Republic of the Philippines
Supreme Court
Manila

**THIRD DIVISION**

**RENATO MA. R. PERALTA,**
Petitioner,

**G.R. No. 188467**

- versus -

**JOSE ROY RAVAL,**
Respondent.
x----------x

**JOSE ROY B. RAVAL,**
Petitioner,

**G.R. No. 188764**

Present:

VELASCO, JR., *J.*,
*Chairperson*,
BERSAMIN,
DEL CASTILLO,*
REYES, and
JARDELEZA, *JJ.*

- versus -

Promulgated:

**RENATO MA. R. PERALTA,**
Respondent.

March 29, 2017

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* Additional Member per Raffle dated March 27, 2017 *vice* Associate Justice Noel G. Tijam.

# DECISION

**REYES, *J.*:**

Before the Court are consolidated petitions for review on *certiorari* under Rule 45 of the Rules of Court, docketed as G.R. No. 188764 and G.R. No. 188467 and filed by Jose Roy B. Raval (Raval) and Renato Ma. R. Peralta (Peralta), respectively. Subject of both petitions is the Decision[1] dated October 8, 2008 of the Court of Appeals (CA) in CA-G.R. CV No. 85685, wherein the CA affirmed with modification the Decision[2] dated May 17, 2005 of the Regional Trial Court (RTC) of Laoag City, Branch 14, in the action for rescission of lease agreement, docketed as Civil Case No. 11424-14, that was filed by Raval against Peralta.

## The Antecedents

The controversy involves a lease agreement over two parcels of residential land, particularly Lot Nos. 9128-A and 9128-B, situated in San Jose, Laoag, Ilocos Norte and previously covered by Transfer Certificate of Title (TCT) Nos. T-2406[3] and T-3538[4] issued by the Register of Deeds for Ilocos Norte under the names of spouses Flaviano Arzaga, Sr. and Magdalena Agcaoili-Arzaga (Spouses Arzaga).[5] Each lot measures 660 square meters, more or less.[6]

On February 19, 1974, the Spouses Arzaga, as lessors, entered into a Contract of Lease[7] with Peralta, as lessee, over the subject lots and the improvements thereon, more particularly described in their contract as follows:

> B. x x x the whole of Lot No. 9128-A, with an area of 660 square meters; the northern portion of Lot No. 9128-B with an inclusive approximate area of 317 square meters; the first floor of the residential house found thereon with an approximate area of 160 square meters, consisting of a porch, a receiving room, three (3) bedrooms, a toilet and small room used as a bodega, the land area occupied by the garage and the driveway of 157 square meters, more or less, specifically situated at the southern portion of Lot No. 9128-B, including the room above the garage;

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1 Penned by Associate Justice Noel G. Tijam (now a Member of this Court), with Associate Justices Martin S. Villarama, Jr. (retired Justice of the Supreme Court) and Arturo G. Tayag concurring; *rollo* (G.R. No. 188467), pp. 69-84.

2 Rendered by Judge Ramon A. Pacis; id. at 94-131.

3 Records, pp. 640-641.

4 Id. at 638-639.

5 *Rollo* (G.R. No. 188467), p. 70.

6 Id. at 134.

7 Id. at 134-136.

> a kitchen with an area of 18 square meters; and the water tank built thereon together with its accessories x x x.[8]

Spouses Arzaga and Peralta agreed on a lease term of 40 years, for monthly rentals at the following rates: (a) ₱500.00 beginning May 1974; (b) ₱600.00 after the 10th year; (c) ₱700.00 after the 20th year; and (d) ₱800.00 after the 30th year and until the termination of the lease. Under the lease contract, Peralta was also to construct on the leased land a building that should become property of the Spouses Arzaga upon lease termination, to pay realty taxes for both lots, and to develop a water system for the use of both parties to the lease contract.[9]

Sometime in May 1988, Flaviano Arzaga, Jr. (Flaviano Jr.), being an adopted son and heir of the Spouses Arzaga, filed with the RTC of Laoag City a complaint for annulment of lease contract, docketed as Civil Case No. 9121-16, against Peralta, who allegedly breached in his obligations under the contract of lease. The complaint was eventually dismissed by the RTC on December 10, 1990.[10] The RTC decision was later affirmed by the CA in CA-G.R. CV No. 30396, while the CA ruling was no longer appealed by Flaviano Jr. to the Supreme Court.[11]

