POST-MIDTERM

4.2.5. Monetary obligations

Payment of money debts;
Legal tender

Art. 1249

The payment of debts in money shall be made in the currency stipulated, and if it is not possible to deliver such currency, then in the currency which is legal tender in the Philippines.

The delivery of promissory notes payable to order, or bills of exchange or other mercantile documents shall produce the effect of payment only when they have been cashed, or when through the fault of the creditor they have been impaired.

In the meantime, the action derived from the original obligation shall be held in abeyance.

Form should money debts be paid:

1. In the currency stipulated
    a. The parties could agree on foreign currency payments.
2. If there is no stipulation, payment should be made in Philippine legal tender.

Payment in negotiable paper

- Payment in negotiable paper, such as checks can be refused by the creditor.
    - A check (manager's check included), in general, does not constitute legal tender. The creditor has the option and the discretion of refusing or accepting it.
- Effect of acceptance by creditor of payment in negotiable paper:
    - It is only provisional that it will be deemed to constitute payment only when:
        - The instrument is encashed
        - The document is impaired through the creditor's fault

Demand deposits not legal tender

Section 58. *Definition*. - For purposes of this Act, the term "demand deposits" means all those liabilities of the Bangko Sentral and of other banks which are denominated in Philippine currency and are subject to payment in legal tender upon demand by the presentation of checks.

Section 60. *Legal Character*. - Checks representing demand deposits do not have legal tender power and their acceptance in the payment of debts, both public and private, is at the option of the creditor: *Provided*, however, That a check which has been cleared and credited to the account of the creditor shall be equivalent to a delivery to the creditor of cash in an amount equal to the amount credited to his account.

Checks not legal tender!

Federal Express Corp. v. Antonio, G.R. 199455, June 27, 2018
📦📪

It is settled in jurisprudence that checks, being only negotiable instruments, are only substitutes for money and are not legal tender; more so when the check has a named payee and is not payable to the bearer.

An order instrument, which has to be endorsed by the payee before it may be negotiated, cannot be a negotiable instrument equivalent to cash.

Legal tender limit of Philippine Coins for single transaction

Coin denomination	Limit (in PhP)
1 centavos, 5 centavos, 10 centavos, 25 centavos	200
1 peso, 5 pesos, 10 pesos, 20 pesos	2,000

4.2.6. Extraordinary inflation or deflation

Art. 1250

In case an extraordinary inflation or deflation of the currency stipulated should supervene, the value of the currency at the time of the establishment of the obligation shall be the basis of payment, unless there is an agreement to the contrary.

Equitable PCI Bank v. Ng, G.R. 171545, December 19, 2007

For extraordinary inflation (or deflation) to affect an obligation, the following requisites must be proven:

1. that there was an official declaration of extraordinary inflation or deflation from the Bangko Sentral ng Pilipinas (BSP)
2. that the obligation was contractual in nature
3. that the parties expressly agreed to consider the effects of the extraordinary inflation or deflation.

What is extraordinary inflation or deflation?

- It exists when there is a decrease or increase in the purchasing power of the currency beyond the common fluctuation in the value of said currency
- The said decrease or increase could not have reasonably been foreseen or was manifestly beyond the contemplation of the parties at the time of the establishment of the obligation.

4.2.7. Application of payment

Art. 1252

He who has various debts of the same kind in favor of one and the same creditor, may declare at the time of making the payment, to which of them the same must be applied. Unless the parties so stipulate, or when the application of payment is made by the party for whose benefit the term has been constituted, application shall not be made as to debts which are not yet due.

If the debtor accepts from the creditor a receipt in which an application of the payment is made, the former cannot complain of the same, unless there is a cause for invalidating the contract.

Art. 1253

If the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered.

Art. 1254

When the payment cannot be applied in accordance with the preceding rules, or if application cannot be inferred from the circumstances, the debt which is most onerous to the debtor, among those due, shall be deemed to have been satisfied.

If the debts due are of the same nature and burden, the payment shall be applied to all of them proportionately.

What is application of payments?

- *Definition:* Designation or specification of the debt/s to which an amount paid by a debtor, who has several demandable obligations in favor of the same creditor, should be applied.
- It is a special form of payment because it departs from the requisites of integrity and indivisibility.

Requisites for application of payment ♥

1. There must only be one creditor and one debtor
2. There must be various obligations
3. The obligations must be of the same nature

The debts must be due and liquidated. Moreover, it's possible to have *imputación* in non-monetary obligations.

When will it come into play?

- When the debtor pays an amount less than the total of all the obligations.

Rules on how payment should be applied:

1. Agreement between parties (stipulation)
2. Debtor's option
3. Creditor's option
4. By onerousness (most onerous to the least onerous)
5. All the debts, *pro rata* (Art. 1254, par. 2)
    a. This is, if the debts are equally onerous.
    b. An exception to the integrity and indivisibility of payment.

How is onerousness determined?

- It's difficult to lay down precise general criteria (Manresa)
- *Indicators/guidelines:*
    - A secured debt > Unsecured debt
    - Interest-bearing debt > Non-interest-bearing debt
    - Debtor is bound as principal > Debtor is bound subsidiarily
    - Debt with a penal clause > Debt without a penal clause
    - Debt which is purely individual > Debtor solidarily bound
    - Liquidated debt > Unliquidated debt

Limitations on the debtor's right to make *imputacion*:

1. If there is outstanding interest due (Art. 1253)
2. If the requisite of integrity or indivisibility will be violated
3. The debt is not yet due and demandable

Art. 1176 vis-a-vis Art. 1253

Marquez (*supra* art. 1176)

The presumption under Art. 1253 resolves doubts involving payment of interest-bearing debts. Art. 1253 resolves this doubt by providing a hierarchy: payments shall first be applied to the interest; payment shall then be applied to the principal only after the interest has been fully-paid.

The rule under Art. 1253 that payments shall first be applied to the interest and not to the principal shall govern if two facts exist: (1) the debt produces interest (e.g., the payment of interest is expressly stipulated) and (2) the principal remains unpaid.

Exception: If under Art. 1176, i.e., the creditor waives payment of the interest despite the presence of (1) and (2) above. In such case, the payments shall obviously be credited to the principal.

4.2.8. Dación en pago

Art. 1245 ⭐

Dation in payment, whereby property is alienated to the creditor in satisfaction of a debt in money, shall be governed by the law of sales.

What is dación en pago?

- Transmission of the ownership of a thing by the debtor to the creditor as an accepted equivalent of the performance of an obligation
- A special mode of payment where the debtor offers another thing to the creditor who accepts it as the equivalent of payment of an outstanding debt
    - "Special" – Because it departs from the rule of identity of payment.
    - Other special forms: Arts. 1252-1261.

Requisites of a dación en pago ♥

1. Performance of another prestation in lieu of payment
2. Some difference between the prestation due and that which is given in substitution
3. An agreement between the creditor and the debtor that the obligation is immediately extinguished by the performance of a prestation different from that due
    a. Hence, consent of both parties is required.

What is the nature of a dación en pago?

1. Sale – By delivering a nonpecuniary thing in lieu of payment of a money debt, the debtor assumes a role closely akin to that of a vendor and the creditor, in effect, becomes a vendee.
    a. Dación en pago is governed by the law of sales.
2. Novation – It essentially involves a change of object. The original subject-matter of the debtor's prestation (money) is changed to something else.

