



Republic of the Philippines
 Supreme Court
 Manila

THIRD DIVISION

ATTY. ROGELIO B. DE GUZMAN,
 Petitioner,

G.R. No. 222957

Present:

- versus -

CAGUIOA, J.,
 Chairperson,
 INTING,
 GAERLAN,
 DIMAAMPAO, and
 SINGH, JJ.

SPOUSES BARTOLOME AND
 SUSAN SANTOS,

Promulgated:
 March 29, 2023

Respondents.

MisDC B. H.

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DECISION

GAERLAN, J.:

For resolution is a Petition for Review on *Certiorari*¹ seeking to reverse and set aside the Decision² dated December 18, 2014 and the Resolution³ dated February 18, 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 100706. The CA in its assailed rulings affirmed the Order⁴ dated January 31, 2013 of the Regional Trial Court (RTC) of Antipolo City, Branch 73, in Civil Case No. 01-6204.

¹ *Rollo*, pp. 8-33.

² Id. at 38-49; penned by Associate Justice Vicente S.E. Veloso, with Associate Justices Jane Aurora C. Lantion and Nina G. Antonio-Valenzuela, concurring.

³ Id. at 57-58; penned by Associate Justice Jane Aurora C. Lantion, with Associate Justices Amy C. Lazaro-Javier (now a member of this Court) and Nina G. Antonio-Valenzuela, concurring.

⁴ Id. at 38.

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Petitioner Rogelio B. De Guzman (De Guzman) owned a house and lot located at Lot 1, Block II, New York Street, Cresdaville II Subdivision, Bangiad, San Juan, Taytay, Rizal (Subject Property). The lot was covered by Transfer Certificate of Title (TCT) No. 5788.⁵

In November 2000, De Guzman accepted the offer of respondents Bartolome and Susan Santos (collectively, spouses Santos) to purchase the Subject Property. They executed a Contract to Sell which stipulated the purchase price of ₱1,500,000.00. The terms of payment included a down payment of ₱250,000.00 upon signing of the contract, and succeeding monthly installments of ₱15,000.00 until full payment. The unpaid balance of the principal would earn interest at the rate of 9% *per annum*. In return, the spouses Santos were given permission to take immediate possession of the Subject Property and use it as their residence.⁶

The spouses Santos paid De Guzman the down payment on November 15, 2000 and moved in. They lived there but did not pay the monthly installments agreed upon. In February 2001, they unilaterally decided to vacate the Subject Property and return to their old residence at Angono, Rizal.⁷

On June 21, 2001, the spouses Santos filed a complaint for rescission of the Contract to Sell, recovery of down payment, and damages against De Guzman. They deducted a reasonable rental rate of ₱10,000.00 per month for the period they lived there and demanded the return of the balance of their down payment in the total amount of ₱208,500.00.⁸

The RTC initially rendered its Decision dated June 10, 2008 which dismissed the spouses Santos' complaint and ordered them to pay the balance of the purchase price to De Guzman.⁹ The dispositive portion reads:

WHEREFORE, premises considered, judgment is hereby rendered in favor of the Defendant and against the Plaintiffs as follows:

1. The instant case is hereby dismissed for lack of cause of action; and

2. Ordering plaintiffs to pay P1,250,000.00 representing the balance on the house and lot with 9% interest thereon from January, 2001 until fully paid.

⁵ Id. at 14.

⁶ Id. at 14-15.

⁷ Id. at 16.

⁸ Id. at 16-17.

⁹ Id. at 38.

SO ORDERED.¹⁰

The spouses Santos timely filed a Motion for New Trial on the basis of their discovery that De Guzman sold the Subject Property to a certain Elizabeth Algozo (Algozo) during the pendency of the case on August 17, 2005.¹¹ De Guzman filed an Opposition arguing that a Motion for New Trial was not the correct remedy because there was no newly discovered evidence as contemplated under the Rules of Court.¹²

The RTC granted the spouses Santos' Motion for New Trial and set the case for hearing. After trial, it eventually issued its Order setting aside its earlier Decision and declaring the Contract to Sell as rescinded. It likewise ordered De Guzman to return the balance of the spouses Santos' down payment:

WHEREFORE, premises considered, the Decision of this Court dated June 10, 2008, is hereby set aside. The Contract to Sell between the plaintiffs and the defendant is deemed rescinded. Defendant is ordered to return to plaintiffs the balance of the downpayment amounting to P208,500.00 with interest of 6% per annum from the time of the finality of this Decision until fully paid.

