



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

STATE INVESTMENT TRUST,
INC.,

Petitioner,

- versus -

CARLOS BACULO and the
HEIRS OF HIS DECEASED
SPOUSE VICTORIA BACULO,
namely, RONALDO BACULO,
RONIEL BACULO, ROZZIEL
BACULO-QUITORIANO and
RICHARD BACULO,
Respondents.

G.R. No. 237934

Present:

LEONEN, S.A.J., *Chairperson*,
LAZARO-JAVIER,
LOPEZ, M.,
LOPEZ, J., and
KHO, JR., JJ.

Promulgated:

JUN 10 2024

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DECISION

KHO, JR., J.:

Before the Court is a Petition for Review on *Certiorari*¹ assailing the Decision² dated March 24, 2017 and the Resolution³ dated March 5, 2018 of the Court of Appeals (CA) in CA-G.R. CV No. 103889, which reversed and set aside the Decision⁴ dated October 17, 2014 of Branch 96, Regional Trial Court of Quezon City (RTC) declaring the two Contracts to Sell, both dated March 25, 1997 as rescinded, and conferring the right to possess the properties subject of the said contracts to petitioner State Investment Trust, Inc. (SITI).

¹ *Rollo*, pp. 3–25.

² *Id.* at 30–44. Penned by Associate Justice Rodil V. Zalameda (now a Member of this Court) with the concurrence of Associate Justices Sesinando E. Villon and Ma. Luisa Quijano-Padilla of the Tenth Division of the Court of Appeals, Manila.

³ *Id.* at 46–47.

⁴ *Id.* at 126–136. Penned by Presiding Judge Afable E. Cajigal of Branch 96, Regional Trial Court of Quezon City.

The Facts

SITI, a corporation duly organized and existing under the laws of the Philippines, is the registered owner of two parcels of land located at Batasan Hills, Quezon City with an area of 797 square meters (sqm) and 787 sqm covered by Transfer Certificate Title (TCT) No. RT-49377 (367961) and TCT No. RT-49378 (367962) (subject properties), respectively. On March 25, 1997, SITI entered into two Contracts to Sell with respondent Carlos Baculo (Carlos) and his wife, Victoria Baculo (Victoria; collectively, Spouses Baculo) for the sale of the subject properties. The property covered by TCT No. RT-49377 (367961) was to be purchased by Spouses Baculo at PHP 2,789,500.00 with a downpayment of PHP 697,375.00. Meanwhile, the property covered by TCT No. RT-49378 (367962) was to be purchased at PHP 2,754,500.00 with a downpayment of PHP 688,625.00. The balances of PHP 2,092,125.00 for the property covered by TCT No. RT-49377 (367961) and PHP 2,065,875.00 for the property covered by TCT No. RT-49378 (367962) were to be paid in three years through 36 equal monthly amortizations each starting June 25, 1997 with an interest rate of 19% per annum. Based on said contracts, Spouses Baculo occupied the subject properties.⁵

In November 1997, a complaint for reconveyance and declaration of nullity of the TCTs covering the subject properties was filed against SITI and Spouses Baculo by the estate of the late Martha Hernandez before Branch 217, Regional Trial Court of Quezon City, docketed as Civil Case No. Q-97-32866 (reconveyance case). Accordingly, notices of *lis pendens* were annotated on the back of TCT No. RT-49377 (367961) and TCT No. RT-49378 (367962).⁶

In the meantime, Spouses Baculo were only able to pay the downpayments and **eight monthly amortizations for each of the subject properties**. Due to business difficulties, the spouses requested from SITI that they be allowed to pay only the interest until their business improved. SITI granted the said request under certain conditions and extended the payment of amortizations until June 25, 2003, in accordance with the restructured schedule of payments.⁷

However, **after three monthly amortizations**, Spouses Baculo defaulted again with their obligation, which prompted SITI to send demand letters to exact compliance with the restructured schedule of payments. In a letter dated January 30, 1999, Spouses Baculo requested for the suspension of payments until the reconveyance case is settled. SITI acceded to the request, and thus suspended the payments of monthly amortizations from October 1998 until the final resolution of the reconveyance case, conditioned upon the automatic lifting of the suspension, and the immediate resumption of

⁵ *Id.* at 107–108.

⁶ *Id.* at 108.