What is the extent of the extinguishment?

- Depending on the parties, it may be partial or total.
- The obligation is **extinguished to the extent of the value of the thing** delivered (partially), unless the parties consider the thing as equivalent to the obligation–in which case, the obligation is **totally** extinguished.

Dao Heng Bank Inc. v. Sps. Laigo, G.R. 173856, November 20, 2008

Dación en pago is an objective novation of the obligation, hence, **common consent** of the parties is required in order to extinguish the obligation.

Kameraworld Inc. v. Reddot Imaging PH Inc., G.R. 248256, April 17, 2023

In a *dación en pago*, the essential elements of a contract of sale, namely, consent, object certain, and cause or consideration must be present.

- The consideration is deemed to be the existing debt, or the payment thereof.

4.2.9. Cession

Art. 1255

The debtor may cede or assign his property to his creditors in payment of his debts. This cession, unless there is stipulation to the contrary, shall only release the debtor from responsibility for the net proceeds of the thing assigned. The agreements which, on the effect of the cession, are made between the debtor and his creditors shall be governed by special laws.

Cession – Abandonment by the debtor of the totality of his property for the benefit of his creditors so that the latter may apply to the satisfaction of their credits the proceeds of the sale of such property.

- Debtor merely hands over the possession of his property to his creditors and authorizes them to sell said property for the purpose of dividing the net proceeds among them.
    - Ownership of the property does not pass to the creditors

(Manresa)
    - In *dación en pago*, the ownership does transfer to the creditors.
    - In cession, the creditor merely becomes the debtor's agents for the properties' sale.
- Cession extinguishes the debts only to the extent of the amount applied thereto from the net proceeds of the sale.
    - Parties, however, may stipulate full payment.

Consent of the parties is the essential requirement of cession.
- Hence, the creditor may refuse cession.

The cession contemplated in this article is **contractual**.
- **Judicial cession** is governed by the Financial Rehabilitation and Insolvency Act 2010.

4.2.10. Tender of payment and consignation

Art. 1256 ⭐

If the creditor to whom tender of payment has been made refuses without just cause to accept it, the debtor shall be released from responsibility by consignation of the thing or sum due.

Consignation alone shall produce the same effect in the following cases:
1. When the creditor is absent or unknown, or does not appear at the place of payment;
2. When he is incapacitated to receive the payment at the time it is due;
3. When, without just cause, he refuses to give a receipt;
4. When two or more persons claim the same right to collect;
5. When the title of the obligation has been lost.

Art. 1257

In order that the consignation of the thing due may release the debtor, it must first be announced to the persons interested in the fulfillment of the obligation.

The consignation shall be ineffectual if it is not made strictly in consonance with the provisions which regulate payment.

Art. 1258

Consignation shall be made by depositing the things due at the disposal of judicial authority, before whom the tender of payment shall be proved, in a proper case, and the announcement of the consignation in other cases.

The consignation having been made, the interested parties shall also be notified thereof.

Consignation – The act of depositing the thing due with the court whenever the creditor cannot accept or refuses to accept payment and it, generally, requires a prior tender of payment.
- Premised on *mora accipiendi*, which is either:
    - Culpable – Refusal without justification
    - Constructive – Impossibility or impracticability of direct payment, e.g., nos. 1, 2, 4, and 5 of Art. 1256.
        - Here, a prior tender of payment is not required.

Non-pecuniary movables can be consigned, considering that Art. 1258 speaks of "things."

Sps. Domasian v. Demdam, G.R. No. 212349, November 17, 2021

Tender of payment, without more, produces no effect.

Tender of payment – Manifestation by the debtor of a desire to comply with or pay an obligation.

Consignation – Deposit of the proper amount with a judicial authority in accordance with the rules prescribed by law, after the tender of payment has been refused or because of circumstances which render direct payment to the creditor impossible or inadvisable.

Dalton v. FGR, G.R. 172577, January 19, 2011 ♥

Requisites of a valid consignation:
1. The debt is due
2. The creditor refused without just cause to accept payment
3. The person interested in the performance of the obligation was given notice before consignation was made
4. The amount was placed at the disposal of the court
5. The person interested in the performance of the obligation was given notice after the consignation was made.

⚠️ *Compliance with the requisites is mandatory.*

Consignation is deemed complete when–
1. The creditor accepts payment without objections

2. If he objects, at the time the court declares that it has been validly made in accordance with law.

Art. 1259

The expenses of consignation, when properly made, shall be charged against the creditor.

This is because the creditor was the one in delay (*mora accipiendi*).

Art. 1260

Once the consignation has been duly made, the debtor may ask the judge to order the cancellation of the obligation.

Before the creditor has accepted the consignation, or before a judicial declaration that the consignation has been properly made, the debtor may withdraw the thing or sum deposited, allowing the obligation to remain in force.

Effects of consignation:

1. The obligation is extinguished and the debtor is released
2. The accessory obligations (e.g., mortgage, pledge, guaranty) are likewise extinguished
3. If no prior tender of payment was required, interest ceases to run
    a. If prior tender was required and had been made, interest would have ceased running when the tender was made
4. Risk of loss transfers to the creditor
    a. If tender was required and had been made, the risk of loss would have transferred to the creditor upon his unjustified refusal
5. The creditor is entitled to any appreciation or bears any depreciation subsequently occurring

Consignation is a right–not a duty–of the debtor. It is made at his option. Being a right, it cannot be waived or its exercise withdrawn.

Art. 1261

If, the consignation having been made, the creditor should authorize the debtor to withdraw the same, he shall lose every preference which he may have over the thing. The co-debtors, guarantors and sureties shall be released.

After the perfection of the consignation, it becomes irrevocable and can be undone only by the mutual consent of debtor and creditor.

Effects of withdrawal mutually agreed upon:

1. The principal obligation is revived
2. Accessory obligations are *not* revived
3. The creditor loses any preference over the thing
4. Should the debt be passively solidary (multiple debtors), the bond of solidarity is not revived.

4.3. Loss of the thing due

Loss of a specific thing

Art. 1262

An obligation which consists in the delivery of a determinate thing shall be extinguished if it should be lost or destroyed without the fault of the debtor, and before he has incurred in delay.

When by law or stipulation, the obligor is liable even for fortuitous events, the loss of the thing does not extinguish the obligation, and he shall be responsible for damages. The same rule applies when the nature of the obligation requires the assumption of risk.

What is "loss?"

- Loss *after* the constitution of the obligation, and *before* the debtor defaults.
- A supervening loss.
- In this case, the obligation is extinguished.

What are the exceptions?

- Law
- Stipulation
- Nature (assumption of risk)

Loss of a generic thing

Art. 1263

In an obligation to deliver a generic thing, the loss or destruction of anything of the same kind does not extinguish the obligation.

As a general rule, obligations to deliver generic things cannot be extinguished by loss.

- Genus numuguam perit–the genus never perishes.
  - Hence, *as an exception,* if the entire genus is extinguished by loss, the obligation is extinguished.

Partial loss

Art. 1264

The courts shall determine whether, under the circumstances, the partial loss of the object of the obligation is so important as to extinguish the obligation.

Should the fortuitous event cause only partial loss, the courts will resolve whether the obligation is extinguished or not.

Presumption of fault in loss

Art. 1265

Whenever the thing is lost in the possession of the debtor, it shall be presumed that the loss was due to his fault, unless there is proof to the contrary, and without prejudice to the provisions of article 1165. This presumption does not apply in case of earthquake, flood, storm, or other natural calamity.