SO ORDERED.¹³

The RTC ruled that De Guzman's act of selling the Subject Property without notifying it or the other litigants was indicative of bad faith and made the disposition of the case moot. Hence, there was no more sale to speak of which necessitated the return of any amounts received. It elucidated:

It should be remembered that this present case originated from an action for the rescission of contract, recovery of downpayment plus damages. The Court ruled that plaintiffs had no cause of action against the defendant because they cannot raise as a defense for not fulfilling their obligation the alleged hidden defects on the property subject of this case. Thus, the Court finding no reason to rescind the contract ordered the plaintiffs to fulfill their obligation to pay the balance on the house and lot with 9% interest from January 2001, until fully paid.

This Court proceeded with the trial **on the premise that the parties maintained the status quo on the property**, i.e.[,] that however the court will decide the case, the property is free from encumbrance.

¹⁰ Id. at 39.

¹¹ Id. at 48.

¹² Id. at 39-41.

¹³ Id. at 38.

The Court agrees with the argument of the defendant that since the instrument between the parties is a Contract to Sell, he has no obligation to the plaintiffs to transfer ownership over the property until and unless substantial payment [has] been effected. In the same manner, and as [e]nunciated in *Garcia vs. CA, supra*, plaintiff's failure to tender their payment is 'not a breach, casual or serious.'

However, the fact that the defendant even raised in his Answer that plaintiffs should 'be adjudged to pay P1,250,000.00 to defendant as unpaid balance of the latter's house and lot with 9% interest thereon from January 2001 until actually fully paid,' and proceeded to [defend] the contract as if [it was] still binding and worse, **made this Court believe that the property is free from encumbrance**, he cannot now argue that he has no obligation to transfer the property to plaintiffs or even to inform them of his intention to sell the same during the pendency of his case.

When a thing is the subject of a judicial controversy, it should ultimately be bound by whatever disposition the court shall render. The parties to the case are therefore expected, in deference to the court's exercise of jurisdiction over the case, to refrain from doing acts, which would dissipate or debase the thing subject of the litigation or otherwise render the impending decision therein ineffectual. Further, **any disposition of the thing subject of litigation or any act which tends to render inutile the court's impending disposition in such case, sans the knowledge and approval of the litigants or of the court, is unmistakably and irrefutably indicative of bad faith**. Such acts undermine the authority of the court to lay down the respective rights of the parties in a case relative to the thing subject of litigation and bind them to such determination. (*Baylon v. Baylon*, G.R. No. 182435, Aug. 13, 2012)

Article 1381(4) of the Civil Code requires that any contract entered into by a party in a case which refers to a property under litigation should be with the knowledge and approval of the litigants or of a competent judicial authority, thus –

Article 1381(4) – The following contracts are rescissible:

x x x x

(4) Those which refer to things under litigation if they have been entered into by the defendants without the knowledge and approval of the litigants or of competent judicial authority.

Article 1381(4) seeks to remedy the presence of **bad faith** among the parties to a case and/or any fraudulent act, which they may commit with respect to the thing [in] litigation. When a thing is the subject of a judicial controversy, it should ultimately be bound by whatever disposition the court shall render. (*Baylon, supra*)

Defendant is a lawyer and is an officer of this Court. In fact, he represented himself in the proceedings before this Court. Rule 10.01 of the Code of Professional Responsibility states that a lawyer shall not do any falsehood, nor consent to the doing of any in Court; **nor shall he mislead or allow the Court to be misled by any artifice.**

Being his own lawyer, **he could have easily informed the Court of his intentions and actions that he has sold the property**, which could have saved the Court's time, considering that the property was sold even before a decision was issued by this Court. The actions of defendant [were] contemptible to say the least.

