



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

**OPTIMUM DEVELOPMENT
BANK,**

Petitioner,

- versus -

**SPOUSES BENIGNO V.
JOVELLANOS and
LOURDES R. JOVELLANOS,**
Respondents.

G.R. No. 189145

Present:

CARPIO, *J.*, Chairperson,
BRION,
DEL CASTILLO,
PEREZ, and
PERLAS-BERNABE, *JJ.*

Promulgated:

DEC 04 2013 *AW Cabalag Perfecto*

X-----X

DECISION

PERLAS-BERNABE, *J.*:

Assailed in this petition for review on *certiorari*¹ are the Decision² dated May 29, 2009 and Resolution³ dated August 10, 2009 of the Court of Appeals (CA) in CA-G.R. SP No. 104487 which reversed the Decision⁴ dated December 27, 2007 of the Regional Trial Court of Caloocan City, Branch 128 (RTC) in Civil Case No. C-21867 that, in turn, affirmed the Decision⁵ dated June 8, 2007 of the Metropolitan Trial Court, Branch 53 of that same city (MeTC) in Civil Case No. 06-28830 ordering respondents-spouses Benigno and Lourdes Jovellanos (Sps. Jovellanos) to, *inter alia*, vacate the premises of the property subject of this case.

¹ *Rollo*, pp. 24-40.

² Id. at 171-177. Penned by Associate Justice Juan Q. Enriquez, Jr., with Associate Justices Celia C. Libre-Leagogo and Antonio L. Villamor, concurring.

³ Id. at 205-206.

⁴ Id. at 107-111. Penned by Presiding Judge Eleanor R. Kwong.

⁵ Id. at 73-74. Penned by Judge Mariam G. Bien.

J

The Facts

On April 26, 2005, Sps. Jovellanos entered into a Contract to Sell⁶ with Palmera Homes, Inc. (Palmera Homes) for the purchase of a residential house and lot situated in Block 3, Lot 14, Villa Alegria Subdivision, Caloocan City (subject property) for a total consideration of ₱1,015,000.00. Pursuant to the contract, Sps. Jovellanos took possession of the subject property upon a down payment of ₱91,500.00, undertaking to pay the remaining balance of the contract price in equal monthly installments of ₱13,107.00 for a period of 10 years starting June 12, 2005.⁷

On August 22, 2006, Palmera Homes assigned all its rights, title and interest in the Contract to Sell in favor of petitioner Optimum Development Bank (Optimum) through a Deed of Assignment of even date.⁸

On April 10, 2006, Optimum issued a Notice of Delinquency and Cancellation of Contract to Sell⁹ for Sps. Jovellanos's failure to pay their monthly installments despite several written and verbal notices.¹⁰ In a final Demand Letter dated May 25, 2006,¹¹ Optimum required Sps. Jovellanos to vacate and deliver possession of the subject property within seven (7) days which, however, remained unheeded. Hence, Optimum filed, on November 3, 2006, a complaint for unlawful detainer¹² before the MeTC, docketed as Civil Case No. 06-28830.

Despite having been served with summons, together with a copy of the complaint,¹³ Sps. Jovellanos failed to file their answer within the prescribed reglementary period, thus prompting Optimum to move for the rendition of judgment.¹⁴ Thereafter, Sps. Jovellanos filed their opposition with motion to admit answer, questioning the jurisdiction of the court, among others. Further, they filed a Motion to Reopen and Set the Case for Preliminary Conference, which the MeTC denied.

The MeTC Ruling

In a Decision¹⁵ dated June 8, 2007, the MeTC ordered Sps. Jovellanos to vacate the subject property and pay Optimum reasonable compensation in the amount of ₱5,000.00 for its use and occupation until possession has been surrendered. It held that Sps. Jovellanos's possession of the said property

⁶ Id. at 45-50.

⁷ Id. at 45, 108, and 172.

⁸ Id. at 26 and 51-54.

⁹ Id. at 55.

¹⁰ Id. at 58.

¹¹ Id. at 56.

¹² Id. at 57-60. Dated October 11, 2006.

¹³ Id. at 62.

¹⁴ Id. at 63-65.

