO L. GONZAGA/MA. VILLA  
GONZAGA, IN HER CAPACITY AS ADMINISTRATRIX,  
RESPONDENTS.**

### D E C I S I O N

**PUNO, J.:**

Before us is a petition for review on *certiorari* assailing the Decision dated January 16, 2003<sup>[1]</sup> of the Court of Appeals in CA-G.R. CV No. 46865 which affirmed with modification the Decision dated December 29, 1993<sup>[2]</sup> of the Regional Trial Court (RTC) of Bacolod City in Civil Case No. 6552. The RTC-Bacolod City declared the Memorandum of Agreement (MOA) between petitioners and respondents as rescinded, and ordered petitioners to pay moral damages and attorney's fees to respondents. The Court of Appeals deleted the award for moral damages.

The antecedent facts are as follows:

On January 15, 1990, petitioners Generoso Villanueva and Raul Villanueva, Jr., business entrepreneurs engaged in the operation of transloading stations and sugar trading, and respondent Estate of Gerardo L. Gonzaga, represented by its Judicial Administratrix, respondent Ma. Villa J. Gonzaga, executed a MOA<sup>[3]</sup> which reads:

KNOW ALL MEN BY THESE PRESENTS:

This Memorandum made and entered into by and between:

THE ESTATE OF GERARDO L. GONZAGA represented in the act by its Administratrix, MA. VILLA J. GONZAGA, Filipino, of legal age, widow and resident of Bacolod City, hereinafter referred to as the FIRST PARTY,

- a n d -

RAUL VILLANUEVA, JR. and GENEROSO V. VILLANUEVA, Filipinos, of legal age, married and residents of Bacolod City, hereinafter jointly referred to as the SECOND PARTY.

### W I T N E S S E T H:

1. **WHEREAS, the FIRST PARTY is the true and lawful owner of a parcel of land, Lot No. 1362,** covered by TCT No. T-131872 situated at Brgy. Granada,

Bacolod City and known as Hda. San Dionisio Norte;

2. WHEREAS, **the aforesaid property is presently mortgaged with the Philippine National Bank (PNB)** as collateral for a loan;
3. WHEREAS, the aforesaid property is already subdivided into sub-lots although separate titles for each lot is not yet issued;
4. WHEREAS, the herein **SECOND PARTY agrees to purchase portions of the aforesaid property equivalent to 3,240 sq. meters** which portions are designated as Lots Nos. 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38 & 39 in phase 11 of the subdivision plan;
5. WHEREAS, **the SECOND PARTY agrees to purchase the aforesaid lots at the price of ONE HUNDRED FIFTY (P150.00) PESOS per sq. meter** or for a total price of FOUR HUNDRED EIGHTY SIX THOUSAND (P486,000.00) PESOS **subject to the following conditions:**

**A.) That the FIRST PARTY shall cause the release of the aforementioned lots from the Philippine National Bank (PNB) at the earliest possible time.**

**B.) That the SECOND PARTY agrees to pay the amount of P486,000.00 as follows:**

**P100,000.00 - upon the signing of this agreement.**

**P191,600.00 - on or before January 10, 1990.**

**P194,400.00 - upon the approval by the PNB of the release of the lots.**

C.) That it is hereby agreed that the ONE HUNDRED THOUSAND (P100,000.00) PESOS down payment shall at the same time be considered as earnest money which shall be forfeited in the event the SECOND PARTY withdraws from this agreement.

**D.) That upon payment of 60% of the purchase price, the SECOND PARTY may start to introduce improvements in the area if they so desire.**

**E.) That upon the release by the Philippine National Bank (PNB) of the lots subject of this agreement, the FIRST PARTY shall immediately execute a Deed of Sale in favor of the SECOND PARTY.** All expenses for documentation and capital gains shall be borne by the FIRST PARTY, while expenses for transfer of title to the SECOND PARTY shall be borne by the latter.