What is the presumption?

- A *rebuttable presumption* of culpability on the debtor if the thing to be delivered is lost while in his possession.
- This does not apply in case of a natural calamity.

Correlate with Art. 1165

- The presumption in Art. 1265 may be overcome by showing fortuitous event, except–
  - Debtor is in default
  - Debtor promised to deliver the same thing to 2 or more persons

'Loss' of an obligation to do

Art. 1266

The debtor in obligations to do shall also be released when the prestation becomes legally or physically impossible without the fault of the obligor.

This operates in the same way as Art. 1262 (which refers to an obligation *to give*). *See comments in Art. 1262*.

DBP v. Clarges, G.R. 170060, August 17, 2016

[Art. 1266], which release debtors from their obligations if they become legally or physically impossible or so difficult to be manifestly beyond the contemplation of the parties, only apply to obligations to do.

Rebus sic stantibus

Art. 1267 ⭐

When the service has become so difficult as to be manifestly beyond the contemplation of the parties, the obligor may also be released therefrom, in whole or in part.

Doctrine of unforeseen events

When does this apply?

- Where the performance of the prestation–*though not impossible*–has become so manifestly and extremely difficult as to be beyond the contemplation of the parties.
  - To stress: It must not only be beyond the parties' contemplation, but also extremely difficult.
  - If the conditions radically and unforeseeably change in the future, the contract loses its basis due to a reason akin to a failure of cause.

Requisites for application ♥

1. The event or change in circumstances could not have been foreseen at the time of the execution of the contract
2. It makes the performance of the contract extremely difficult, but not impossible
3. The event must not be due to the act of any of the parties
4. The contract is for a future prestation (i.e., successive performances or for a long period)

Cases applying the article:

1. This article grants the courts the power of *relief* but *not* revision (Occeña v. Jabson)
2. This article is not confined in its operation solely to obligations to do nor to contracts for future service (NATELCO v. CASURECO)

Sps. Poon v. Prime Savings Bank, G.R. 183794, June 13, 2016

Art. 1267 speaks of "service," which should be understood as referring to the performance of an obligation or a prestation (to give, to do, or not to do).

Liability for loss of a determinate thing arising from a crime

Art. 1268

When the debt of a thing certain and determinate proceeds from a criminal offense, the debtor shall not be exempted from the payment of its price, whatever the cause for the loss, unless the thing having been offered by him to the person who should receive it, the latter refused without justification to accept it.

Operation of the article

- If the obligation to give a determinate thing arises from a criminal offense, the person obliged to return it becomes an insurer of the thing, being liable for a fortuitous event.

Exceptions to debtor's liability for fortuitous event

- The debtor's liability ceases when the creditor unjustifiably refuses tender of the thing.
- Debtor's options:
  - Consign the thing
  - Retain the thing and take care of it

Illustrative example: Andrea stole a limited-edition designer bag worth P150,000 from Bianca during a party. Two weeks later, Bianca discovered Andrea's involvement and filed a criminal complaint. Fearing legal consequences, Andrea promised to return the bag. However, Andrea never actually made any effort to deliver the bag to Bianca. Before she could do so, the bag was accidentally destroyed in a flood that entered her condo during a typhoon.

- Andrea must pay the value of the stolen item because she failed to offer its return, and the loss, even though caused by a typhoon, does not extinguish the obligation under Art. 1268.

Art. 1269

The obligation having been extinguished by the loss of the thing, the creditor shall have all the rights of action which the debtor may have against third persons by reason of the loss.

This article grants the *right of subrogation* to the creditor who can thereby exercise the right of the debtor to demand indemnity from any third person who may, by fault or negligence, be responsible for the loss of the thing to be delivered.

- The creditor–instead of the debtor–may sue the third person who caused the loss (either by fault or negligence)

4.4. Condonation or remission of the debt

Art. 1270 ⭐

Condonation or remission is essentially gratuitous, and requires the acceptance by the obligor. It may be made expressly or impliedly.

One and the other kind shall be subject to the rules which govern inofficious donations. Express condonation shall, furthermore, comply with the forms of donation.

Requisites ♥

1. The debt must be existing when the condonation is made.
   a. Not necessarily due.
2. It must be gratuitous.
3. The creditor must have the capacity to contract and to dispose of his property.
4. The debtor must have capacity to accept the donation.

Condonation – An act of liberality by virtue of which, without receiving any onerous consideration or equivalent, the creditor renounces the enforcement of the obligation, thus extinguishing it in its entirety or in part or aspect of the same to which the condonation refers.

- The law treats it as a *donation*, hence, the rules of donations govern.

Kinds:

1. Express – Made explicitly and formally

2. Implied – Made by inference or tacitly through the conduct of the parties

Form:

1. Donation of a movable
    a. Oral – If the thing is P5,000 or below
        i. Requires simultaneous delivery
    b. Writing – If the thing exceeds P5,000
        i. Both the donation and acceptance must be in writing. Otherwise, it is void (Art. 748)
2. Donation of an immovable
    a. Made in a public document, specifying the property donated and the value of the charges
    b. Acceptance may be made in the same deed of donation, or in a separate public instrument

Condonation vs. waiver

- Waiver – Creditor's desistance from taking action to enforce his claim.
    - And, if sufficiently extended, it will cause prescription to run its full course and extinguish the obligation.

Art. 1271

The delivery of a private document evidencing a credit, made voluntarily by the creditor to the debtor, implies the renunciation of the action which the former had against the latter.

In order to nullify this waiver it should be claimed to be inofficious, the debtor and his heirs may uphold it by proving that the delivery of the document was made in virtue of payment of the debt.

Art. 1272

Whenever the private document in which the debt appears is found in the possession of the debtor, it shall be presumed that the creditor delivered it voluntarily, unless the contrary is proved.

Arts. 1271 and 1272 are *disputable presumptions*.

- The presumption in Art. 1272 produces the presumption in Art. 1271.
- These are inapplicable if the debt is evidenced by a public document.

Presumption in Art. 1271:

- When the credit is evidenced by a private document, the voluntary delivery of such document by the creditor to the debtor raises the rebuttable presumption that the creditor has remitted the debt.
    - Rationale: By surrendering to the debtor the only evidence of indebtedness, the creditor deprives himself of proof that the debtor owes him and thus disarms himself of any means to prove his claim.

Presumption in Art. 1272:

- Situation: The private document of indebtedness is found in the debtor's possession.
    - Art. 1272 presumption: The creditor voluntarily delivered the document to the debtor.
    - Art. 1271 presumption: The voluntary delivery was made with the intent to remit.

Presumption of remission in joint and solidary obligations:

1. Active joint (several creditors) – Only the share of the delivering creditor is deemed remitted.
2. Passive joint (several debtors) – Only the share of the debtor in possession is remitted.
3. Solidary – The presumption of remission covers the entire amount.

Renunciation of principal = Renunciation of accessory;
Not vice-versa!

Art. 1273

The renunciation of the principal debt shall extinguish the accessory obligations; but the waiver of the latter shall leave the former in force.

An accessory obligation cannot exist without the principal. A principal obligation, however, can exist without an accessory.

Art. 1274

It is presumed that the accessory obligation of pledge has been remitted when the thing pledged, after its delivery to the creditor, is found in the possession of the debtor, or of a third person who owns the thing.