Raval came into the picture after Flaviano Jr. assigned to him *via* a Deed of Assignment[12] dated July 28, 1995 all his interests, rights and participation in the subject properties for a consideration of ₱500,000.00. Peralta refused to recognize the validity of the assignment to Raval, prompting him to still deposit his rental payments for the account of Flaviano Jr.,[13] more specifically to bank accounts that were opened by Peralta's wife, Gloria Peralta, under the name "Gloria F. Peralta [in-trust-for] (ITF): Flaviano Arzaga, Jr."[14]

Beginning August 1995, Raval demanded from Peralta compliance with the lease contract's terms and conditions.[15] On October 2, 1995, Raval's father and counsel, Atty. Castor Raval (Castor), wrote a letter to Peralta demanding the removal of the structures that the latter built on a portion of Lot No. 9128-B, as he claimed that it was not covered by the lease agreement. This demand was reiterated by Castor in a letter dated November 4, 1995, by which he also sought access to the residential house's second floor and an updated accounting of rentals already paid.[16] Peralta's refusal to heed to the demands of Castor prompted the latter to send several

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8 Id. at 134.
9 Id. at 135.
10 Id. at 70-71.
11 Id. at 121.
12 Id. at 138.
13 Id. at 77.
14 Id. at 71, 119.
15 Id. at 94.
16 Id. at 71-72.

other demand letters and, eventually, to refer the matter to barangay for conciliation.[17]

When the parties still failed to settle the issue, Castor sent another letter to Peralta on June 14, 1996, informing the latter that a lessee was to occupy the second storey of the house and demanding that the area be cleared for that purpose. On June 22, 1996, Castor again pointed out to Peralta the structures on Lot No. 9128-B that were allegedly not part of the lease agreement. He claimed that Peralta had become a builder in bad faith, such that the improvements made were to be already considered as properties of Raval.[18]

After several more demands and another barangay conciliation, Raval eventually filed in 1998 the subject complaint[19] for rescission of lease with the RTC of Laoag City against Peralta. He alleged that Peralta failed to comply with the terms of the lease contract and his demands as a lessor, particularly on the following matters:

> a. Refusal to render an accounting of the unpaid monthly rental[s] prior to 28 July 1995 and pay monthly rental[s] thereafter up to the present;
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> b. Refusal to vacate the 2nd storey of the old house;
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> c. Refusal to remove the improvements illegally constructed on areas not covered by [the Contract of Lease];
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> d. Refusal to operate and provide a water system; [and]
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> e. Refusal to refund the taxes paid by [Flaviano Jr.] as per decision in Civil Case No. 9121-16[.][20]

Raval's complaint ended with a prayer for the rescission of the lease agreement, an order upon Peralta to vacate the subject properties, payment of back rentals, and award of moral, exemplary and nominal damages, plus attorney's fees and costs of suit.[21]

Peralta opposed the complaint and sought its dismissal, as he insisted that Raval was not his lessor, and thus was not a real party-in-interest to the case. The supposed assignment between Flaviano Jr. and Raval was allegedly void considering that he was not consulted thereon and his prior approval thereto was not obtained. Moreover, notwithstanding an assignment, Raval did not have the right, power and authority to seek the

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17 Id. at 72, 125-127.
18 Id. at 72-73.
19 Id. at 132-133.
20 Id. at 132.
21 Id. at 133.

rescission of the contract of lease that was executed 24 years prior to the filing of the complaint. Peralta had also faithfully complied with his obligations under the lease.[22]

By way of counterclaim, Peralta asked for ₱500,000.00 as moral damages, ₱50,000.00 as exemplary damages, and ₱30,000.00 as attorney's fees. Raval's complaint was allegedly filed to harass and put him in public ridicule and contempt.[23] Its filing also caused him to "suffer social humiliation, besmirched reputation, mental anguish, wounded feelings, sleepless nights,"[24] especially as he was a member of the *Sangguniang Panlalawigan*, the Provincial Administrator of Ilocos Norte, and had signified his intention to seek the vice-gubernatorial post in the province.[25]

**Ruling of the RTC**

On May 17, 2005, the RTC of Laoag City, Branch 14, dismissed both Raval's complaint and Peralta's counterclaim. The dispositive portion of the RTC's decision[26] reads:

> WHEREFORE, in view of all the foregoing, the above-entitled case is hereby ordered dismissed. [Peralta's] counter-claim is likewise dismissed.
>
> SO ORDERED.[27]