¹⁵ Id. at 73-74.

was by virtue of a Contract to Sell which had already been cancelled for non-payment of the stipulated monthly installment payments. As such, their “rights of possession over the subject property necessarily terminated or expired and hence, their continued possession thereof constitute[d] unlawful detainer.”¹⁶

Dissatisfied, Sps. Jovellanos appealed to the RTC, claiming that Optimum counsel made them believe that a compromise agreement was being prepared, thus their decision not to engage the services of counsel and their concomitant failure to file an answer.¹⁷ They also assailed the jurisdiction of the MeTC, claiming that the case did not merely involve the issue of physical possession but rather, questions arising from their rights under a contract to sell which is a matter that is incapable of pecuniary estimation and, therefore, within the jurisdiction of the RTC.¹⁸

The RTC Ruling

In a Decision¹⁹ dated December 27, 2007, the RTC affirmed the MeTC’s judgment, holding that the latter did not err in refusing to admit Sps. Jovellanos’s belatedly filed answer considering the mandatory period for its filing. It also affirmed the MeTC’s finding that the action does not involve the rights of the respective parties under the contract but merely the recovery of possession by Optimum of the subject property after the spouses’ default.²⁰

Aggrieved, Sps. Jovellanos moved for reconsideration which was, however, denied in a Resolution²¹ dated June 27, 2008. Hence, the petition before the CA reiterating that the RTC erred in affirming the decision of the MeTC with respect to: (a) the non-admission of their answer to the complaint; and (b) the jurisdiction of the MeTC over the complaint for unlawful detainer.²²

The CA Ruling

In an Amended Decision²³ dated May 29, 2009, the CA reversed and set aside the RTC’s decision, ruling to dismiss the complaint for lack of jurisdiction. It found that the controversy does not only involve the issue of possession but also the validity of the cancellation of the Contract to Sell and the determination of the rights of the parties thereunder as well as the

¹⁶ Id. at 74.

¹⁷ Id. at 80-81.

¹⁸ Id. at 85-86.

¹⁹ Id. at 107-111.

²⁰ Id. at 111.

²¹ Id. at 140-141.

²² Id. at 142-157. See Memorandum for the Petitioners dated December 21, 2008.

²³ Id. at 171-177.

governing law, among others, Republic Act No. (RA) 6552.²⁴ Accordingly, it concluded that the subject matter is one which is incapable of pecuniary estimation and thus, within the jurisdiction of the RTC.²⁵

Undaunted, Optimum moved for reconsideration which was denied in a Resolution²⁶ dated August 10, 2009. Hence, the instant petition, submitting that the case is one for unlawful detainer, which falls within the exclusive original jurisdiction of the municipal trial courts, and not a case incapable of pecuniary estimation cognizable solely by the regional trial courts.

The Court's Ruling

The petition is meritorious.

What is determinative of the nature of the action and the court with jurisdiction over it are the allegations in the complaint and the character of the relief sought, not the defenses set up in an answer.²⁷ A complaint sufficiently alleges a cause of action for unlawful detainer if it recites that: (a) initially, possession of the property by the defendant was by contract with or by tolerance of the plaintiff; (b) eventually, such possession became illegal upon notice by plaintiff to defendant of the termination of the latter's right of possession; (c) thereafter, defendant remained in possession of the property and deprived plaintiff of the enjoyment thereof; and (d) within one year from the last demand on defendant to vacate the property, plaintiff instituted the complaint for ejectment.²⁸ Corollarily, the only issue to be resolved in an unlawful detainer case is physical or material possession of the property involved, independent of any claim of ownership by any of the parties involved.²⁹

In its complaint, Optimum alleged that it was by virtue of the April 26, 2005 Contract to Sell that Sps. Jovellanos were allowed to take possession of the subject property. However, since the latter failed to pay the stipulated monthly installments, notwithstanding several written and verbal notices made upon them, it cancelled the said contract as per the Notice of Delinquency and Cancellation dated April 10, 2006. When Sps. Jovellanos refused to vacate the subject property despite repeated demands, Optimum instituted the present action for unlawful detainer on November 3, 2006, or within one year from the final demand made on May 25, 2006.

²⁴ Id. at 175. RA 6552 is entitled "AN ACT TO PROVIDE PROTECTION TO BUYER OF REAL ESTATE ON INSTALLMENT PAYMENTS."

²⁵ Id. at 176.