⁷ *Id.* at 31.

payments once the case is resolved in SITI's favor. The reconveyance case eventually reached the CA where it was dismissed for failure of the estate of the late Martha Hernandez as plaintiff-appellant to file their brief. The dismissal became final on December 12, 2004. In a letter dated February 2, 2005, SITI informed Spouses Baculo of the same and demanded the resumption of the payment of their outstanding balance as agreed upon. A similar demand for the settlement of their accounts was made in a letter dated July 13, 2005.⁸

But instead of paying, Spouses Baculo made another request for further suspension of payments pending the cancellation of the annotations of *lis pendens* on the TCTs of the subject properties. After SITI's denial of their request, the spouses maintained that the annotations threatened their rights over the subject properties. In a letter dated September 26, 2005, SITI informed Spouses Baculo that the annotations were already cancelled, thus there was no longer any impediment for them to further delay the payment of their amortizations. However, instead of complying, Spouses Baculo once again requested for the deferment of their payments, this time, until the cloud of the titles of the subject properties were finally removed. Spouses Baculo noted that they were advised by their lawyer that the dismissal of the reconveyance case was merely on technicality and not on the merits. Since they entered into the contracts based on their belief that SITI's titles were clean, they cannot comply with the schedule of payments sent by the latter until issues on the titles of the subject properties are resolved.⁹

On November 16, 2005, SITI sent a letter to Spouses Baculo cancelling all the concessions made on their favor and demanded full payment of the balance within five days from receipt thereof; otherwise, the two Contracts to Sell shall be deemed rescinded/cancelled due to their violations, in which case, the said letter shall be considered as notice of such rescission/cancellation and demand is further made upon Spouses Baculo to vacate and surrender the peaceful possession of the subject properties. In response, Spouses Baculo threatened the filing of civil and criminal cases for selling properties with defective titles, should SITI insist on paying the balance. SITI sent another letter dated January 4, 2006, reiterating the reasons for the unilateral rescission/cancellation of the Contracts to Sell and demanding Spouses Baculo to vacate the subject properties, which already contained substantial improvement, within 15 days from receipt of the said letter. Spouses Baculo did not heed SITI's demand; thus, SITI was constrained to file a complaint for ejectment against them before Branch 34, Metropolitan Trial Court of Quezon City (MeTC).¹⁰

In their Answer, Spouses Baculo averred that they did not violate the Contracts to Sell as they could not be compelled to resume payments of their

⁸ *Id.* at 32–33.

⁹ *Id.* at 33.

¹⁰ *Id.* at 34.

amortization until the clouds on the subject properties' titles were removed. They likewise insisted that the MeTC has no jurisdiction over the complaint as the issue is hinged on the propriety of the rescission, arguing that it was not made through a notarial act, hence not binding. Accordingly, their possession of the subject properties cannot be deemed as illegal.¹¹

The MeTC Ruling

In a Decision¹² dated November 20, 2007, the MeTC ruled in SITI's favor and consequently, ordered Spouses Baculo to: (1) immediately vacate the subject properties and surrender possession to SITI; (2) pay PHP 5,000.00 per month as rental for each subject properties to be reckoned from January 2006 and up to the time that the same are vacated; (3) pay PHP 20,000.00 as attorney's fees; and (4) pay the costs of suit.¹³

The MeTC held that notwithstanding the invalidity of the rescission as it was not made through judicial demand or notarial act as required under Article 1592 of the Civil Code, Spouses Baculo may still be validly ejected. The MeTC opined that in a Contract to Sell, the seller retains ownership of the subject properties until full payment of the purchase price. With Spouses Baculo's failure to pay SITI, the ownership of the subject properties remained with the latter, which has the right to demand for its proprietary right to use and enjoy the subject properties. This gives SITI the right to demand Spouses Baculo's eviction. Since Spouses Baculo's possession of the subject properties is based on the Contracts to Sell which has not materialized, their continuous occupancy is only by tolerance; their possession of the subject properties became unlawful upon their refusal to vacate the same despite SITI's demands. The MeTC likewise held that Republic Act No. 6552 or the Realty Installment Buyer Protection Act is not applicable in this case as the spouses have only paid eight monthly installments in each of the contracts, contrary to the two years of installments required under Section 3(b).¹⁴

Aggrieved, Spouses Baculo filed an appeal with Branch 221, Regional Trial Court of Quezon City (RTC Branch 221) averring that the MeTC erred in not dismissing the complaint for lack of jurisdiction and reiterating their entitlement to protection under Republic Act No. 6552, commonly known as the Maceda Law, specifically Section 3(b).