If, after the constitution of the pledge, the thing pledged is found in the possession of the pledger or the owner of the thing, the possessory nature of the pledge shall have been compromised and thus the presumption of remission of the pledge arises.

- This is a *prima facie presumption* (*see* Art. 2110).

4.5. Confusion or merger

Art. 1275 ⭐

The obligation is extinguished from the time the characters of the creditor and debtor are merged in the same person.

Confusion or merger – The meeting in one person of the qualities of creditor and debtor with respect to the same obligation.

- This only applies to the creditor and the *principal* debtor.

Art. 1276

Merger which takes place in the person of the principal debtor or creditor benefits the guarantors. Confusion which takes place in the person of any of the latter does not extinguish the obligation.

If a subsidiary debtor acquires the credit, no confusion takes place.

Art. 1277

Confusion does not extinguish a joint obligation except as regards the share corresponding to the creditor or debtor in whom the two characters concur.

This is because it's a joint obligation–there are really as many distinct debts as the number of creditors x number of debtors.

- Hence, the debt is only extinguished between the merged creditor and debtor.

4.6. Compensation

Art. 1278

Compensation shall take place when two persons, in their own right, are creditors and debtors of each other.

Compensation – Mode of extinguishing to the concurrent amount the obligations of persons who in their own right and as principals are reciprocally debtors and creditors of each other.

Kinds of compensation:

1. **Legal** – That which takes place automatically and by operation of law when all the requisites of Art. 1279 are present
2. **Conventional** or contractual – That which takes place by agreement of the parties, even if not all of the requisites of Art. 1279 are present (*see* Art. 1282)
3. **Facultative** – That which takes place at the option of a party to whom the law grants the right to invoke it (*see* Arts. 1287-1288)
4. **Judicial** – That which is decreed by the court in cases where the defendant sets up a counterclaim of the same nature and both the plaintiff and defendant's claims are granted (*see* Art. 1283)

Requisites of compensation

Art. 1279 ⭐

In order that compensation may be proper, it is necessary:

1. That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other;
2. That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;
3. That the two debts be due;
4. That they be liquidated and demandable;
5. That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor.

Liquidated and demandable debt

Linear Construction v. Dolmar Property, G.R. 212327, November 17, 2021

Liquidated – When the amount and time of payment of a debt is fixed, and its exact amount is known.

Demandable – When it is enforceable in court, there being no apparent defenses (e.g., prescription).

A **claim** is not a demandable debt that may be subject to legal compensation.

- The claim needs to be–
  - Judicially ascertained, or

- Acknowledged by the debtor

Sps. Villacin v. Barlaan, G.R. 224426, January 26, 2021 [Notice]

A **self-determined amount** is a claim that is not binding on a debtor. It merely represents an amount that the creditor can attempt to collect from the debtor via civil action.

- This is not a liquidated and demandable debt.

BDO v. Ypil, G.R. 212024, October 12, 2020

If a claim is **acknowledged** by the debtor–although not in writing–the claim must be treated as liquidated.

Not subject to compensation

Air Canada v. CIR, G.R. 169507, January 11, 2016

The weight of authority is to the effect that internal revenue taxes can not be the subject of set-off or compensation.

- A claim for taxes is not such a debt, demand, contract, or judgment as is allowed to be set-off.

Art. 1280

Notwithstanding the provisions of the preceding article, the guarantor may set up compensation as regards what the creditor may owe the principal debtor.

The guarantor of the debtor and the creditor can also offset each other.

Extent of compensation

Art. 1281

Compensation may be total or partial. When the two debts are of the same amount, there is a total compensation.

Compensation operates only to the concurrent amount of the two obligations.

- In case of partial compensation, the balance remains due and demandable.

Conventional or contractual compensation

Art. 1282

The parties may agree upon the compensation of debts which are not yet due.

There is *nothing* that prevents the parties from agreeing to a compensation, whether total or partial.

The principle of contractual freedom defines the scope of the agreement. The only restrictions are law, morals, good customs, public order, and public policy.

- Hence, compensation is not allowed if one of the debts has been garnished.
- Nevertheless, the parties must have *contracting capacity*, as well as capacity to dispose *inter vivos* of their property.

Judicial compensation;
Counterclaims

Art. 1283

If one of the parties to a suit over an obligation has a claim for damages against the other, the former may set it off by proving his right to said damages and the amount thereof.

That which is decreed by the court in cases where the defendant sets up a counterclaim of the same nature and both the plaintiff and defendant's claims are granted.

- This presupposes that the other credit is likewise monetary.

Compensation of a rescissible or voidable obligations

Art. 1284

When one or both debts are rescissible or voidable, they may be compensated against each other before they are judicially rescinded or avoided.

Rescissible or voidable obligations are effective unless and until rescinded or annulled.

- Concomitantly, the compensation here is itself rescissible or voidable.

Art. 1285

The debtor who has consented to the assignment of rights made by a creditor in favor of a third person, cannot set up against the assignee the compensation which would pertain to him against the assignor, unless the assignor was notified by the debtor at the time he gave his consent, that he reserved his right to compensation.

If the creditor communicated the cession to him but the debtor did not consent thereto, the latter may set up the compensation of debts previous to the cession, but not of subsequent ones.

If the assignment is made without the knowledge of the debtor, he may set up the compensation of all credits prior to the same and also later ones until he had knowledge of the assignment.

This article contemplates a situation in which the creditor in one of the obligations assigns or cedes his credit to a third person.

Illustrative example: X and Y are, mutually, creditors and debtors of each other. X owes Y P50,000 (Obligation 1), and Y owes X P50,000 (Obligation 2). Before either amount falls due, X assigns to A the amount owed by Y (Obligation 2). Both obligations subsequently fall due.

Can Y set up Obligation 1 against assignee A should A demand from Y payment of Obligation 2?

1. If the assignment to A of Obligation 2 was with knowledge and consent of Y:
    a. No, Y cannot set up compensation because his knowledge and consent was waiver of the right to set up compensation.
2. If the assignment to A of Obligation 2 was with the knowledge, but without the consent, of Y:
    a. Yes, Y can set up compensation against assignee A of Obligation 1, and indeed of any credit already existing.
3. If the assignment to A of Obligation 2 was with neither Y's knowledge nor consent:
    a. Yes, Y can set up compensation against assignee A of Obligation 1 and indeed any of the credit arising before Y acquires knowledge of the assignment.

Mutual accounting of expenses

Art. 1286

Compensation takes place by operation of law, even though the debts may be payable at different places, but there shall be an indemnity for expenses of exchange or transportation to the place of payment.

This only applies to legal compensation under Art. 1279.

A superfluity of this is in Art. 1290.

When compensation is not applicable

Art. 1287 ⭐

Compensation shall not be proper when one of the debts arises from a deposit or from the obligations of a depositary or of a bailee in a commodatum.

Neither can compensation be set up against a creditor who has a claim for support due by gratuitous title, without prejudice to the provision of Article 301 [1].

[1] Art. 301 of the New Civil Code has been repealed and has not been reproduced in the Family Code.

Par. 1: Legal compensation not possible in deposit or commodatum

- This is because they are fiduciary relationships in which the depositor/bailor has reposed trust and confidence in the depositary/bailee
    - Facultative: The depositor/bailor can, at his election, set up compensation against the depositary or bailee.

