

FIRST DIVISION

[G.R. No. 97347, July 06, 1999]

JAIME G. ONG, PETITIONER, VS. THE HONORABLE COURT OF APPEALS, SPOUSES MIGUEL K. ROBLES AND ALEJANDRO M. ROBLES, RESPONDENTS.

DECISION

YNARES-SANTIAGO, J.:

Before us is a petition for review on *certiorari* from the judgment rendered by the Court of Appeals which, except as to the award of exemplary damages, affirmed the decision of the Regional Trial Court of Lucena City, Branch 60, setting aside the "Agreement of Purchase and Sale" entered into by herein petitioner and private respondent spouses in Civil Case No. 85-85.

On May 10, 1983, petitioner Jaime Ong, on the one hand, and respondent spouses Miguel K. Robles and Alejandra Robles, on the other hand, executed an "Agreement of Purchase and Sale" respecting two parcels of land situated at Barrio Puri, San Antonio, Quezon. The terms and conditions of the contract read:

"1. That for and in consideration of the agreed purchase price of TWO MILLION PESOS (P2,000,000.00), Philippine currency, the mode and manner of payment is as follows:

A. The initial payment of SIX HUNDRED THOUSAND PESOS (P600,000.00) as verbally agreed by the parties, shall be broken down as follows:

1. P103,499.91 shall be paid, and as already paid by the BUYER to the SELLERS on March 22, 1983, as stipulated under the Certification of undertaking dated March 22, 1983 and covered by a check voucher of even date.

2. That the sum of P496,500.09 shall be paid directly by the BUYER to the Bank of Philippine Islands to answer for the loan of the SELLERS which as of March 15, 1983 amounted to P537,310.10, and for the interest that may accrued (*sic*) from March 15, 1983, up to the time said obligation of the SELLERS with the said bank has been settled, provided however that the amount in excess of P496,500.09, shall be chargeable from the time deposit of the SELLERS with the aforesaid bank.

B. That the balance of ONE MILLION FOUR HUNDRED THOUSAND (P1,400,000.00) PESOS shall be paid by the BUYER to the SELLERS in four (4) equal quarterly installments of THREE HUNDRED FIFTY THOUSAND PESOS (P350,000.00), the first to be due and payable

on June 15, 1983, and every quarter thereafter, until the whole amount is fully paid, by these presents promise to sell to said BUYER the two (2) parcels of agricultural land including the rice mill and the piggery which are the most notable improvements thereon, situated at Barangay Puri, San Antonio Quezon, x x x.

"2. That upon the payment of the total purchase price by the BUYER the SELLERS bind themselves to deliver to the former a good and sufficient deed of sale and conveyance for the described two (2) parcels of land, free and clear from all liens and encumbrances.

"3. That immediately upon the execution of this document, the SELLERS shall deliver, surrender and transfer possession of the said parcels of land including all the improvements that may be found thereon, to the BUYER, and the latter shall take over from the SELLER the possession, operation, control and management of the RICEMILL and PIGGERY found on the aforesaid parcels of land.

"4. That all payments due and payable under this contract shall be effected in the residence of the SELLERS located at Barangay Puri, San Antonio, Quezon unless another place shall have been subsequently designated by both parties in writing.

x x x x x x x x."[1]

On May 15, 1983, petitioner Ong took possession of the subject parcels of land together with the piggery, building, ricemill, residential house and other improvements thereon.

Pursuant to the contract they executed, petitioner paid respondent spouses the sum of P103,499.91[2] by depositing it with the United Coconut Planters Bank. Subsequently, petitioner deposited sums of money with the Bank of Philippine Islands (BPI),[3] in accordance with their stipulation that petitioner pay the loan of respondents with BPI.

To answer for his balance of P1,400,000.00 petitioner issued four (4) post-dated Metro Bank checks payable to respondent spouses in the amount of P350,000.00 each, namely: Check No. 157708 dated June 15, 1983,[4] Check No. 157709 dated September 15,1983,[5] Check No. 157710 dated December 15, 1983[6] and Check No. 157711 dated March 15, 1984.[7] When presented for payment, however, the checks were dishonored due to insufficient funds. Petitioner promised to replace the checks but failed to do so. To make matters worse, out of the P496,500.00 loan of respondent spouses with the Bank of the Philippine Islands, which petitioner, as per agreement, should have paid, petitioner only managed to dole out no more than P393,679.60. When the bank threatened to foreclose the respondent spouses' mortgage, they sold three transformers of the rice mill worth P51,411.00 to pay off their outstanding obligation with said bank, with the knowledge and conformity of petitioner.[8] Petitioner, in return, voluntarily gave the spouses authority to operate the rice mill.[9] He, however, continued to be in possession of the two parcels of land while private respondents were forced to use the rice mill for residential purposes.