¹¹ *Id.*

¹² *Id.* at 106–119. Penned by Presiding Judge Caridad M. Walse-Lutero of Branch 34, Metropolitan Trial Court of Quezon City.

¹³ *Id.* at 118–119.

¹⁴ *Id.* at 113–118.

The RTC Proceedings

In a Decision¹⁵ dated October 30, 2009, the RTC Branch 221 reversed the MeTC's Decision dated November 20, 2007. It held that the MeTC should have dismissed the complaint for lack of jurisdiction as the proper remedy based on the allegations of the complaint is for the rescission of the contract, which is the basis of the illegality of Spouses Baculo's possession of the subject properties. However, in the interest of justice, the RTC Branch 221, having original jurisdiction of the case, took cognizance of it without prejudice to the admission of amended pleadings and additional evidence by the parties. Afterwards, the hearing of the case was set on February 12, 2010.¹⁶

After due proceedings, the Branch 96, Regional Trial Court of Quezon City (RTC Branch 96) promulgated its Decision¹⁷ dated October 17, 2014, holding that the two Contracts to Sell dated March 25, 1997 are rescinded and the amounts paid to SITI are forfeited as stipulated in the contracts. Accordingly, SITI has the right to possess the subject properties. Spouses Baculo were also ordered to vacate the subject properties and surrender peacefully the possession to SITI.¹⁸

The RTC held that SITI had clear grounds to rescind the two Contracts to Sell as Spouses Baculo indeed failed to comply with their commitment to resume payments of their monthly amortizations in accordance with the restructured schedule of payments dated June 25, 1998. This failure by the spouses, as agreed upon in the contracts, and the consequent demands by SITI made the rescission valid under the law.¹⁹

Respondents Carlos and the substituted heirs of the deceased Victoria then filed an appeal before the CA.

The CA Ruling

In a Decision²⁰ dated March 24, 2017, the CA reversed and set aside the Decision dated October 17, 2014 of the RTC Branch 96 and dismissed SITI's complaint.²¹

The CA held that respondents are estopped from questioning the RTC Branch 96's jurisdiction in taking cognizance of the case as they never

¹⁵ *Id.* at 120–125. Penned by Presiding Judge Jocelyn A. Solis-Reyes of Branch 221, Regional Trial Court of Quezon City.

¹⁶ *Id.* at 124–125.

¹⁷ *Id.* at 126–136.

¹⁸ *Id.* at 136.

¹⁹ *Id.* at 135–136.

²⁰ *Id.* at 30–44.

²¹ *Id.* at 43.

questioned the Decision dated October 30, 2009 of the RTC Branch 221 wherein it assumed jurisdiction and treated the complaint as one for rescission. Moreover, respondents actively participated in all the stages of the case and it was only when the RTC Branch 96 issued the assailed decision adverse to them that they challenged the court's jurisdiction. The CA likewise held that contrary to respondents' assertion, it is Section 4, not Section 3 of Republic Act No. 6552 that is applicable to their case as they were only able to pay eight monthly installments for each contract. Section 4 of Republic Act No. 6552 accordingly provides the procedure for the cancellation or rescission of contracts involving the sale of real property on installments in cases less than two years of installments were paid. Under the said provision, SITI is obliged to give a 60-day grace period from the date the installment becomes due should respondents fail to pay the same. Moreover, SITI may only cancel or rescind the contracts to sell 30 days from respondents' receipt of the notice of cancellation or demand for rescission by notarial act.

In this case, while SITI furnished respondents a final written demand on November 16, 2005, the same did not suffice as it was not through a notarial notice of cancellation or demand of rescission, a requirement under Section 4 of Republic Act No. 6552. Consequently, the RTC Branch 96 erred in ruling that the Contracts to Sell are rescinded. The CA likewise held that although contracts are the sacred law between the parties, the stipulations must not be contrary to law, among others. Under Section 7 of Republic Act No. 6552, any stipulation in any contract that is contrary to the provisions of Sections 3, 4, 5, and 6 thereof shall be null and void. Accordingly, the provisions on the unilateral cancellation or rescission of the provided Contracts to Sell are deemed void as it is not in conformity with the provisions of Republic Act No. 6552.²²

A Partial Motion for Reconsideration²³ was filed by SITI, which was denied by the CA in a Resolution²⁴ dated March 5, 2018. Hence, the instant petition.