Par. 2: Support cannot be subject matter of compensation

- This is because support is necessary for life. To allow compensation here would deprive the recipient the right to life.
    - However, support in arrears may, at the recipient's election, be set up by him against the obligor.
    - But, excess in amount beyond that required for legal support may be subject to legal compensation.

No compensation on civil liability ex-delicto

Art. 1288

Neither shall there be compensation if one of the debts consist in civil liability arising from a penal offense.

Justice JBL Reyes opines that the victim of the crime may have the choice to set up legal compensation against the accused.

- A facultative compensation.

Art. 1289

If a person should have against him several debts which are susceptible of compensation, the rules on the application of payments shall apply to the order of compensation.

If one or both of the debtors have several debts to which compensation can be applied, the rules on application of payments will apply (*see* Arts. 1252-1254).

Legal compensation;
Commencement

Art. 1290 ⭐

When all the requisites mentioned in Article 1279 are present, compensation takes effect by operation of law, and extinguishes both debts to the concurrent amount, even though the creditors and debtors are not aware of the compensation.

Legal compensation operates automatically.

1. Legal – When all the requisites of Art. 1279 are present.
2. Conventional – Upon the effectivity of the agreement between the parties.
3. Facultative – Upon receipt by the debtor of the notice of election by the creditor entitled to claim the compensation
4. Judicial – Upon finality of the judgment.

Renunciation

- Compensation can be renounced by the parties, either impliedly or expressly (*see e.g.*, Art. 1285).

4.7. Novation

Types of novation

Art. 1291 ⭐

Obligations may be modified by:

1. Changing their object or principal conditions;
2. Substituting the person of the debtor;
3. Subrogating a third person in the rights of the creditor.

Novation – Extinguishment of an obligation by the substitution or change if the obligation by a subsequent one which extinguishes or modifies the first, either by changing the object or principal conditions, or by substituting the person of the debtor, or by subrogating a third person in the rights of the creditor.

Classification of novation

1. Subjective or personal – Change of subject
    a. Active – Change of creditor (subrogation)
        i. Arts. 1300 to 1304.
    b. Passive – Change of debtor (*expromisión* or *delegación*)
        i. Arts. 1293 to 1295.
2. Objective or real – Change of object or principal conditions
3. Mixed – Both subjective and objective

Requisites ♥

1. A previous valid obligation
2. An agreement of all parties concerned to a new contract
    a. Intent to novate (*animus novandi*)
    b. Capacity of the parties to effect novation
3. Extinguishment of the old obligation
4. The birth of a valid new obligation

Express and implied novation

Art. 1292

In order that an obligation may be extinguished by another which substitutes the same, it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other.

Kinds of novation as to form:
1. Express
2. Implied

Rule: Novation is never presumed. It must either be:
1. Expressly stated, or
2. There must be manifest incompatibility between the old and the new obligations.
    a. Test: Whether the two obligations can stand together.

Express objective novation

SECOR v. BDI, G.R. 205737, September 21, 2022

The determination of whether or not a contract was subjected to objective novation would necessitate a determination of whether the conditions to be changed are:
1. principal → novation
2. incidental → no novation.

Sorongon v. People, G.R. 230669, June 16, 2021

The incompatibility is not merely incidental when, as a result of novation, the original juridical tie between the parties have been destroyed.
- Hence, novation may extinguish criminal liability, if made *before* the filing of the Information.

Test of incompatibility in implied novation

Valdes v. LCDC, G.R. 208140, July 12, 2021

It is well settled that the cancellation of the old obligation by the new one is a necessary element of novation which may be effected either expressly or impliedly. While there is really no hard and fast rule to determine what might constitute sufficient change resulting in novation, the touchstone, however, is **irreconcilable incompatibility** between the old and the new obligations.

In the absence of an express provision to this effect, a contract may still be considered as novated if it passes the test of incompatibility, that is, whether the contracts can stand together, each one having an independent existence.

Change of debtors

Art. 1293

Novation which consists in substituting a new debtor in the place of the original one, may be made even without the knowledge or against the will of the latter, but not without the consent of the creditor. Payment by the new debtor gives him the rights mentioned in Articles 1236 and 1237.

Art. 1294

If the substitution is without the knowledge or against the will of the debtor, the new debtor's insolvency or non-fulfillment of the obligation shall not give rise to any liability on the part of the original debtor.'

Art. 1295

The insolvency of the new debtor, who has been proposed by the original debtor and accepted by the creditor, shall not revive the action of the latter against the original obligor, except when said insolvency was already existing and of public knowledge, or known to the debtor, when he delegated the debt.

Two forms of passive subjective novation:
1. *Expromisión* – The initiative for the substitution *does not* come from the original debtor and such substitution can take place without his consent.
    a. It must, however, obtain the consent of the new debtor and creditor.
2. *Delegación* – Here, the original debtor offers and the creditor accepts the substitution by the new debtor.
    a. The consent of all three parties is required.

Effect of subsequent insolvency or nonperformance by new debtor:
1. In expromisión, it does not revive the old debtor's obligation.
2. In delegación, the debtor's liability will be revived if and only if:
    a. The new debtor's insolvency was preexisting, and
    b. It was known to the original debtor *or* it was public knowledge.

Romago Inc. v. Associated Bank, G.R. 223450, February 22, 2023

While the creditor's consent to a change in debtor may be derived from clear and unequivocal acts of acceptance, such acts must be wholly consistent with the release of the original debtor. Thus, acceptance of payment from a third person will not necessarily release the original debtor from their obligation.
- Jurisprudence requires presentation of proof of consent, not mere absence of objection.

Bendecio v. Bautista, G.R. 242087, December 7, 2021

In either *expromisión* or *delegación*, the consent of the creditor is indispensable. The creditor must *expressly* accept the novation that extinguishes the obligation of the original debtor.

Novation vis-a-vis accessory obligations

Art. 1296

When the principal obligation is extinguished in consequence of novation, accessory obligations may subsist only insofar as they benefit third persons who did not give their consent.

General rule: Extinction by novation carries with it the extinguishment of accessory obligations as well.

Exceptions: Accessory obligations subsist when–

1. Waiver – The parties bound in the accessory obligation consent/agree to continue to be bound.
2. They benefit third persons who did not consent (e.g., stipulations pour autrui).
3. There is subrogation or substitution of the debtor (Art. 1303).

Art. 1297

If the new obligation is void, the original one shall subsist, unless the parties intended that the former relation should be extinguished in any event.

Art. 1298

The novation is void if the original obligation was void, except when the annulment may be claimed only by the debtor or when ratification valides acts which are voidable.

Art. 1299

If the original obligation was subject to a suspensive or resolutory condition, the new obligation shall be under the same condition, unless it is otherwise stipulated.

Original obligation	New obligation	Novation?
Valid	Void	No. The original one subsists (Art. 1297)
Void (voidable)	Valid	If the defect is cured (either by ratification or prescription) → The novation is *valid*

Still, in either Art. 1297 or 1298, intent of the parties is supreme.

Conditions attached to original/new obligation

1. If there is a stipulation between the parties regarding the fulfillment of these conditions, then such stipulation will govern.
2. Otherwise, the *test of incompatibility* will be applied.
    a. If the conditions attached to both old and new *can stand together* → both must be fulfilled
    b. If the new one will supersede → fulfill the newer condition

Subrogation

Art. 1300

Subrogation of a third person in the rights of the creditor is either legal or conventional. The former is not presumed, except in cases expressly mentioned in this Code; the latter must be clearly established in order that it may take effect.