***Action for Rescission***

In rejecting the claim against the validity of the deed of assignment, the RTC explained that an admission of Peralta's arguments thereon would result in a collateral attack on the TCTs that were issued to Raval by reason of the assignment. Such collateral attack is precluded under settled jurisprudence.[28]

In any case, the RTC ruled that rescission should be denied because Peralta had been depositing his monthly rentals in the bank accounts that were opened "in trust for" Raval and specifically for the purpose of effecting the payments. Peralta, then, was not remiss in the payment of rentals. The money remained with the bank; it was incumbent upon Flaviano Jr. and

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22 Id. at 139-140.
23 Id. at 140.
24 Id.
25 Id. at 140-141.
26 Id. at 94-131.
27 Id. at 131.
28 Id. at 117.

Raval to come up with an arrangement as to how the money would be withdrawn.[29]

Neither was there any other substantial breach nor a "blatant refusal" on Peralta's part to comply with his obligations as lessee.[30] The lapses committed by Peralta, such as the alleged unauthorized construction of structures, non-installation of water system on the second floor and failure to render an accounting, were merely minor or trivial.[31]

***Counterclaim***

Peralta's counterclaim for damages was also dismissed. It was not proved that the institution of the rescission case was prompted by malice, fraud or bad faith. Prior to the filing of his complaint, Raval repeatedly tried to reach out to Peralta, through his counsel, for negotiations or an amicable settlement of the issue.[32] The filing of the court action was only necessary for the protection of his rights and interests over the disputed properties. It could not be classified as a wrongful act.[33]

Dissatisfied by the trial court's ruling, both Raval and Peralta moved to reconsider, but their respective motions were denied by the trial court.[34] This prompted both parties to file their separate appeals with the CA. Raval insisted on a rescission of the lease agreement and an award of rentals from the date of the deed of assignment in 1995, until the time that the case for rescission was filed in 1998. For his part, Peralta maintained that he was entitled to damages, attorney's fees and litigation costs.[35]

**Ruling of the CA**

Raval's appeal was granted in part. Although the appellate court still denied Raval's plea for rescission, it granted in his favor an award of unpaid rental payments.

The CA sustained the validity of the deed of assignment between Flaviano Jr. and Raval, after finding that Peralta failed to establish his claims against the notarized deed's validity and due execution. As an assignee of the interests over the subject properties, Raval was a proper party to institute the action for rescission. Considering, however, that Raval did not appear to

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29 Id. at 122-123.
30 Id. at 124, 129.
31 Id. at 130.
32 Id. at 125-128.
33 Id. at 128.
34 Id. at 75.
35 Id. at 76-77.

be capable of returning to Peralta the rental payments that were paid prior to the assignment of rights, the CA declared a rescission unfeasible. Rescission creates the obligation to return the object of the contract; thus, it can be carried out only when the one who demands rescission can return whatever he may be obliged to restore.[36] It would also be unjust to Peralta if rescission were allowed, considering that he had complied with his obligations as a lessee for more than 20 years.[37]

Raval, nonetheless, had the right to go after Peralta for unpaid monthly rentals. Given the assignment of rights, Peralta's insistence to pay to Flaviano Jr. was erroneous.[38] Raval was also declared entitled to moral damages, considering that Peralta's obstinate and unjustified refusal to pay Raval the rental payments amounted to bad faith and wanton attitude.[39]

As regards Peralta's counterclaim, the RTC's dismissal thereof was sustained. For the CA, it was Peralta's unjustified refusal to comply with the terms of the lease agreement that led to the court action. He should then bear any losses or damages sustained by reason of the filing of the action.[40] Thus, the decretal portion of the CA Decision dated October 8, 2008 reads:

> ***WHEREFORE***, [Raval's] Appeal is ***GRANTED IN PART*** and [Peralta's] Appeal is ***DISMISSED***. The Decision, dated May 17, 2005, of the [RTC] of Laoag City, Branch 14, in Civil Case No. 11424-14, is ***AFFIRMED with MODIFICATIONS*** in that [Peralta] is ordered to pay [Raval] the rental payments from August 1998[41] up to present, plus 12% interest, and Moral Damages of P10,000.00.
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> ***SO ORDERED.***[42]

Raval and Peralta filed their respective motions for partial reconsideration, but these were denied by the CA *via* a Resolution[43] dated June 30, 2009. Hence, the present petitions for review on *certiorari*.