On August 2, 1985, respondent spouses, through counsel, sent petitioner a demand letter asking for the return of the properties. Their demand was left unheeded, so, on September 2, 1985, they filed with the Regional Trial Court of Lucena City, Branch 60, a complaint for rescission of contract and recovery of properties with damages. Later, while the case was still pending with the trial court, petitioner introduced major improvements on the subject properties by constructing a complete fence made of hollow blocks and expanding the piggery. These prompted the respondent spouses to ask for a writ of preliminary injunction.^[10] The trial court granted the application and enjoined petitioner from introducing improvements on the properties except for repairs.^[11]

On June 1, 1989 the trial court rendered a decision, the dispositive portion of which reads as follows:

"IN VIEW OF THE FOREGOING, judgment is hereby rendered:

- a) Ordering that the contract entered into by plaintiff spouses Miguel K. Robles and Alejandra M. Robles and the defendant, Jaime Ong captioned 'Agreement of Purchase and Sale,' marked as Exhibit 'A' set aside;
- b) Ordering defendant, Jaime Ong to deliver the two (2) parcels of land which are the subject matter of Exhibit 'A' together with the improvements thereon to the spouses Miguel K. Robles and Alejandro M. Robles;
- c) Ordering plaintiff spouses, Miguel Robles and Alejandra Robles to return to Jaime Ong the sum of P497,179.51;
- d) Ordering defendant Jaime Ong to pay the plaintiffs the sum of P100,000.00 as exemplary damages; and
- e) Ordering defendant Jaime Ong to pay the plaintiffs spouses Miguel K. Robles and Alejandra Robles the sum of P20,000.00 as attorney's fees and litigation expenses.

"The motion of the plaintiff spouses Miguel K. Roles and Alejandra Robles for the appointment of receivership is rendered moot and academic.

"SO ORDERED."^[12]

From this decision, petitioner appealed to the Court of Appeals, which affirmed the decision of the Regional Trial Court but deleted the award of exemplary damages. In affirming the decision of the trial court, the Court of Appeals noted that the failure of petitioner to completely pay the purchase price is a substantial breach of his obligation which entitles the private respondents to rescind their contract under Article 1191 of the New Civil Code. Hence, the instant petition.

At the outset, it must be stated that the issues raised by the petitioner are generally factual in nature and were already passed upon by the Court of Appeals and the trial court. Time and again, we have stated that it is not the function of the Supreme Court to assess and evaluate all over again the evidence, testimonial and

documentary, adduced by the parties to an appeal, particularly where, such as in the case at bench, the findings of both the trial court and the appellate court on the matter coincide. There is no cogent reason shown that would justify the court to discard the factual findings of the two courts below and to superimpose its own.^[13]

The only pertinent legal issues raised which are worthy of discussion are: (1) whether the contract entered into by the parties may be validly rescinded under Article 1191 of the New Civil Code; and (2) whether the parties had novated their original contract as to the time and manner of payment.

Petitioner contends that Article 1191 of the New Civil Code is not applicable since he has already paid respondent spouses a considerable sum and has therefore substantially complied with his obligation. He cites Article 1383 instead, to the effect that where specific performance is available as a remedy, rescission may not be resorted to.

A discussion of the aforesaid articles is in order.

Rescission, as contemplated in Articles 1380, *et seq.*, of the New Civil Code, is a remedy granted by law to the contracting parties and even to third persons, to secure the reparation of damages caused to them by a contract, even if this should be valid, by restoration of things to their condition at the moment prior to the celebration of the contract.^[14] It implies a contract, which even if initially valid, produces a lesion or a pecuniary damage to someone.^[15]

On the other hand, Article 1191 of the New Civil Code refers to rescission applicable to reciprocal obligations. Reciprocal obligations are those which arise from the same cause, and in which each party is a debtor and a creditor of the other, such that the obligation of one is dependent upon the obligation of the other.^[16] They are to be performed simultaneously such that the performance of one is conditioned upon the simultaneous fulfillment of the other. Rescission of reciprocal obligations under Article 1191 of the New Civil Code should be distinguished from rescission of contracts under Article 1383. Although both presuppose contracts validly entered into and subsisting and both require mutual restitution when proper, they are not entirely identical.

While Article 1191 uses the term "rescission," the original term which was used in the old Civil Code, from which the article was based, was "resolution."^[17] Resolution is a principal action which is based on breach of a party, while rescission under Article 1383 is a subsidiary action limited to cases of rescission for lesion under Article 1381 of the New Civil Code, which expressly enumerates the following rescissible contracts:

1. Those which are entered into by guardians whenever the wards whom they represent suffer lesion by more than one fourth of the value of the things which are the object thereof;
2. Those agreed upon in representation of absentees, if the latter suffer the lesion stated in the preceding number;