The act of defendant in selling the property had rendered the disposition of this case ineffective. Thus, plaintiffs have the right, if they would want to, to seek the [rescission] of the sale of the property to Elizabeth Algosó. Obviously, this is not the intention of the plaintiffs in asking for new trial. On the contrary, they do not want to have anything to do with the property subject of this litigation, and are probably just glad that the same [has] been sold.

There is[,] however, the sum of money, which was given to the defendant by the plaintiffs which the latter sought to be returned to them. The Court in its original decision, finding no reason to rescind the contract, regarded the sum of money as part of the consideration of the sale. **Now that there is no sale between the plaintiffs and the defendant to speak of due to the fault, almost fraudulent act of defendant, then the sum of money should be returned to plaintiffs less the amount for the use of the property which shall be considered as rental payment.**¹⁴ (Emphases and underscoring supplied)

De Guzman appealed to the CA questioning the propriety of the remedy of a Motion for New Trial and the legality of the RTC Order.

The CA rendered its assailed Decision¹⁵ denying the appeal and affirming the RTC Order:

WHEREFORE, the instant appeal is **DENIED**. The Decision dated January 31, 2013 of the Regional Trial Court of Antipolo City, Branch 73 in Civil Case No. 01-6204 is hereby **AFFIRMED**.

SO ORDERED.¹⁶ (Emphases in the original)

The CA concurred with the RTC that De Guzman's act of selling the Subject Property while the case was pending without any notice or authority constituted bad faith, deception, and fraud. The transfer of the property to a

¹⁴ Id. at 41-43.

¹⁵ Id. at 38-49.

¹⁶ Id. at 47.

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third party rendered the enforcement of the Contract to Sell moot and academic. It thus upheld the grant of a new trial by the RTC to prevent the failure of justice, and to address the irregularities brought about by De Guzman's actions which prejudiced the spouses Santos' substantive rights. Ultimately, it held that the RTC Order was justified in the broader interest of justice and equity.¹⁷

De Guzman sought reconsideration¹⁸ of the Decision but was denied by the CA in its Resolution.¹⁹

Hence, the instant petition.²⁰

De Guzman in his petition maintained that the assailed rulings of the CA were contrary to law since the remedy of rescission does not apply to a Contract to Sell.²¹ It was spouses Santos' own failure to comply with their obligations which rendered the contract ineffective. Further, there was no basis for them to seek reimbursement of their down payment.²² On the contrary, their Contract to Sell explicitly provides that the spouses Santos' failure to pay the monthly installments shall result in the automatic cancellation of the contract and forfeiture of all the payments made.²³

The spouses Santos in response filed a Comment-Opposition to the Petition²⁴ to the petition. They insisted that the CA Decision was correct and emphasized that reimbursement of their down payment was necessary to prevent De Guzman's unjust enrichment.²⁵ They also reiterated how the act of selling the Subject Property during the pendency of the case was done in bad faith and rendered the Contract to Sell rescissible.²⁶

De Guzman filed a Reply²⁷ to the Comment-Opposition. He thereafter filed a Memorandum,²⁸ to which the spouses Santos filed a Comment/Opposition.²⁹

¹⁷ Id. at 48-49.
¹⁸ Id. at 50-55.
¹⁹ Id. at 57-58.
²⁰ Id. at 8-33.
²¹ Id. at 18-20.
²² Id. at 20-21.
²³ Id. at 21-24.
²⁴ Id. at 63-72.
²⁵ Id. at 67-69.
²⁶ Id. at 64-66.
²⁷ Id. at 76-82.
²⁸ Id. at 87-117.
²⁹ Id. at 119-127.

The Issues

The issues in this case are:

1. Whether or not the CA correctly affirmed the rescission of the Contract to Sell.
2. Whether or not De Guzman is liable to reimburse the spouses Santos their down payment.