The Issue Before the Court

The issue before the Court is whether the CA erred in holding that the Contracts to Sell were not validly cancelled or rescinded.

SITI alleges that Spouses Baculo acted in bad faith when they repeatedly added several conditions that were never agreed upon by SITI in an effort to prolong the suspension of their payments; thus, SITI may validly rescind the two Contracts to Sell in view of Spouses Baculo's failure to comply with their obligations in paying the monthly amortizations plus

²² *Id.* at 41–42.

²³ *Id.* at 137–150.

²⁴ *Id.* at 46–47.

interest pursuant to paragraph 5 of the contracts. In this case, SITI substantially complied with the requirement for a notice of rescission by serving a letter dated January 4, 2006 to Spouses Baculo. Moreover, the MeTC Decision dated November 20, 2007 which among others, ordered Spouses Baculo to vacate and immediately surrender possession of the subject properties to SITI, effectively operated as the Notice of Cancellation under Republic Act No. 6552. Since there is a valid rescission, all payments made by Spouses Baculo should be deemed forfeited in SITI's favor.²⁵ Nonetheless, assuming arguendo that there is no valid rescission in this case, case law provides that the CA should have ordered Spouses Baculo to pay, within 60 days, their outstanding balance to SITI plus interests. Failure to make said payments, Spouses Baculo should vacate the subject properties without need of demand and all payments to SITI shall be charged as rentals.²⁶

Spouses Baculo, on the other hand, avers that SITI's unilateral rescission of the Contracts to Sell under paragraph 5 is void as it is not in accordance with the provision of Republic Act No. 6552. Moreover, they are justified in stopping the amortization payments in view of the reconveyance case which has put into question SITI's ownership over the subject properties.²⁷

In its Reply to Comment/Opposition,²⁸ SITI additionally averred that it is not covered by Republic Act No. 6552 as it is merely an investment house, not an investment developer and that the subject properties, which involves a total area of 1,584 sqm, does not represent a residential estate under the Republic Act No. 6552. It added that the subject properties are being used as a commercial lot consisting of a car wash, repair shop, events/lights and sounds business, and other commercial ventures.²⁹

The Court's Ruling

The petition is without merit.

I.

Republic Act No. 6552³⁰ or the Realty Installment Buyer Protection Act or more popularly referred to as the "Maceda Law," named after its author, the late Senator Ernesto Maceda, was adopted with the purpose of "protect[ing] buyers of real estate on installment payments against onerous

²⁵ *Id.* at 15–17.

²⁶ *Id.* at 21–24.

²⁷ *Id.* at 159–165.

²⁸ *Id.* at 171–193.

²⁹ *Id.* at 172–173.

³⁰ Republic Act No. 6552 (1972), An Act To Provide Protection To Buyers Of Real Estate On Installment Payments.

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and oppressive conditions.” It “delineat[es] the rights and remedies of . . . buyers and protect[s] them from one-sided and pernicious contract stipulations.”³¹ The law also “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.”³²

In this case, it is undisputed that Spouses Baculo was only able to pay eight monthly amortizations under each of the contracts, which would translate to less than two years worth of installments. As such, the CA correctly pointed out that Section 4 of Republic Act No. 6552 is applicable. This provision reads:

Section 4. In case where less than two years of installments were paid, 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 supplied)

Based on the foregoing, the following requisites should be complied with before the vendor may actually cancel the 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; 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.”**³³

Relatedly, paragraph 5 of the two Contracts to Sell also provides SITI the right to unilaterally rescind/cancel said contract should Spouses Baculo fail to pay any installment with interest thereon as agreed upon:

5. Should the VENDEE fail to make payment of any of the installments together with the interest thereon as agreed herein or of all the corresponding obligations for taxes and assessments levied on the PROPERTY on due date/s during the term of this contract, or should the VENDEE violate or fail to comply with the terms or conditions of this Contract to Sell, the VENDOR shall have the right to unilaterally rescind and/or cancel this contract to sell without the necessity of any judicial

³¹ *Orbe v. Filinvest Land, Inc.*, 817 Phil. 934, 951 (2017) [Per J. Leonen, Third Division].