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36 Id. at 81.
37 Id. at 82.
38 Id. at 80-81.
39 Id. at 83.
40 Id.
41 August 1995 in the body of the CA decision, which could refer to Raval's first demand upon Peralta to respect the terms of the lease contract.
42 *Rollo* (G.R. No. 188467), pp. 83-84.
43 Id. at 86-89.

## The Present Petitions

In G.R. No. 188467,[44] Peralta assails the CA's ruling to dismiss his counterclaim for damages and attorney's fees. He insists that the deed of assignment, upon which Raval anchored his right to seek the lease agreement's rescission, is null and void, such that Raval could not have obtained any rights and obligations therefrom. Peralta likewise contends that Raval violated the rule against forum shopping when he filed the action for rescission even after Flaviano Jr. has filed the action for cancellation of lease, albeit the latter was dismissed by the RTC. Finally, the action for rescission has prescribed when Raval filed it in 1998, as he cites Article 1389 of the New Civil Code (NCC) which provides that an action for rescission must be filed within four years.

In G.R. No. 188764,[45] Raval insists on a rescission, resolution or cancellation of the lease agreement. He contends that Peralta has failed to comply with his obligations under the contract, which as a consequence, has given Raval the statutory right to rescind the lease agreement under Article 1191 of the NCC.

## Ruling of the Court

### *Rights and Interests of Raval*

It is crucial to determine, at the outset, the rights and interests of Raval over the disputed properties, specifically as he invokes the deed of assignment that was executed in his favor by Flaviano Jr.

Peralta insists that the deed is void and thus cannot be deemed to have conferred to Raval the rights of a new owner and lessor. Contrary to these assertions, however, the Court sustains the validity of the assignment. Raval cannot be deemed a "total stranger" to Peralta's contract of lease with the Spouses Arzaga because by the subsequent transfers of rights over the leased premises, Peralta became the original lessors' successor-in-interest. It is material that the lone heir of the Spouses Arzaga, Flaviano Jr., has executed the subject deed of assignment, with pertinent portions that read:

> That for and in consideration of the sum of FIVE HUNDRED THOUSAND PESOS (P500,000.00), Philippine Currency, in hand, paid and delivered unto me by JOSE ROY RAVAL, of legal age, married to LUISITA S[.] RAVAL, Filipino and resident of Brgy. 11, Laoag City, I, FLAVIANO ARZAGA, JR., hereby assign all my right[s], participation and interest in and into the said lots, including the improvement[s]

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44 Id. at 9-65.

45 *Rollo* (G.R. No. 188764), pp. 14-28.

> standing thereon, with the right to substitute me in the case pending before the [CA] and the Supreme Court, if and when a petition for review on certiorari is filed therein and to file any other case before any court in relation to said property for the protection of his right as assignee[.][46]

In his petition, Peralta vehemently assails the validity and enforceability of the deed of assignment, as he likewise questions the ensuing right of Raval to seek the rescission of the contract of lease. On this matter, the Court refers to the outcome of a separate petition for the registration of the deed of assignment and cancellation of TCT Nos. T-3538 and T-2406 that was filed by Raval with the RTC of Laoag City, Branch 15, and docketed as Cad. Case No. 51. On April 17, 1998, the deed of assignment between Flaviano Jr. and Raval was declared valid by the trial court, as it ordered the cancellation of the Spouses Arzaga's TCTs, and the issuance of new titles under Raval's name. This decision had become final and executory.[47] Accordingly, TCT Nos. T-30107 and T-30108 under Raval's name were issued by the Register of Deeds.[48]

The ruling in Cad. Case No. 51 resulted in an acknowledgment of Raval's rights over the property, his interest in the court action and entitlement to monthly rentals from Peralta. New TCTs were issued by virtue of the decision. When later called upon to rule on the petition for rescission of lease, the RTC then correctly rejected Peralta's claim against the agreement's legality, as it cited the prohibition against a collateral attack on the land titles. The trial court correctly explained:

> [T]he issue raised by [Peralta] that the Deed of Assignment is simulated and void ab initio, would necessarily also raise the issue of the validity of TCT Nos. T-30107 and T-30108. This issue cannot be collaterally attacked. There is no question that the titles of the properties covered by the Deed of Assignment had already been issued in favor of [Raval]. Well-settled is the rule that a certificate of title [cannot] be altered, modified or cancelled except in a direct proceeding in accordance with law x x x. In the instant case, it is obvious that any attack on the Deed of Assignment is also an attack upon [Raval's] title. In this case, it is being made collaterally as a defense to the action for rescission. This cannot be done. It is only when the object of the action or proceeding is to nullify the title, and thus challenge the judgment pursuant to which the title was decreed, that such an action can be considered a direct attack and, therefore, allowable x x x. Otherwise, a collateral attack would not [prosper], as it is improper in this action.[49]

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46 *Rollo* (G.R. No. 188467), p. 138.
47 Records, p. 631.
48 *Rollo* (G.R. No. 188467), p. 74.
49 Id. at 116-117.

Similarly, the Court sustains the validity of the deed of assignment upon which Raval anchored his claims against the subject properties and contract of lease. By being the assignee under the deed, Raval obtained the rights, interests and privileges of his predecessors-in-interest over the property, including the right to seek the rescission of the agreement, should valid grounds exist to support it. Peralta's defenses against Raval's claim of rights, in effect, challenge the prior decision of the trial court to recognize the deed of assignment and more importantly, the ruling that ordered the issuance of the TCTs under Raval's name. Essentially, it is also a challenge upon the TCTs that were already issued by the Register of Deeds. By law and jurisprudence, these TCTs that have been issued by virtue of the assignment, however, cannot be collaterally attacked by Peralta in this case.

Section 48 of Presidential Decree No. 1529, otherwise known as the Property Registration Decree, provides that "[a] certificate of title shall not be subject to collateral attack. It cannot be altered, modified, or cancelled except in a direct proceeding in accordance with law." Pursuant to this provision, the courts have consistently ruled against collateral attacks on land titles. In *Sps. Decaleng v. Bishop of the Missionary District of the Philippine Islands of Protestant Episcopal Church in the United States of America, et al.*,[50] the Court reiterated:

> It is a hornbook principle that "a certificate of title serves as evidence of an indefeasible title to the property in favor of the person whose name appears therein." x x x.
>
> x x x x
>
> A torrens title cannot be attacked collaterally, and the issue on its validity can be raised only in an action expressly instituted for that purpose. A collateral attack is made when, in another action to obtain a different relief, the certificate of title is assailed as an incident in said action.[51] (Citations omitted)

***Rescission of Lease Contracts***

Considering that the subject contract of lease provided for a 40-year term and was executed in 1974, the agreement had already terminated in 2014. The issue of whether or not the lease should be ordered rescinded at this point in time, to the end that it would be declared of no further effect, is thus already moot and academic. "A moot and academic case is one that ceases to present a justiciable controversy by virtue of supervening events, so that a declaration thereon would be of no practical value. As a rule, courts decline jurisdiction over such case, or dismiss it on ground of

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50 689 Phil. 422 (2012).

51 Id. at 444.

mootness."[52] The Court, nonetheless, still finds it needed to address other matters that are intertwined with the issue of rescission, especially as the termination of the lease is not the only necessary consequence of rescission. These other issues include the allegations of **prescription, the award of unpaid rentals plus moral damages, and Peralta's counterclaim against Raval.**

There are various provisions under the NCC that apply to rescissions of contracts. Among these are Article 1191[53] on the power to rescind in reciprocal obligations, Article 1380[54] on contracts validly agreed upon by parties to be rescissible, Article 1381[55] on rescissible contracts under the law, Article 1389[56] on prescription of actions for rescission, and Article 1592[57] on rescission in sale of immovable property.

It must be emphasized though that specifically on the matter of rescission of lease agreements, Article 1659 of the NCC applies as a rule. It reads:

> Article 1659. If the lessor or the lessee should not comply with the obligations set forth in Articles 1654 and 1657, the aggrieved party may ask for the rescission of the contract and indemnification for damages, or only the latter, allowing the contract to remain in force.

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52 *Mendoza, et al. v. Mayor Villas, et al.*, 659 Phil. 409, 417 (2011), citing *Gunsi, Sr. v. Hon. Commissioners, Commission on Elections, et al.*, 599 Phil. 223, 229 (2009).

53 **Article 1191.** The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.

The injured party may choose between the fulfilment and the rescission of the obligation, with the payment of damages in either case. He may also seek rescission, even after he has chosen fulfilment, if the latter should become impossible.

The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period.

This is understood to be without prejudice to the rights of third persons who have acquired the thing, in accordance with Articles 1385 and 1388 and the Mortgage Law.