²⁶ Id. at 205-206.

²⁷ *Fernando v. Spouses Lim*, 585 Phil. 141, 155 (2008).

²⁸ Id. at 155-156.

²⁹ *Manila Electric Company v. Heirs of Spouses Dionisio Deloy and Praxedes Martonito*, G.R. No. 192893, June 5, 2013.

While the RTC upheld the MeTC's ruling in favor of Optimum, the CA, on the other hand, declared that the MeTC had no jurisdiction over the complaint for unlawful detainer, reasoning that the case involves a matter which is incapable of pecuniary estimation – *i.e.*, the validity of the cancellation of the Contract to Sell and the determination of the rights of the parties under the contract and law – and hence, within the jurisdiction of the RTC.

The Court disagrees.

Metropolitan Trial Courts are **conditionally vested** with authority to resolve the question of ownership raised **as an incident** in an ejectment case where the determination is **essential to a complete adjudication of the issue of possession**.³⁰ Concomitant to the ejectment court's authority to look into the claim of ownership **for purposes of resolving the issue of possession** is its authority to interpret the contract or agreement upon which the claim is premised. Thus, in the case of *Oronce v. CA*,³¹ wherein the litigants' opposing claims for possession was hinged on whether their written agreement reflected the intention to enter into a sale or merely an equitable mortgage, the Court affirmed the propriety of the ejectment court's examination of the terms of the agreement in question by holding that, "because **metropolitan trial courts are authorized to look into the ownership of the property in controversy in ejectment cases**, it behooved MTC Branch 41 to examine the bases for petitioners' claim of ownership that entailed interpretation of the Deed of Sale with Assumption of Mortgage."³² Also, in *Union Bank of the Philippines v. Maunlad Homes, Inc.*³³ (*Union Bank*), citing *Sps. Refugia v. CA*,³⁴ the Court declared that MeTCs have authority to interpret contracts in unlawful detainer cases, *viz.*:³⁵

The authority granted to the MeTC to preliminarily resolve the issue of ownership to determine the issue of possession ultimately allows it to interpret and enforce the contract or agreement between the plaintiff and the defendant. To deny the MeTC jurisdiction over a complaint merely because the issue of possession requires the interpretation of a contract will effectively rule out unlawful detainer as a remedy. As stated, in an action for unlawful detainer, the defendant's right

³⁰ Section 33 of Batas Pambansa Blg. 129, as amended by RA 7691, provides:

Sec. 33. Jurisdiction of Metropolitan Trial Courts, Municipal Trial Courts and Municipal Circuit Trial Courts in Civil Cases. – Metropolitan Trial Courts, Municipal Trial Courts, and Municipal Circuit Trial Courts shall exercise:

x x x x

(2) Exclusive original jurisdiction over cases of forcible entry and unlawful detainer: Provided, That when, in such cases, the defendant raises the questions of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession; x x x

x x x x

³¹ 358 Phil. 616 (1998).

³² *Id.* at 636.

³³ G.R. No. 190071, August 15, 2012, 678 SCRA 539.

³⁴ 327 Phil. 982, 1006 (1996).

³⁵ *Union Bank of the Philippines v. Maunlad Homes, Inc.*, *supra* note 33, at 547-548.

to possess the property may be by virtue of a contract, express or implied; corollarily, the termination of the defendant's right to possess would be governed by the terms of the same contract. **Interpretation of the contract between the plaintiff and the defendant is inevitable because it is the contract that initially granted the defendant the right to possess the property; it is this same contract that the plaintiff subsequently claims was violated or extinguished, terminating the defendant's right to possess.** We ruled in *Sps. Refugia v. CA* that –

where the resolution of the issue of possession hinges on a determination of the validity and interpretation of the document of title or any other contract on which the claim of possession is premised, the inferior court may likewise pass upon these issues.