³² *Pagtalunan v. Vda. de Manzano*, 559 Phil. 658, 668 (2007) [Per J. Azcuna, First Division].

³³ *Optimum Development Bank v. Spouses Jovellanos*, 722 Phil. 772, 785 (2013) [Per J. Perlas-Bernabe, Second Division].

declaration to that effect, and any and all sums of money paid under this contract including all improvements introduced in the PROPERTY shall be forfeited in favor of the VENDOR as liquidated damages or if the VENDEE is already in possession of the PROPERTY, the amounts and improvements forfeited shall become rentals on the PROPERTY without any oblig[ati]on on the part of the VENDOR for reimbursement and in this regard, the VENDEE, should he be in possession of the PROPERTY herein purchased shall become a mere intruder or unlawful detainer of the same and may be ejected therefrom by the means provided by law for trespassers or unlawful detainer. Thereafter, the VENDOR shall be at liberty to dispose of and sell the PROPERTY and its appurtenances to any interested third person. This is without prejudice to the provisions of the Maceda Law (Republic Act 6552) whenever the same are applicable.³⁴

Based on paragraph 5 of the Contracts to Sell, SITI served a letter dated January 4, 2006 to Spouses Baculo which it averred was substantial compliance for the required notice for rescission. Accordingly, there is no question as to SITI's right to unilaterally cancel the contract. Both Republic Act No. 6552 and the provisions of the contracts accord said right to SITI. The issue revolves around whether SITI properly exercised the said unilateral right to cancel. However, and as correctly found by the CA, there was no valid rescission or more aptly, cancellation of the two Contracts to Sell in this case as the above requisites under Section 4 of the Republic Act No. 6552 have not been complied with by SITI.

First, enclosed in SITI's letter dated September 26, 2005 demanding for the resumption of Spouses Baculo's payments of the monthly amortizations in view of the cancellation of the annotation on the TCTs of the subject properties, is a new schedule of payments wherein the due date for the first installment payment for both contracts was October 25, 2005. Instead of giving the spouses a 60-day grace period from the said due date to comply with their obligation to pay, SITI already sent the letter dated November 16, 2005 to Spouses Baculo, withdrawing all the concessions it had earlier granted and demanding payment of the amount originally agreed upon in the Contracts to Sell totaling to PHP 7,361,744.87 within five days from receipt; and in case of failure to make said payments, declaring that the said letter shall serve as a notice of the cancellation of the contract. Verily, the first requisite for a 60-day grace period was wanting as the letter executed barely one month after the due date on October 25, 2005 gave spouses only five days to settle their account which total have already reverted to the amount originally agreed upon.

Second, neither the letter dated November 16, 2005, which the CA considered as the notice of cancellation, nor the letter dated January 4, 2006, which respondents now assert as substantial compliance for the required notice, was a valid notarial act under Republic Act No. 6552. In *Orbe v.*

³⁴ *Rollo*, p. 63.

Filinvest Land, Inc.,³⁵ the Court elucidated the proper notarial act—an acknowledgment before a notary public pursuant to Rule 132, Section 19 of the Revised Rules on Evidence—that converts private documents into public ones and more importantly, enables the vendor of a perfected contract to exercise his/her statutory right of unilateral cancellation. Even a cursory examination of the letters would show that both did not contain an acknowledgment before a notary public.³⁶

Third, since there is no valid notice of cancellation, then the 30-day period after which SITI may cancel the contracts did not even begin to run.

At this juncture, it bears stressing that paragraph 5 of the Contracts to Sell, which accords to SITI the right to unilaterally cancel the said contract in case of Spouses Baculo's failure to pay any installments, did not exempt SITI from complying with the provisions of Republic Act No. 6552. Although the Court agrees that the cancellation of the contract may be done out of the court, or without the necessity of judicial declaration, as provided in paragraph 5, the cancellation must still be in accordance with Section 4 of Republic Act No. 6552, which requires a notarial act of cancellation.³⁷ Notably, even paragraph 5 of the contracts provides that the said provision is "without prejudice to the provisions of the Maceda Law (Republic Act No. 6552) whenever the same are applicable."³⁸

Lastly, the Court cannot consider SITI's contention that it is not covered by Republic Act No. 6552 because it is not a real estate developer and the subject properties are actually being used by respondents as a commercial lot for being raised only for the first time before this Court and worse, only in SITI's reply to respondents' comment. Basic rules of fair play, justice, and due process dictate that an issue not raised before the lower court will not ordinarily be considered by a reviewing court, inasmuch as they cannot be raised for the first time on appeal.³⁹ Furthermore, this belated allegation changed the theory of the case—SITI's particular line of reasoning—which may not be allowed on appeal as it will prejudice the adverse party.⁴⁰

II.