54 **Article 1380.** Contracts validly agreed upon may be rescinded in the cases established by law.

55 **Article 1381.** The following contracts are rescissible:

(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;

(3) Those undertaken in fraud of creditors when the latter cannot in any other manner collect the claims due them;

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

(5) All other contracts specially declared by law to be subject to rescission.

56 **Article 1389.** The action to claim rescission must be commenced within four years.

For persons under guardianship and for absentees, the period of four years shall not begin until the termination of the former's incapacity, or until the domicile of the latter is known.

57 **Article 1592.** In the sale of immovable property, even though it may have been stipulated that upon failure to pay the price at the time agreed upon the rescission of the contract shall of right take place, the vendee may pay, even after the expiration of the period, as long as no demand for rescission of the contract has been made upon him either judicially or by a notarial act. After the demand, the court may not grant him a new term.

Article 1654 referred to in Article 1659 pertains to the obligations of a lessor in a lease agreement. Article 1657, on the other hand, enumerates the obligations of a lessee, as it provides:

> Article 1657. The lessee is obliged:
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> (1) To pay the price of the lease according to the terms stipulated;
>
> (2) To use the thing leased as a diligent father of a family, devoting it to the use stipulated; and in the absence of stipulation, to that which may be inferred from the nature of the thing leased, according to the custom of the place;
>
> (3) To pay expenses for the deed of lease.

Given the rules that exclusively apply to leases, the other provisions of the NCC that deal with the issue of rescission may not be applicable to contracts of lease. To illustrate, Peralta's reference to Article 1389, when he argued that Raval's action had already prescribed for having been filed more than four years after the execution of the lease contract in 1974, is misplaced. For the same reason, Peralta erred in arguing that Raval's action should only be deemed a subsidiary remedy, such that it could not have been validly instituted if there were other legal means for reparation. Article 1389 applies to rescissions in Articles 1380 and 1381, which are distinct from rescissions of lease under Article 1659.

The limits on the application of Article 1389 was explained by the Court in *Unlad Resources Development Corporation, et al. v. Dragon, et al.*[58] The nature of an action filed under Article 1389, as well as the prescriptive period of four years that is provided under the provision, do not apply to all rescissible contracts but are limited to specific cases, particularly:

> Article 1389 specifically refers to rescissible contracts as, clearly, this provision is under the chapter entitled "Rescissible Contracts."
>
> In a previous case, this Court has held that **Article 1389**:
>
> **applies to rescissible contracts, as enumerated and defined in Articles 1380 and 1381.** We must stress however, that the "rescission" in Article 1381 is not akin to the term "rescission" in Article 1191 and Article 1592. In Articles 1191 and 1592, the rescission is a principal action which seeks the resolution or cancellation of the contract while in **Article 1381, the action is a subsidiary one limited to cases of rescission for lesion** as enumerated in said article.

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[58] 582 Phil. 61 (2008).

> The prescriptive period applicable to rescission under Articles 1191 and 1592, is found in Article 1144, which provides that the action upon a written contract should be brought within ten years from the time the right of action accrues.[59] (Citation omitted and emphasis ours)

The same prescriptive period of 10 years, counted from the time that the right of action accrues, applies in the case at bar. Raval's cause of action did not refer to Article 1389, yet one that was based on a written contract. Thus, contrary to Peralta's insistent claim, the action for rescission had not yet prescribed at the time of its filing in 1998. Raval's cause of action accrued not on the date of the lease agreement's execution in 1974, but from the time that there was a violation and default by Peralta in his obligations under the lease agreement.

On this matter, Raval's complaint specified the violations that were allegedly committed by Peralta as a lessee. Specifically, rescission was sought because of Peralta's alleged refusal to render an accounting of unpaid monthly rentals, to vacate the second storey of the house, to remove the improvements constructed on the areas not covered by the lease, to operate and provide a water system and to refund the taxes paid by Flaviano Jr. These violations happened either immediately prior to Raval's repeated extrajudicial demands that began in August 1995, or after Peralta's refusal to heed to the demands. There was no indication that the violations dated back from the first few years of the lease agreement's effectivity in the 1970s. Clearly, the filing of the action for rescission in 1998 was within the 10-year prescriptive period that applies to the suit.