The Ruling of this Court

After a judicious review, the petition is granted.

A Contract to Sell is defined as “a bilateral contract whereby the prospective seller, while expressly reserving the ownership of the subject property despite delivery thereof to the prospective buyer, binds himself to sell the said property exclusively to the prospective buyer upon fulfillment of the condition agreed upon, that is, full payment of the purchase price.”³⁰

The peculiar characteristic of a Contract to Sell is that the seller retains legal title to the property to be sold until the buyer fully pays the purchase price. The full payment of the purchase price is a positive suspensive condition, the non-fulfillment of which does not constitute a breach of contract, but merely an event that prevents the seller from conveying title to the buyer.³¹

Considering that non-payment of the full purchase price does not amount to a breach of contract, the remedy of specific performance cannot be availed of. The remedy of rescission is also unavailable since it is impossible to rescind an obligation that is non-existing, the suspensive condition not having happened yet.³² The buyer’s non-payment thus only renders the contract to sell ineffective and without force and effect.³³ This Court has even pronounced that the failure to make full payment of the purchase price in a contract to sell is not really a breach, serious or otherwise, and therefore not a sufficient ground to award damages.³⁴

³⁰ *Spouses Tumibay v. Spouses Lopez*, 710 Phil. 19, 31 (2013).

³¹ *Cordero v. F.S. Management & Development Corp.*, 536 Phil. 1151, 1160 (2006).

³² *Rillo v. Court of Appeals*, 340 Phil. 570, 577 (1997).

³³ *Ayala Life Assurance, Inc. v. Ray Burton Development Corporation*, 515 Phil. 431, 439 (2006).

³⁴ *Supra* note 31, at 1162.

On the other hand, the seller has no obligation to transfer ownership over the property to the intending buyer until they execute a contract of sale after full payment of the purchase price, even if they already entered into a contract to sell.³⁵ It was thus recognized in *Spouses Roque v. Aguado*³⁶ (*Spouses Roque*) that the seller retains the freedom and legal right to sell the property to a third party before the intending buyer's full payment of the purchase price. It was explained in *Coronel v. CA*³⁷ (*Coronel*) that such sale to third party is legal because prior to full payment of the purchase price, there is no defect in the seller's title *per se*. In such an event, the intending buyer under the contract to sell is not even entitled to reconveyance of the property sold to the third party and can at most seek damages against the seller. The Court in *Coronel* pertinently held:

In a contract to sell, upon the fulfillment of the suspensive condition which is the full payment of the purchase price, ownership will not automatically transfer to the buyer although the property may have been previously delivered to him. The prospective seller still has to convey title to the prospective buyer by entering into a contract of absolute sale.

It is essential to distinguish between a contract to sell and a conditional contract of sale specially in cases where the subject property is sold by the owner not to the party the seller contracted with, but to a third person, as in the case at bench. In a contract to sell, there being no previous sale of the property, a third person buying such property despite the fulfillment of the suspensive condition such as the full payment of the purchase price, for instance, cannot be deemed a buyer in bad faith and the prospective buyer cannot seek the relief of reconveyance of the property. There is no double sale in such case. **Title to the property will transfer to the buyer after registration because there is no defect in the owner-seller's title *per se*, but the latter, of course, may be used for damages by the intending buyer.**³⁸ (Emphasis and underscoring supplied)

Based on the foregoing, the assailed CA Decision and Resolution in this case must be reversed for being contrary to prevailing law and jurisprudence.

To recall, the RTC rescinded the Contract to Sell because of De Guzman's act of selling the Subject Property in bad faith during the trial stage. He was then ordered to reimburse the down payment since there was allegedly no longer any existing sale between the parties. This was affirmed by the CA ruling that the sale to a third party rendered the enforcement of the Contract to Sell moot and academic. It additionally ruled that this was

³⁵ *Ursal v. CA*, 509 Phil. 628, 645 (2005).

³⁶ 731 Phil. 516 (2014).

³⁷ G.R. No. 103577, 7 October 331 Phil. 294 (1996).