In the absence of an invalid cancellation, the Contracts to Sell between SITI and respondents remain valid and subsisting.⁴¹ However, considering that this controversy between the parties **has already lasted for 17 years and**

³⁵ *Orbe v. Filinvest Land, Inc.*, 817 Phil. 934 (2017) [Per J. Leonen, Third Division].

³⁶ *Id.* at 958–959.

³⁷ *Associated Marine Officers and Seamen's Union of the Philippine PTGWO-LTF v. Decena*, 696 Phil. 188, 197 (2012) [Per J. Perlas-Bernabe, Second Division].

³⁸ *Rollo*, p. 63.

³⁹ *Pioneer Insurance & Surety Corp. v. Tan*, 877 Phil. 222, 232 (2020) [Per J. J. Reyes, Jr., First Division].

⁴⁰ *De Los Santos v. Lucenio*, 828 Phil. 504, 513 (2018) [Per J. Del Castillo, First Division].

⁴¹ *Gatchalian Realty, Inc. v. Angeles*, 722 Phil. 407, 425 (2013) [Per J. Carpio, Second Division].

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both parties prayed for other reliefs that are just and equitable under the premises, their rights over the subject properties shall be resolved to finally dispose of the case.

In *Olympia Housing v. Panasiatic Travel Corp.*,⁴² the Court dismissed the action for reconveyance for petitioner's failure to comply with notarial rescission and refund of cash surrender value as required by Republic Act No. 6552. It also affirmed the trial court's decision ordering respondent to pay within 60 days from receipt of the copy of the decision the outstanding balance subject to 18% interest per annum from the date of the filing of the complaint. Upon full payment, petitioner shall issue the corresponding certificate of title in respondent's favor. In the event that the said amount is not paid in full, respondent must vacate the premises and all payments will be charged as rentals to the property. No award of damages and attorney's fees and no costs were adjudged to the parties.⁴³

Similarly, in *Pagtalunan v. Vda. De Manzano*,⁴⁴ the Court dismissed the case for unlawful detainer for petitioner's failure to also comply with notarial rescission and refund of cash surrender value as required by Republic Act No. 6552. However, the Court allowed respondent to pay within 60 days from the finality of the Court's decision the balance of the purchase price with legal interest at 6% per annum from the date of the filing of the complaint up to the finality of the judgment and at the rate of 12% per annum after which a Deed of Absolute Sale over the subject property shall be executed in respondent's favor and the certificate of title shall be delivered to her. In case of failure to make the payment within the given 60-day period, respondent shall immediately vacate the premises without need of further demand and the downpayments and installments shall constitute as her rental for the subject property. No costs were charged to the parties.⁴⁵

Thus, pursuant to *Olympia Housing* and *Pagtalunan*, the Court orders respondents to pay within 60 days from the finality of this ruling, the outstanding balance of the purchase price for the subject properties in the amount of PHP 7,361,744.87, as reflected in SITI's demand letter dated November 16, 2005, an amount that was undisputed by respondents.

⁴² 443 Phil. 385 (2003) [Per J. Vitug, First Division].

⁴³ *Id.* at 395-400.

⁴⁴ 559 Phil. 658 (2007) [Per J. Azcuna, First Division].

⁴⁵ *Id.* at 667-671.

III.

At this juncture, the Court notes that paragraph 1⁴⁶ and paragraph 3⁴⁷ of the Contracts to Sell provides a monetary interest of 19% per annum and a penalty interest of 3% per month in case of failure to pay installment payments.

In *Isla v. Estorga*,⁴⁸ the Court elucidated that “[t]here are two (2) types of interest, namely, monetary interest and compensatory interest. Monetary interest is the compensation fixed by the parties for the use or forbearance of money. On the other hand, compensatory interest is that imposed by law or by the courts as penalty or indemnity for damages. Accordingly, the right to recover interest arises only either by virtue of a contract (monetary interest) or as damages for delay or failure to pay the principal loan on which the interest is demanded (compensatory interest).”⁴⁹ Notably the term “monetary interest” may be interchanged with the term “conventional interest.”