***Unpaid Rentals and Moral Damages***

Under Article 1659 of the NCC, an aggrieved party in a lease contract may ask for any of the following remedies: (1) the rescission of the contract; (2) rescission and indemnification for damages; and (3) only indemnification for damages, allowing the contract to remain in force.[60] These remedies were further explained by the Court in *Cetus Development, Inc. v. Court of Appeals*,[61] wherein it held that:

> The existence of said cause of action gives the lessor the right under Article 1659 of the [NCC] to ask for the rescission of the contract of lease and indemnification for damages, or only the latter, allowing the contract to remain in force. Accordingly, if the option chosen is for specific performance, then the demand referred to is obviously to pay rent or to comply with the conditions of the lease violated. However, if rescission is

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59 Id. at 76.

60 *Chua v. Victorio*, 472 Phil. 489, 496 (2004).

61 257 Phil. 73 (1989).

> the option chosen, the demand must be for the lessee to pay rents or to comply with the conditions of the lease and to vacate. x x x.[62]

Although the CA declared Raval not entitled to rescission, it nonetheless still ordered Peralta to pay what were supposedly unpaid rentals from August 1998 until full payment, plus 12% interest *per annum* and moral damages. The Court finds it necessary to delete these awards, and to instead sustain the RTC's decision to deny Raval of his monetary claims.

It is not disputed that at one point during the effectivity of the lease, Peralta began depositing his rental payments in an account that was maintained "in trust for" Flaviano Jr. The RTC provided the following factual findings in its Decision dated May 17, 2005:

> The evidence for [Peralta] reveals a historical antecedent where Mrs. Gloria F. Peralta, wife of [Peralta], earlier adopted a modus-vivendi in the erstwhile lease contract with [Flaviano Jr.], by which payments were made to lessor. This mode of settling the monthly rentals was through the facility of the banking system. Mrs. Peralta successively opened bank accounts with several banks, i.e., Land Bank of the Philippines, Philippine Commercial International Bank, Asian Bank and China Bank. The name invariably appearing as depositor in the passbooks issued by said banks is as follows; "Gloria F. Peralta ITF Flaviano Arzaga, Jr." The letters ITF mean: "in-trust-for". By virtue of this banking arrangement, lessee paid lessor his periodic obligations by depositing the needed amount with the bank, which the latter withdrew from said bank in satisfaction of the former's obligation.[63]

Given the evidence proving that Peralta had been depositing rentals to the ITF accounts even up to the year 2004,[64] the trial court declared:

> In the instant case, [Raval] urges this Court to find for [Raval] on a claim of contractual breach in the payment of rentals. The evidence shows otherwise. The modus-vivendi earlier adopted by lessee's wife of opening bank accounts "in-trust-for" the lessor was found by the [CA] as a proper mode of effecting payments of the monthly rentals on the lease. [Peralta] continued with this practice even after the execution of the Deed of Assignment. It was understandable for lessee to continue with this mode of payment because he had no privity of contract with the Deed of Assignment. Accordingly, this Court is of the same persuasion as the [CA] in CA G.R. No. CV 30396 that [Peralta's] mode of payment through the "in-trust-for" account is proper and finds that he [Peralta] was not remiss in the payment of the monthly rentals due on the lease.
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> x x x x

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62 Id. at 80-81.

63 *Rollo* (G.R. No. 188467), p. 119.

64 Id. at 119-121.

> There is no question that the money for the rental was in the bank. So to speak, 'it was there for the taking'. It was therefore, incumbent upon [Flaviano Jr.] and [Raval] to arrange between them on how to withdraw the money from the bank, to be paid to the rightful payee or beneficiary. From the standpoint of lessee, he has already complied with his obligation to pay the monthly rentals due to the fact that his mode of payment was earlier sustained as proper by the [CA] in the precursor case. x x x.[65]

Even as the Court now declares Raval to be a valid assignee under the deed that bound Peralta as a lessee, all payments made by the latter for the account of Flaviano Jr. could not be simply disregarded for the purpose of determining Peralta's compliance with his obligation to pay the monthly rentals. The RTC itself sustained the acceptability of such measure. Thus, the mechanism negated the supposed failure to pay, as well as the alleged blatant refusal of Peralta to satisfy his obligation as a lessee.

All payments made by Peralta through the bank accounts in trust for Flaviano Jr. shall be deemed valid payments for the monthly rentals. Since the records confirmed that Peralta has been paying his monthly rentals up to the time and even after the complaint for rescission was filed in 1998, the prayer in the complaint for unpaid rentals should have been denied. Accordingly, the CA's award of monthly rentals is deleted.