Kinds of subrogation:

1. **Legal** – That which arises by operation of law as a result of certain acts performed by the parties, and does not require any particular agreement.
2. **Conventional** – That which takes place by agreement of the parties.

Conventional subrogation

Art. 1301

Conventional subrogation of a third person requires the consent of the original parties and of the third person.

Whose consent is required?

1. Original creditor

2. Debtor
3. Third person (soon-to-be creditor)

What is the difference between subrogation and assignment of credit?

- In the latter, consent of the debtor is *not* required (only notice), while in the former, it is.
- Nevertheless, there is no material difference between the two.

Legal subrogation

Art. 1302 ⭐

It is presumed that there is legal subrogation:

1. When a creditor pays another creditor who is preferred, even without the debtor's knowledge;
2. When a third person, not interested in the obligation, pays with the express or tacit approval of the debtor;
3. When, even without the knowledge of the debtor, a person interested in the fulfillment of the obligation pays, without prejudice to the effects of confusion as to the latter's share.

Par. 1: The creditor pays another creditor who is preferred, even without the debtor's knowledge.

- **Illustration:** X has two monetary obligations: one in favor of A, the other for B. The one in favor of A is secured by a REM, while the one for B isn't. Should B pay A what X owes, B is subrogated to A's credit and acquires not only the right to demand from X the amount of A's credit but also A's right as mortgagee.

Par. 2: When a third person not interested in the obligation pays with the express or tacit approval of the debtor.

- The consent of the debtor to the third party's payment gives rise to the subrogation of the third person.
    - Correlate with Arts. 1236-1237.

Par. 3: When even without the knowledge of the debtor, a third person interested in the fulfillment of the obligation pays, without prejudice to the effects of confusion as to the latter's share.

- *Who are third persons interested?* Co-debtors, guarantors, and owners of the thing given as security.
- Should any of them pay the amount owed, subrogation takes place in favor of them, regardless of the debtor's (lack of) knowledge or consent.

Art. 1303

Subrogation transfers to the person subrogated the credit with all the rights thereto appertaining, either against the debtor or against third person, be they guarantors or possessors of mortgages, subject to stipulation in a conventional subrogation.

Subrogation extends to accessory obligations.

Art. 1304

A creditor, to whom partial payment has been made, may exercise his right for the remainder, and he shall be preferred to the person who has been subrogated in his place in virtue of the partial payment of the same credit.

The original creditor has the preferential right.

Types of novation			**Whose consent is required?**	**Effect**
Objective novation	Implied		Creditor and debtor	Extinction of the old obligation Creation of a new obligation
	Express		Creditor and debtor	
Subjective novation	Passive	Expromision	Creditor and new debtor	*General rule:* New debtor has a right to reimbursement *With debtor's consent:* Full reimbursement *Without debtor's consent:* Only to the extent that debtor benefited
		Delegacion	Creditor, debtor, and new debtor	
	Active	Conventional subrogation	Creditor, debtor, and	New creditor assumes *all* the

			new creditor	rights, together with any accessory or subsidiary rights (e.g., mortgage)
		Legal subrogation	Creditor and new creditor	

TITLE II
Contracts

Chapter 1
General Provisions

Definition

Art. 1305

A contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service.

Century Properties Inc. v. Babiano, G.R. 220978, July 5, 2016

Indubitably, obligations arising from contracts, including employment contracts, have the force of law between the contracting parties and should be complied with in good faith.

- Hence, a noncompete clause within a reasonable time (in this case, one year) is valid.

Characteristics of contract

1. Autonomy of will (Art. 1306)
2. Mutuality (Art. 1308)
3. Relativity (Art. 1311)
4. Obligatory (Arts. 1315; 1159)

Elements of a contract

1. Essential elements
    a. Consent
    b. Object
    c. Cause
2. Natural elements
    a. Those which are written by the law, even if not explicitly stipulated by the parties.
3. Accidental elements
    a. Those which the parties voluntarily agree upon.

Classification of contracts

1. According to the obligation created
    a. Bilateral – The parties have reciprocal obligations
    b. Unilateral – Where only one of the parties has an obligation
2. According to risk involved
    a. Commutative – The obligation is definite
    b. Aleatory – One or both obligations is subject to risk (e.g., insurance)
3. According to cause
    a. Onerous – Where there is a material cause (consideration)
    b. Gratuitous – Where the cause is liberality (e.g., donation)
4. According to name
    a. Nominate – The contract has a particular name (e.g., sale)
    b. Innominate – Where the contract does not have a specific name
5. According to manner of perfection
    a. Consensual – Perfected by mere consent (e.g., sale)
    b. Real – Those which require delivery for perfection (e.g., deposit, pledge, commodatum)
    c. Formal – Those which require a special form for validity (e.g., donation of a real property)
6. According to dependence
    a. Preparatory – Those which are intended to bring about another contract (e.g., agency)
    b. Principal – Those that can standalone and produce their intended effect
    c. Accessory – Those that cannot exist without a principal

Freedom of contracts

Art. 1306 ⭐

The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.

Bison v. AAA, G.R. 256540, February 14, 2024

If the foreign law stipulated is contrary to law, morals, good customs, public order, or public policy, then Philippine laws shall govern.

A foreign law may govern an employment contract, provided the following

requisites are present:

1. That it is expressly stipulated in the overseas employment contract that a specific foreign law shall govern
2. The foreign law invoked must be proven before the courts pursuant to the Philippine rules on evidence
3. The foreign law stipulated in the overseas employment contract must not be contrary to law, morals, good customs, public order, or public policy of the Philippines
4. That the overseas employment contract must be processed through the POEA.

IP E-Game Ventures Inc. v. Tan, G.R. 239576, June 30, 2021

Contracts, which are the private laws of the parties, should be fulfilled according to the literal sense of their stipulations, if their terms are clear and leave no room for doubt as to the intention of the contracting parties, for contracts are obligatory, no matter what form they may be, whenever the essential requisites for their validity are present.

- Courts cannot:
  - make for the parties better or more equitable agreements that they themselves have been satisfy to make, or
  - rewrite contracts because they operate harshly or inequitably as to one of the parties, or
  - alter them for the benefit of one party and to the detriment of the other, or,
  - by construction, relieve one of the parties from the terms which they voluntarily consented to, or
  - impose on them those which they did not.

Rodco v. Sps. Ross, G.R. 259832, November 6, 2023

A champertous contract is void for being contrary to public policy.

- **Champerty** – A layman's furnishing money to permit a lawyer to provide, in part, costs and expenses in carrying on litigation for a third party. There is also profit-sharing in the potential proceeds of the suit.

Two aspects of autonomy

1. Freedom to decide whether to enter in a contract
2. Freedom to stipulate

However, contracts cannot be contrary to–

1. Law
2. Morals (e.g., unconscionable interest or penalty)
3. Good customs
4. Public order
5. Public policy

Contract is void for being against public policy, if–

1. It has a tendency to injure the public
2. Is against the public good
3. Contravenes some established interests of society
4. Inconsistent with sound policy and good morals
5. Tends to clearly undermine the security of individual rights

Innominate contracts

Art. 1307

Innominate contracts shall be regulated by the stipulations of the parties, by the provisions of Titles I and II of this Book, by the rules governing the most analogous nominate contracts, and by the customs of the place.