IN WITNESS WHEREOF, the parties have hereunto set their hands this 15<sup>th</sup> day of January, 1990 in this City of Bacolod, Philippines. [*emphases*

*added]*

As stipulated in the agreement, petitioners introduced improvements after paying P291,600.00 constituting sixty (60%) percent of the total purchase price of the lots. Petitioners then requested permission from respondent Administratrix to use the premises for the next milling season. Respondent refused on the ground that petitioners cannot use the premises until full payment of the purchase price. Petitioners informed respondent that their immediate use of the premises was absolutely necessary and that any delay will cause them substantial damages. Respondent remained firm in her refusal, and demanded that petitioners stop using the lots as a transloading station to service the Victorias Milling Company unless they pay the full purchase price. In a letter-reply dated April 5, 1991, petitioners assured respondent of their readiness to pay the balance but reminded respondent of her obligation to redeem the lots from mortgage with the Philippine National Bank (PNB).<sup>[4]</sup> Petitioners gave respondent ten (10) days within which to do so.<sup>[5]</sup>

On April 10, 1991, respondent Administratrix wrote petitioners informing them that the PNB had agreed to release the lots from mortgage. She demanded payment of the balance of the purchase price. Enclosed with the demand letter was the PNB's letter of approval dated April 8, 1991,<sup>[6]</sup> marked as Exhibit "3-B," which reads -

Mrs. Ma. Villa J. Gonzaga  
Judicial Administratrix  
Int. Est. of Gerardo L. Gonzaga  
La Salle Subdivision  
Bacolod City

Dear Mrs. Gonzaga:

We are pleased to inform you that **your request for the partial release of securities**, particularly the 3,240 sq. m. agricultural land x x x covered by TCT No. T-31113 **has been approved** by our Senior Management Credit Committee I on April 1, 1991 **subject to the following conditions:**

- 1. The sale be approved by the Court insofar as the interest of the estate is concerned;**
- 2. Payment of two (2) annual amortizations of the restructured accounts in addition to P50,000.00 to be derived from sale of lot sought to be released;**
- 3. Such terms and conditions that our Legal Dept. may impose to protect the interest of the Bank.**

Please see us for the preparation of the covering documents. [*emphases added]*

Very truly

yours,

(signed)

GAYENALO

Manager

CECILIA S.

Asst.

In their letter-reply dated April 18, 1991,<sup>[7]</sup> petitioners demanded that respondent show the clean titles to the lots first before they pay the balance of the purchase price. Respondent merely reiterated the demand for payment. Petitioners stood pat on their demand.

On May 28, 1991, respondent Administratrix executed a Deed of Rescission rescinding the MOA on two grounds: (1) petitioners failed to pay the balance of the purchase price despite notice of the lots' release from mortgage, and (2) petitioners violated the MOA by using the lots as a transloading station without permission from the respondents.

In their Letter dated June 13, 1991, petitioners, through counsel, formally demanded the production of the titles to the lots before they pay the balance of the purchase price. The demand was ignored. Consequently, on June 19, 1991, petitioners filed a complaint against respondents for breach of contract, specific performance and damages before the RTC-Bacolod City, docketed as Civil Case No. 6552. Petitioners alleged that respondents delayed performance of their obligation by unreasonably failing to secure the release of the lots from mortgage with the PNB within the earliest possible time, as stipulated in the MOA. Petitioners prayed that respondents be ordered to produce the clean titles to the lots before they pay the balance of the purchase price.

The trial court decided the case in favor of respondents. The dispositive portion of the decision reads-

(1) Declaring the Memorandum of Agreement, Exh. "C" rescinded; consequently ownership and possession of Lots 28 to 39, inclusive, of Phase II of the subdivision plan covered by TCT No. T-31113 are hereby restored to defendants, and defendants (sic) are thereby ordered to vacate the premises of said lots;

(2) Ordering plaintiffs to jointly and severally pay defendants: P20,000.00 as moral damages; and P15,000.00 as attorney's fees;

(3) Ordering defendants to solidarily pay or refund plaintiffs: the sum of P100,000.00 paid by the latter as down payment on the aforesaid Memorandum of Agreement on December 18, 1989, with legal interest at 6% per annum from said date up to and until the amount is fully paid or refunded; and another sum of P191,600.00 paid by the latter to the former in connection with the said Memorandum of Agreement on January 10, 1990, with the same rate of interest at 6% per annum from said date up to and until the amount is fully paid or refunded; and

(4) Condemning plaintiffs to pay the cost of suit.<sup>[8]</sup>

Petitioners filed a petition for review before the Court of Appeals. On January 16, 2003, the Court of Appeals affirmed the trial court's decision but deleted the award