The award of moral damages is likewise deleted. "Moral damages are not recoverable simply because a contract has been breached. They are recoverable only if the party from whom it is claimed acted fraudulently or in bad faith or in wanton disregard of his contractual obligations. The breach must be wanton, reckless, malicious or in bad faith, and oppressive or abusive."[66] It has been explained by the Court that Peralta did not appear to have acted in this manner.

***Peralta's Counterclaim***

In his Answer to Raval's complaint, Peralta made the following counterclaims: ₱500,000.00 as moral damages, ₱50,000.00 as exemplary damages and ₱30,000.00 as attorney's fees. To justify his claim, Peralta argued that the filing of the case against him was driven by Raval's desire to harass and humiliate him. The Court rejects this assertion.

As may be gleaned from the records, Raval's filing of the complaint for rescission was preceded by numerous attempts towards an amicable resolution of the dispute between him and Peralta. Upon a belief that Peralta breached the subject contract of lease, Raval made successive extrajudicial

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65 Id. at 122-123.

66 *Philippine Savings Bank v. Spouses Castillo, et al.*, 664 Phil. 774, 786 (2011).

demands to compel Peralta to comply with his obligations as a lessee. The issue was also brought to barangay conciliation twice.

Had the parties agreed towards negotiations, then the filing of a court action might not have been resorted to. From these antecedents, it is clear that the action for rescission was not filed purposely to humiliate or harass Peralta, but to seek redress for what Raval believed was a violation of his rights as the new owner of the subject lots, and lessor to Peralta. This barred any justification for an award of moral damages, which is ordinarily warranted for acts that are tainted with bad faith. Bad faith imports a dishonest purpose or some moral obliquity and conscious doing of a wrong, a breach of known duty through some motive or interest or ill will that partakes of the nature of fraud. It is a question of intention, which can be inferred from one's conduct and/or contemporaneous statements.[67] In *J. Marketing Corporation v. Sia, Jr.*,[68] the Court also emphasized that the adverse result of an action – dismissal of the petitioner's complaint – does not *per se* make an act unlawful and subject the actor to the payment of moral damages. It is not sound public policy to place a premium on the right to litigate. No damages can be charged on those who may exercise such precious right in good faith, even if done erroneously.[69]

The demands for exemplary damages and attorney's fees are likewise denied. As regards exemplary damages, it is settled that to warrant its award, the wrongful act must be accompanied by bad faith, and the guilty party acted in a wanton, fraudulent, reckless or malevolent manner.[70] Attorney's fees, on the other hand, is proper only if a party was forced to litigate and incur expenses to protect his right and interest by reason of an unjustified act or omission of the party for whom it is sought. The award of attorney's fees is more of an exception than the general rule, since it is not sound policy to place a penalty on the right to litigate.[71]

**WHEREFORE,** the petition in G.R. No. 188764 filed by Jose Roy B. Raval is **DENIED**.

The petition in G.R. No. 188467 filed by Renato Ma. R. Peralta is **PARTLY GRANTED.** The Decision dated October 8, 2008 of the Court of Appeals in CA-G.R. CV No. 85685 is **AFFIRMED** with **MODIFICATION** in that the order upon Renato Ma. R. Peralta to pay the unpaid monthly rentals, interest and attorney's fees is **DELETED.**

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67 *Adriano, et al. v. Lasala, et al.*, 719 Phil. 408, 419 (2013).

68 349 Phil. 513 (1998).

69 Id. at 517.

70 *Adriano, et al. v. Lasala, et al.*, supra note 67, at 420.

71 *Banco Filipino Savings and Mortgage Bank v. Lazaro*, 689 Phil. 574, 587-588 (2012).

**SO ORDERED.**

**BIENVENIDO L. REYES**
Associate Justice

**WE CONCUR:**

**PRESBITERO J. VELASCO, JR.**
Associate Justice
Chairperson

**LUCAS P. BERSAMIN**
Associate Justice

**MARIANO C. DEL CASTILLO**
Associate Justice

**FRANCIS H. JARDELEZA**
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.

**PRESBITERO J. VELASCO, JR.**
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.

**MARIA LOURDES P. A. SERENO**
Chief Justice

CERTIFIED TRUE COPY
WILFREDO V. LAPITAN
Division Clerk of Court
Third Division
MAY 26 2017