³⁸ *Id.* at 310-311.

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necessary in the broader interest of justice and equity.³⁹

This Court rules that the CA erred in affirming the rescission of the Contract to Sell and the order for De Guzman to reimburse the down payment. Although his act of selling the Subject Property to Algozo during the trial stage constituted bad faith, it was not a legal ground for rescission pursuant to Article 1381(4) of the New Civil Code. This was likewise not a sufficient ground to nullify it under any existing laws.

Following the doctrines in *Spouses Roque and Coronel*, De Guzman's sale to Algozo was legal and valid because there was still no defect in his title to the Subject Property at the time. It is undisputed that the spouses Santos did not fully pay the purchase price to obligate the sale of the Subject Property exclusively to them.

The spouses Santos were not entitled to seek the rescission of the Contract to Sell as the RTC erroneously granted in its Order. Necessarily, its order directing De Guzman to reimburse the down payment on the ground that there was no longer any sale between the parties was also erroneous. At most, the spouses Santos could only demand the payment of damages from De Guzman for selling the Subject Property prior to their full payment of the purchase price.

Having established the foregoing, the remaining ground to possibly justify the order for De Guzman to reimburse the down payment is the CA's finding that it was necessary in the broader interest of justice and equity.

In this regard, an analysis of the circumstances of this case warrants a reversal of the CA rulings. The determination of this issue involves factual matters which are generally beyond the scope of petitions filed under Rule 45 of the Rules of Court. However, this case falls under an exception when the assailed judgment is based on a misapprehension of facts.⁴⁰

It is clear from the evidence on record that the spouses Santos were the parties first in bad faith in complying with their obligations under the Contract to Sell. They readily admitted in their complaint that they stayed on the Subject Property for four months but deliberately did not pay even a single installment agreed upon. They also never had any intention of complying with their obligations as evidenced by the fact that they unilaterally abandoned the Subject Property. This blatant disregard for their

³⁹ *Rollo*, p. 49.

⁴⁰ *Pascual v. Burgos*, 776 Phil. 167, 182 (2016).

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contractual obligations prior to the filing of their complaint reeked of bad faith and must be considered in determining what is just and equitable.

However, it is also undeniable that De Guzman committed a grave fault and was guilty of bad faith when he sold the Subject Property to Algos during the trial stage without any judicial authorization. This made the enforcement of the Contract to Sell moot and academic, and constituted a violation of his duties to the court.

Consequently, the spouses Santos are not entitled to seek protection from the courts because they themselves were guilty of grossly violating the Contract to Sell. It is settled that parties who come to court with unclean hands must not be allowed to profit from their own wrongdoings. The parties seeking equity must be free from fault.⁴¹ The fact that they violated the Contract to Sell and then filed the instant case to try and escape the consequences cannot be countenanced by this Court.

In the same vein, De Guzman cannot be granted any judicial relief in the form of damages since he was guilty of bad faith in selling the Subject Property to Algos without any judicial authorization.

It is apparent from the foregoing that the parties in this case are *in pari delicto*, or “in equal fault.” In such cases, the parties shall have no action against each other and the courts shall leave them where it finds them.⁴² The CA therefore gravely erred in ordering De Guzman to reimburse the down payment in the interest of justice and equity for lack of legal and factual basis.

Lastly, this Court stresses that its non-intervention with the parties leaves the Contract to Sell to govern the adjudication of their rights. Significantly, paragraph 1 of the Contract to Sell states that the dishonor of three checks covering payments of the installments due shall result in the automatic cancellation of the contract and the forfeiture of all payments made:

1. The purchase price of the house and lot is ONE MILLION FIVE HUNDRED THOUSAND PESOS (P1,500,000.00), Philippine Currency, payable by the Vendees as follows:

⁴¹ *Department of Public Works and Highways v. Quiwa*, 681 Phil. 485, 489-490 (2012).

⁴² *Ranara, Jr. v. De Los Angeles, Jr.*, 792 Phil. 571, 577-576 (2016), citing *Constantino v. Heirs of Pedro Constantino, Jr.*, 718 Phil. 575, 584-587 (2013).