Relatedly, in *Lara’s Gifts and Decors, Inc. v. Midtown Industrial Sales*,⁵⁰ the Court recalibrated the rules on the imposition of interest. Portions of *Lara’s Gifts* pertinent to this case read:

With regard to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed as follows:

A. In obligations consisting of loans or forbearances of money, goods or credit:

1. The compensatory interest shall be that which is stipulated by the parties in writing as the penalty or compensatory interest rate, provided it is not unconscionable. In the absence of a stipulated penalty or compensatory interest rate, the compensatory interest due shall be that which is stipulated by the parties in writing as the conventional interest rate, provided it is not unconscionable. In the absence of a stipulated penalty or a stipulated conventional interest rate, or if these rates are unconscionable, the compensatory interest rate shall be the prevailing legal interest rate prescribed by the Bangko Sentral ng Pilipinas.

⁴⁶ *Rollo*, p. 63.

Paragraph 1 reads:

1. The agreed purchase price of the PROPERTY . . . shall be payable within three (3) years from date hereof in 36 equal monthly amortizations with an interest rate of 19.0% per annum starting on June 25, 1997 and every 25th day of the calendar month thereafter until fully paid. . .

⁴⁷ *Id.*

Paragraph 3 reads:

3. All installment payments including downpayment shall be made by the VENDEE payable to VENDOR . . . on or before the due date without the necessity of demand or services of a collector and failure to do so shall entitle the VENDOR to charge penalty of three (3%) percent per month on the amount due. . .

⁴⁸ 834 Phil. 884 (2018) [Per J. Perlas-Bernabe, Second Division].

⁴⁹ *Id.* at 891.

⁵⁰ G.R. No. 225433, September 20, 2022 [Per Acting C.J. Leonen, *En Banc*].

Compensatory interest, in the absence of a stipulated reckoning date, shall be computed from default, i.e., from extrajudicial or judicial demand, UNTIL FULL PAYMENT.

2. Interest on conventional/monetary interest and stipulated compensatory interest shall accrue at the stipulated interest rate (compounded interest) from the stipulated reckoning point or in the absence thereof, from extrajudicial or judicial demand UNTIL FULL PAYMENT, provided it is not unconscionable. In the absence of a stipulated compounded interest rate or if this rate is unconscionable, the prevailing legal interest rate prescribed by the Bangko Sentral ng Pilipinas shall apply from the time of judicial demand UNTIL FULL PAYMENT.⁵¹ (Emphasis supplied)

In this regard, case law instructs that interest rates that do not exceed twice the prevailing legal rate are considered to be still within the range of conscionability.⁵² However, a 3% monthly interest was held to be iniquitous and unconscionable, and hence, must be struck down.⁵³

Applying the foregoing in this case, the Court finds that the stipulated monetary/conventional interest rate of 19% per annum, provided in the Contracts to Sell, is reasonable as it does not exceed twice the then-prevailing legal interest rate of 12% per annum. On the other hand, the 3% per month penalty/compensatory interest is unconscionable; and pursuant to guideline A.1. of *Lara's Gifts*, should be reduced to the prevailing legal interest rate at the time the Contracts to Sell were entered into, i.e., 12% per annum. These interest rates shall be reckoned from the date of extrajudicial demand, i.e., November 16, 2005, until fully paid within the 60-day period as explained above.

Finally, pursuant to guideline A.2. of *Lara's Gifts* and Article 2212⁵⁴ of the Civil Code, the foregoing interests shall further earn legal interest at the rate of 12% per annum from judicial demand, i.e. January 30, 2006 to June 30, 2013, and 6% per annum from July 1, 2013 until fully paid within the 60-day period as explained above.

IV.

In sum, respondents must pay SITI the following: (a) the principal amount of PHP 7,361,744.87; (b) monetary/conventional interest at the rate of 19% per annum reckoned from the date of extrajudicial demand, i.e.