Willy v. Julian, G.R. 207051, December 1, 2021

An arrangement among the parties which point to a meeting of minds constitute an innominate contract, provided that the requisites of a contract are reflected.

General categories of innominate contracts:

1. Do ut des – I give so that you may give
2. Do ut facias – I give so that you may do
3. Facio ut des – I do so that you may give
4. Facio ut facias – I do so that you may do

Governing rules (in this order)

1. The contract itself
2. Provisions of obligations and contracts
3. Rules governing the most closely analogous nominate contract
4. Customs of the place

Mutuality of contracts

Art. 1308 ⭐

The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.

Iniquitous interest rates

Pabalan v. Sabnani, G.R. 211363, February 21, 2023

In stipulating interest rates, parties must ensure that the rates are neither iniquitous nor unconscionable. Iniquitous or unconscionable interest rates are illegal and, therefore, void for being against public morals.

- The court has discretionary power to intervene in certain cases and reduce stipulated interest rates that are found to be unconscionable, iniquitous, and illegal.
    - In *Lara's Gift*, the court held that if the interest rate is twice the legal rate, the creditor has the burden to prove that this was necessary under market conditions, or show that the parties stood on equal footing when they agreed on it.
- The determination of whether or not the parties stood on equal footing is necessarily done on a case-to-case basis after careful consideration of relevant factors, such as their moral dependence, mental weakness, tender age, or other handicap.

Prime rate

4E Steel Builders Corp. v. Maybank Philippines Inc., G.R. 230013, March 13, 2023

Even if the interest rates would be market-based, the reference rate should still be stated in writing and must be agreed upon by the parties.

- A stipulation to pay interest at the prevailing market rate without specifying the market-based reference violated the principle of mutuality of contracts.

Escalation clauses

Gotesco Properties v. Cua, G.R. 228513, February 15, 2023

Mutuality is absent when the interest rate is set at the sole discretion of one party, or when there is no reasonable means by which the other party can determine the applicable interest rate.

- Hence, if the escalation clause is solely potestative and dependent on the will of one party, it violates the principle of mutuality of contracts.

Landbank v. Sprint, G.R. 244414, January 16, 2023 ♥

Escalation clauses are not basically wrong or legally objectionable as long as they are not solely potestative but based on reasonable and valid grounds.

Here, there was no unilateral modification of the interest rates as to amount to a violation of the principle of mutuality of contracts:

1. The debtor was to be notified of any adjustment in the interest rates
2. The adjustment will take place on the next installment
3. Debtor has the option to object to the escalation and prepay the loan
4. The change in interest was also premised on changes in the interest rate prescribed by law or the BSP
    a. Hence, the change is not purely potestative, but based on several factors beyond the creditor's control.

Purely potestative clause

GF Equity Inc. v. Valenzona, G.R. 156841, June 30, 2005

The ultimate purpose of the mutuality principle is thus to nullify a contract containing a condition which makes its fulfillment or pre-termination dependent exclusively upon the uncontrolled will of one of the contracting parties.

- A clause that leaves the determination of whether a coach failed to exhibit sufficient skill or competitive ability to coach a team solely to the opinion of the management is invalid.
- In this case, GF Equity was given an unbridled prerogative to pre-terminate the contract irrespective of the soundness, fairness, or reasonableness, or even lack of basis of its opinion.

Two bases for the mutuality principle

1. Obligatory force of contracts
2. Essential equality of the contracting parties

But the following do not violate mutuality:

1. When a party reduces the other party's obligation or makes it less burdensome, or discharges the obligation by renouncing the right to demand performance.
    a. This is forbearance or condonation or waiver.
2. When a party exercises his right to resolve the obligation under Art. 1191.
    a. This power arises from the other party's breach.

Art. 1309

The determination of the performance may be left to a third person, whose decision shall not be binding until it has been made known to both contracting parties.

Art. 1310

The determination shall not be obligatory if it is evidently inequitable. In such case, the courts shall decide what is equitable under the circumstances.

Examples of a third person's power to determine performance:

1. A third person may be authorized by the parties to fix the purchase price (Art. 1469)
2. The power of arbitration, by agreement of the parties, may be granted to a person or a group of persons (*see* Arts. 2042-2046)

However, the power of the third person is always subject to the principles of justice, equity and good faith (i.e, Arts. 19-20 come into play).

- Any abuse may be subject to judicial review and remedy.

Relativity of contracts;
Stipulation pour autrui

Art. 1311 ⭐

Contracts take effect only between the parties, their assigns and heirs, except in case where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law. The heir is not liable beyond the value of the property he received from the decedent.

If a contract should contain some stipulation in favor of a third person, he may demand its fulfillment provided he communicated his acceptance to the obligor before its revocation. A mere incidental benefit or interest of a person is not sufficient. The contracting parties must have clearly and deliberately conferred a favor upon a third person.

Relativity of contracts

IEB v. RSLAI, G.R. 206327, July 6, 2022

Signing a "conforme" *per se* does not make one a party to a contract.

- Where there is no privity of contract, there is likewise no obligation or liability to speak about.

Home Guaranty Corp. v. Manlapaz, G.R. 202820, January 13, 2021

Jurisprudence teaches that the parties to a contract are the real parties-in-interest in an action upon it. As such, the basic principle of relativity of contracts is that contracts can only bind the parties who entered into it, and cannot favor or prejudice a third person, even if he is aware of such contract and has acted with knowledge thereof.

- Hence, HGC cannot expect Manlapaz to meddle in its dealings with VELI and FLPPI as she has no business doing so, and, as she alleged, she was not made aware of these developments in the first place.

Third parties and stipulations pour autrui

Heirs of Villeza v. Aliangan, G.R. 244667-69, December 2, 2020

The heirs of a deceased person cannot be regarded as "third persons" with respect to a contract of sale or lease of real estate executed by their decedent in his lifetime.

- The general rule, therefore, is that heirs are bound by contracts entered into by their predecessors-in-interest except when the rights and obligations arising therefrom are not transmissible by their (1) nature, (2) stipulation or (3) provision of law.

Sps. Narvaez v. Alciso, G.R. 165907, July 27, 2009 ♥

Requisites of a stipulation pour autrui:

1. There is a stipulation in favor of a third person
2. The stipulation is a part, not a whole, of the contract
3. The contracting parties clearly and deliberately conferred a favor to the third person and not an incidental benefit
4. The favor is unconditional and uncompensated
5. The third person communicated his acceptance of the favor before its revocation
    a. Acceptance may be made at any time before the favorable stipulation is revoked, and may be in any form, and may be implied.
6. The contracting parties do not represent, or are not authorized by, the third party

Effectivity of contract extends to–

1. Assigns
    a. Like the new debtor in novation
    b. Assignee in assignment of credit
2. Heirs
    a. However, the unpaid creditor must go against the estate and *not* the heirs

Exception: There will be no transferability if the obligation is purely personal.

Exceptions to the rule of relativity

1. Accion pauliana (rescission of a contract in fraud of a creditor)
2. Contracts creating real rights (Art. 1312)

a. Example: The mortgagee may sue the registered owner to foreclose the mortgage, even if said owner is not the debtor.

3. Stipulations *pour autrui*
   a. Example: The credit card holder is considered a third party in a stipulation *pour autrui*.

What are the remedies available to the third party in case of breach or nonperformance of a stipulation *pour autrui*?