The MeTC's ruling on the rights of the parties based on its interpretation of their contract is, of course, not conclusive, **but is merely provisional and is binding only with respect to the issue of possession.** (Emphases supplied; citations omitted)

In the case at bar, the unlawful detainer suit filed by Optimum against Sps. Jovellanos for illegally withholding possession of the subject property is similarly premised upon the cancellation or termination of the Contract to Sell between them. Indeed, it was well within the jurisdiction of the MeTC to consider the terms of the parties' agreement in order to ultimately determine the factual bases of Optimum's possessory claims over the subject property. Proceeding accordingly, the MeTC held that Sps. Jovellanos's non-payment of the installments due had rendered the Contract to Sell without force and effect, thus depriving the latter of their right to possess the property subject of said contract.³⁶ The foregoing disposition aptly squares with existing jurisprudence. As the Court similarly held in the *Union Bank* case, the seller's cancellation of the contract to sell necessarily extinguished the buyer's right of possession over the property that was the subject of the terminated agreement.³⁷ Verily, in a contract to sell, the prospective seller binds himself to sell the property subject of the agreement exclusively to the prospective buyer upon fulfillment of the condition agreed upon which is the full payment of the purchase price but reserving to himself the ownership of the subject property despite delivery thereof to the prospective buyer.³⁸ **The full payment of the purchase price in a contract to sell is a suspensive condition, the non-fulfillment of which prevents the prospective seller's obligation to convey title from becoming effective,**³⁹ as in this case.

Further, it is significant to note that given that the Contract to Sell in this case is one which has for its object real property to be sold on an installment basis, the said contract is especially governed by – and thus, must be examined under the provisions of – RA 6552, or the “Realty Installment Buyer Protection Act”, which provides for the rights of the buyer

³⁶ See *Pagtalunan v. Dela Cruz Vda. de Manzano*, 559 Phil. 658, 668 (2007).

³⁷ See *Union Bank of the Philippines v. Maunlad Homes, Inc.*, supra note 33, at 548-549.

³⁸ See *Coronel v. CA*, 331 Phil. 294, 309 (1996).

³⁹ See *Montecalvo v. Heirs of Eugenia T. Primero*, G.R. No. 165168, July 9, 2010, 624 SCRA 575, 587.

in case of his default in the payment of succeeding installments. Breaking down the provisions of the law, the Court, in the case of *Rillo v. CA*,⁴⁰ explained the mechanics of cancellation under RA 6552 which are based mainly on the amount of installments already paid by the buyer under the subject contract, to wit:⁴¹

Given the nature of the contract of the parties, the respondent court correctly applied Republic Act No. 6552. Known as the Maceda Law, R.A. No. 6552 recognizes in conditional sales of all kinds of real estate (industrial, commercial, residential) the right of the seller to cancel the contract upon non-payment of an installment by the buyer, which is simply an event that prevents the obligation of the vendor to convey title from acquiring binding force. It also provides the right of the buyer on installments in case he defaults in the payment of succeeding installments, *viz.*:

(1) *Where he has paid at least two years of installments,*

(a) To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is hereby fixed at the rate of one month grace period for every one year of installment payments made: *Provided*, That this right shall be exercised by the buyer only once in every five years of the life of the contract and its extensions, if any.

(b) If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to fifty per cent of the total payments made and, after five years of installments, an additional five per cent every year but not to exceed ninety per cent of the total payments made: *Provided*, That the actual cancellation of the contract shall take place after cancellation or the demand for rescission of the contract by a notarial act and upon full payment of the cash surrender value to the buyer.

Down payments, deposits or options on the contract shall be included in the computation of the total number of installments made.

(2) *Where he has paid less than two years in installments,*

Sec. 4. x x x the seller shall give the buyer a grace period of not less than sixty days from the date the installment became due. If the buyer fails to pay the installments due at the expiration of the grace period, the seller may cancel the contract after thirty days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act. (Emphasis and underscoring supplied)

Pertinently, since Sps. Jovellanos failed to pay their stipulated monthly installments as found by the MeTC, the Court examines Optimum's compliance with Section 4 of RA 6552, as above-quoted and highlighted, which is the provision applicable to buyers who have paid less than two (2) years-worth of installments. Essentially, the said provision provides for three (3) requisites before the seller may actually cancel the subject contract: ***first***, the seller shall give the buyer a **60-day grace period** to be reckoned from the date the installment became due; ***second***, the seller must give the buyer a **notice of cancellation/demand for rescission by notarial act** if the buyer fails to pay the installments due at the expiration of the said grace period;

⁴⁰ G.R. No. 125347, June 19, 1997, 274 SCRA 461.