⁵¹ *Id.*

⁵² *Lara's Gifts and Decors, Inc. v. Midtown Industrial Sales*, G.R. No. 225433, September 20, 2022 [Per Acting C.J. Leonen, *En Banc*], *Nacar v. Gallery Frames*, 716 Phil. 267 (2013) [Per J. Peralta, *En Banc*].

⁵³ *Macalinao v. Bank of the Philippine Islands*, 616 Phil. 60 (2009) [Per J. Velasco, Jr., Third Division].

⁵⁴ Civil Code, Art. 2212 provides:

Article 2212. Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point.

November 16, 2005 until fully paid; (c) penalty/compensatory interest at the rate of 12% per annum reckoned from the date of extrajudicial demand, i.e. November 16, 2005 until fully paid; and (d) interest on the foregoing interests at the rate of 12% per annum from judicial demand, i.e. January 30, 2006 to June 30, 2013, and 6% per annum from July 1, 2013 until fully paid.

After said payments are made by respondents, a Deed of Absolute Sale shall be executed by SITI in respondents' favor and the certificates of title of the subject properties shall likewise be delivered to respondents. In case of failure to make said payments within the 60-day period, respondents shall immediately vacate the premises without need of further demand and the downpayments, installments, and improvements shall be forfeited in SITI's favor to constitute as rental for the subject property in accordance with paragraph 5 of the Contracts to Sell.

ACCORDINGLY, the Decision dated March 24, 2017 of the Court of Appeals dismissing the complaint is **AFFIRMED with MODIFICATIONS** as follows:

1. Respondents Carlos Baculo and the heirs of his deceased spouse Victoria Baculo, namely, Ronaldo Baculo, Roniel Baculo, Rozziel Baculo-Quitoriano and Richard Baculo shall pay petitioner State Investment Trust, Inc., within 60 days from the finality of this Decision:
 - a. The balance of the purchase price in the amount of PHP 7,361,744.87;
 - b. Monetary/conventional interest on the balance of the purchase price at the rate of 19% per annum to be reckoned from November 16, 2005 until full payment within the 60-day period;
 - c. Penalty/compensatory interest on the monetary/conventional interest as at the rate of 12% per annum to be reckoned from November 16, 2005 until full payment within the 60-day period; and
 - d. Interest on the foregoing monetary/conventional and penalty/compensatory interests at the rate of 12% per annum from judicial demand, January 30, 2006 to June 30, 2013, and 6% per annum from July 1, 2013 until full payment within the 60-day period.
2. Upon payment, petitioner State Investment Trust, Inc. shall execute a Deed of Absolute Sale of the subject properties and deliver the certificates of title in favor of respondents; and


3. In case of failure to pay within 60 days from the finality of this Decision, respondents and all occupants on their behalf shall immediately vacate the subject properties without need of further demand. The downpayments, installment payments, and the improvements on the subject properties shall be forfeited in petitioner's favor to constitute as rentals thereof.

No costs.

SO ORDERED.


ANTONIO T. KHO, JR.
Associate Justice

WE CONCUR:


MARVIC M.V.F. LEONEN
Senior Associate Justice
Chairperson

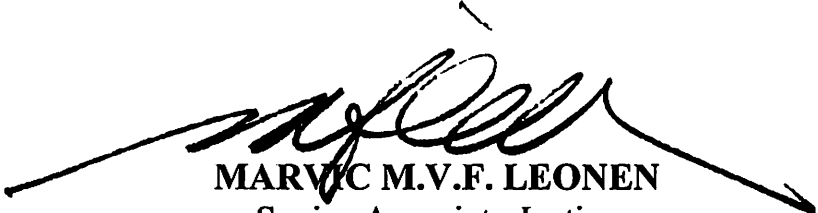

AMY C. LAZARO-JAVIER
Associate Justice


MARIO V. LOPEZ
Associate Justice


JHOSEP V. LOPEZ
Associate Justice

ATTESTATION

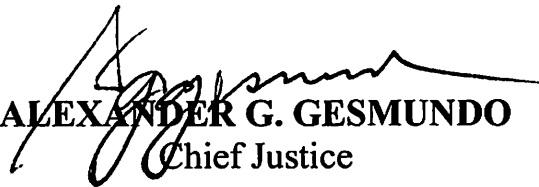
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


MARVIC M.V.F. LEONEN
Senior Associate Justice
Chairperson, Second Division



CERTIFICATION

Pursuant to Article VIII, Section 13 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