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- a. Two Hundred Fifty Thousand Pesos (P250,000.00) upon the signing of this Contract;
- b. The balance of One Million Two Hundred Fifty Thousand Pesos (P1,250,000.00) shall be paid in equal installment of FIFTEEN THOUSAND PESOS (P15,000.00) Philippine Currency, every month with an interest of Nine Percent (9%) per annum the total amount of which shall be computed and paid after full payment of the principal amount hereof;
- c. The Vendees shall issue upon signing hereof twelve (12) checks as payment for every year installment of twelve (12) months encashable every last day of the month and every year thereafter until the total amount hereof is actually and fully paid;
- d. The Vendees shall avoid [dishonor] of any of the checks they will issue in payment of the house and lot of the Vendor, otherwise, **any three (3) successive dishonor of the said checks shall be a ground for automatic cancellation of this Contract and forfeiture of all payment[s] made to the Vendor.**⁴³ (Emphasis and underscoring supplied)

By applying the clear provisions of the Contract to Sell, the spouses Santos' admission of default for the four months they stayed on the Subject Property should have resulted in the automatic cancellation of the contract and the forfeiture of all their payments made.

It is only fair, just, and equitable to apply the provisions of the Contract to Sell which both parties voluntarily and intelligently agreed upon. This is in line with the fundamental principle that obligations arising from contracts have the force of law between the parties and should be complied with in good faith.⁴⁴

WHEREFORE, premises considered, the Petition for Review on *Certiorari* is granted. The Decision dated December 18, 2014 and the Resolution dated February 18, 2016 of the Court of Appeals in CA-G.R. CV No. 100706 are **REVERSED** and **SET ASIDE**.

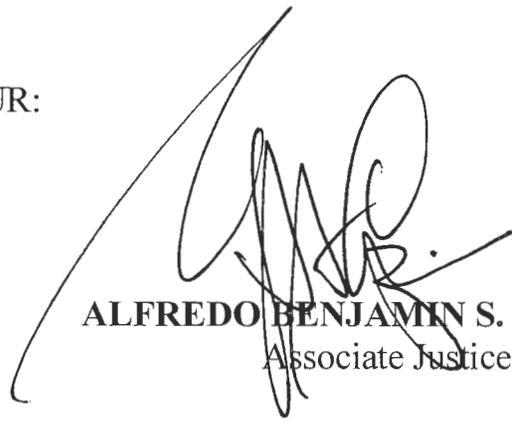
SO ORDERED.


SAMUEL H. GAERLAN
Associate Justice

⁴³ *Rollo*, pp. 22-23.

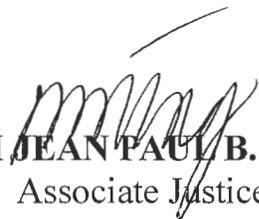
⁴⁴ CIVIL CODE OF THE PHILIPPINES, Article 1159.

WE CONCUR:

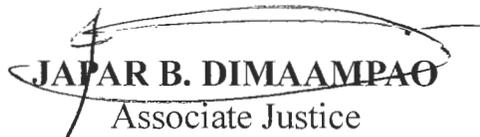


ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

*See Separate
Opinion*



HENRI JEAN PAUL B. INTING
Associate Justice



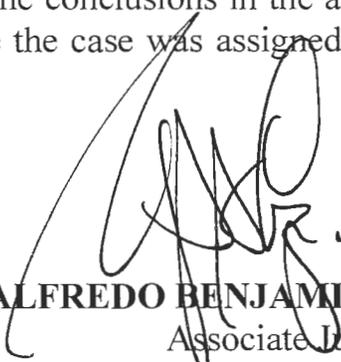
JAFAR B. DIMAAMPAO
Associate Justice



MARIA FILOMENA D. SINGH
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



ALFREDO BENJAMIN S. CAGUIOA
Associate Justice
Chairperson



CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ALEXANDER G. GESMUNDO
Chief Justice

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