⁴¹ *Id.* at 467-468.

and ***third***, the seller may actually cancel the contract only **after thirty (30) days** from the buyer's receipt of the said notice of cancellation/demand for rescission by notarial act.

In the present case, the 60-day grace period automatically operated⁴² in favor of the buyers, Sps. Jovellanos, and took effect from the time that the maturity dates of the installment payments lapsed. With the said grace period having expired bereft of any installment payment on the part of Sps. Jovellanos,⁴³ Optimum then issued a notarized Notice of Delinquency and Cancellation of Contract on April 10, 2006. Finally, in proceeding with the actual cancellation of the contract to sell, Optimum gave Sps. Jovellanos an additional thirty (30) days within which to settle their arrears and reinstate the contract, or sell or assign their rights to another.⁴⁴ It was only after the expiration of the thirty day (30) period did Optimum treat the contract to sell as effectively cancelled – making as it did a final demand upon Sps. Jovellanos to vacate the subject property only on May 25, 2006.

Thus, based on the foregoing, the Court finds that there was a valid and effective cancellation of the Contract to Sell in accordance with Section 4 of RA 6552 and since Sps. Jovellanos had already lost their right to retain possession of the subject property as a consequence of such cancellation, their refusal to vacate and turn over possession to Optimum makes out a valid case for unlawful detainer as properly adjudged by the MeTC.

WHEREFORE, the petition is **GRANTED**. The Decision dated May 29, 2009 and Resolution dated August 10, 2009 of the Court of Appeals in CA-G.R. SP No. 104487 are **SET ASIDE**. The Decision dated June 8, 2007

⁴² The automatic operation of the aforesaid grace period in favor of Sps. Jovellanos is in accord with *Bricktown Dev't. Corp. v. Amor Tierra Dev't. Corp.* (G.R. No. 112182, December 12, 1994, 239 SCRA 126, 131-132) wherein the Court held that:

A grace period is a right, not an obligation, of the debtor. **When unconditionally conferred, such as in this case, the grace period is effective without further need of demand either calling for the payment of the obligation or for honoring the right.** The grace period must not be likened to an obligation, the non-payment of which, under Article 1169 of the Civil Code, would generally still require judicial or extrajudicial demand before "default" can be said to arise.

Verily, in the case at bench, **the sixty-day grace period under the terms of the contracts to sell became *ipso facto* operative from the moment the due payments were not met at their stated maturities.** On this score, the provisions of Article 1169 of the Civil Code would find no relevance whatsoever. (Emphases supplied; citations omitted)

⁴³ Records disclose that Sps. Jovellanos had only paid the ₱91,500.00 down-payment and not the equal monthly installments due on the Contract to Sell for the remaining balance, the first of which started on June 12, 2005. (See Contract to Sell, *rollo*, p. 45; see CA Decision, *id.* at 172; see RTC Decision, *id.* at 108; see MeTC Decision, *id.* at 73-74.) Records also disclose that Sps. Jovellanos did not, in any of its pleadings attached thereto, claim that they have paid any monthly installment due on the Contract to Sell outside from the ₱91,500.00 down-payment. (See Defendants-Appellants' Appeal Memorandum dated August 1, 2007, *id.* at 77-78; Memorandum for Petitioners dated December 21, 2008, *id.* at 151-152.)

⁴⁴ Section 5 of RA 6552 states:

Sec. 5. Under Sections 3 and 4, the buyer shall have the right to sell his rights or assign the same to another person or to reinstate the contract by updating the account during the grace period and before actual cancellation of the contract. The deed of sale or assignment shall be done by notarial act.

of the Metropolitan Trial Court, Branch 53, Caloocan City in Civil Case No. 06-28830 is hereby **REINSTATED**.

SO ORDERED.

W. Bern
ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:



ANTONIO T. CARPIO
Associate Justice
Chairperson



ARTURO D. BRION
Associate Justice



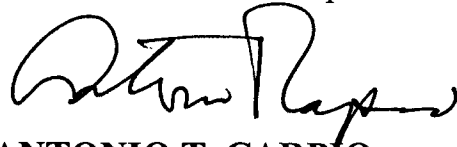
MARIANO C. DEL CASTILLO
Associate Justice



JOSE PORTUGAL PEREZ
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.



ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

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.



MARIA LOURDES P. A. SERENO
Chief Justice