1. Basic remedies (e.g., SP, resolution, damages)

Exception to relativity; real contracts

Art. 1312

In contracts creating real rights, third persons who come into possession of the object of the contract are bound thereby, subject to the provisions of the Mortgage Law and the Land Registration Laws.

Exception to relativity; accion pauliana

Art. 1313

Creditors are protected in cases of contracts intended to defraud them.

This is the remedy of *accion pauliana*, which will be discussed more in defective contracts (rescission).

Tortious interference

Art. 1314 ⭐

Any third person who induces another to violate his contract shall be liable for damages to the other contracting party.

Tortious interference

Gilchrist v. Cuddy, G.R. 9356, February 18, 1915

🎥

While malice is sometimes mentioned in the context of tortious interference, the court, citing *Angle v. Railway Co.*, emphasized that the desire for unlawful gain at the expense of a contracting party is sufficient to establish liability.

So Ping Bun v. CA, G.R. 120554, September 21, 1999 ♥

🏠

The elements of tortious interference are:

1. Existence of a valid contract
2. Knowledge on the part of the third person of the existence of contract
3. Interference of the third person is without legal justification or excuse

However, where the alleged interferer is financially interested, and such interest motivates his conduct, it cannot be said that he is an officious or malicious intermeddler.

GMA Network v. Valdes, G.R. 205498, May 10, 2021

🎤

As long as a proper economic or financial interest exists, the third person cannot be held liable for tortious interference.

Ferro Chemicals Inc. v. Garcia, G.R. 168134, October 5, 2016

The performance of an official duty or the exercise of a right are not actionable torts, within the contemplation of a tortious interferer.

- Hence, a corporate secretary who merely aided in drafting a contract is not a tortious interferer.

The source of liability of the interferer is *quasi-delict*, not the contract.

What is the extent of the interferer's liability?

- The interferer cannot be more extensively liable in damages for the nonperformance of the contract than the party in whose behalf he intermeddles.

What is the nature of liability of the defaulting party and interferer?

- Solidary → if they are *both* sued on the basis of quasi-delict
  - They are joint tortfeasors
- Separate → if the interferer is sued on the basis of *quasi-delict* but the defaulting party is sued on *culpa contractual*.

Obligatory force of contracts

Art. 1315 ⭐

Contracts are perfected by mere consent, and from that moment the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage and law.

Art. 1315 lays down the general rule, that contracts are *perfected* by mere consent.

- Exceptions:
  1. Real contracts (require delivery)
  2. Formal contracts (require a particular form)

Exception to general rule in Art. 1315; Real contracts

Art. 1316

Real contracts, such as deposit, pledge and commodatum, are not perfected until the delivery of the object of the obligation.

Reason for rule: Delivery is inherent in the nature of such contracts and of their objects, and the necessity of delivery is recognized by law.

Unauthorized contracts = unenforceable

Art. 1317

No one may contract in the name of another without being authorized by the latter, or unless he has by law a right to represent him.

A contract entered into the name of another by one who has no authority or legal representation, or who has acted beyond his powers, shall be unenforceable, unless it is ratified, expressly or impliedly, by the person on whose behalf it has been executed, before it is revoked by the other contracting party.

SMFI v. Magtuto, G.R. 225007, July 24, 2019

Implied ratification may take various forms–like silence or acquiescence; by acts showing approval or adoption of the contract; or by acceptance and retention of benefits flowing therefrom.

- Hence, SMFI cannot deny that Vinoya does not have any authority to transact with Magtuto since SMFI delivered day-old chicks to Magtuto for almost a year; administered the growth of the chicks for 30-35 days by providing feeds, medicines and technical support; harvested the grown chickens; and finally paid Magtuto for growing said chicks.

What is the status of unauthorized contracts?

- They are unenforceable, by explicit command of this article and that of Art. 1403(1).
  - Hence, they may be ratified by the principal *before* it is revoked by the other contracting party.

Chapter 2
Essential Requisites of Contracts

General provisions

Art. 1318

There is no contract unless the following requisites concur:

1. Consent of the contracting parties;
2. Object certain which is the subject matter of the contract;
3. Cause of the obligation which is established.

What if an essential requisite lacks?

- The contract is void.

If consent is inexistent → void
If consent is wanting → voidable

Section 1. Consent.

Art. 1319 ⭐

Consent is manifested by the meeting of the offer and the acceptance upon the thing and the cause which are to constitute the contract. The offer must be certain and the acceptance absolute. A qualified acceptance constitutes a counter-offer.

Acceptance made by letter or telegram does not bind the offerer except from the time it came to his knowledge. The contract, in such a case, is presumed to have been entered into the place where the offer was made.

YSAI v. Magalong, G.R. 264452, June 19, 2024

To convert the offer into a contract, the acceptance must be absolute and must not qualify the terms of the offer. It must be plain, unequivocal,

unconditional, and without variance of any sort from the proposal.

The law requires that the offer must be certain and the acceptance absolute and unqualified.

- Hence, a counter-offer is considered a rejection of the original offer and an attempt to end the negotiation between the parties on a different basis.

Requisites of consent

1. Plurality of subject (at least 2 parties)
2. Capacity of the parties
3. Intelligent and free will
4. Express or tacit manifestation of the parties' intent
5. Conformity of the intent and its manifestation

Requisites of offer

1. Definite or certain
2. Complete
3. Intentional

Requisites of acceptance

1. Unequivocal
2. Unconditional or absolute

⚠️ In any case, acceptance must not vary the terms of the offer. If it does, it is a counter-offer.

When is the reckoning point of the concurrence of acceptance and offer?

- The offer is deemed legally made when it comes to the offeree's knowledge, whether actually or constructively.
- Acceptance produces legal effect only when it similarly becomes known to the offeror.

In case the offeree sends acceptance to the offeror and the offeror decides to withdraw the offer and sends the notice of revocation, which notice should prevail?

- That is effective which reaches its destination first.

What is the effect of silence? Is silence consent?

- Silence is consent only if there is a duty or necessity for the offeree to communicate his rejection of the offer.
- Otherwise, silence cannot be interpreted as consent.

Art. 1320

An acceptance may be express or implied.

There is no specific form prescribed for acceptance. But regardless of form, acceptance is effective *only if communicated to the offeror*!

Art. 1321

The person making the offer may fix the time, place, and manner of acceptance, all of which must be complied with.

The offeror has the right to determine the specifics of the offer, e.g., the duration, the time, and the manner of acceptance of the offer.

But if there is an option contract, the *written contract governs*.

Art. 1322

An offer made through an agent is accepted from the time acceptance is communicated to him.

Agency – If the offeror appoints an agent, and, as long as the agent acts within his competence, acceptance *made known to him* binds the principal.

- But without proper authority (i.e., an SPA), the person is just a messenger.
  - For proper consent to be obtained, it must be relayed to the proper party (the principal).

Art. 1323

An offer becomes ineffective upon the death, civil interdiction, insanity, or insolvency of either party before acceptance is conveyed.

Sps. Anastacio v. Heirs of Coloma, G.R. 224572, August 27, 2020

Without the nonconsenting spouse's consent, the disposition is void but constituted a continuing offer on the part of the consenting spouse and the

vendee, and may be perfected as a binding contract upon the nonconsenting spouse's consent.

- However, upon the death of the consenting spouse, the continuing offer became ineffective and could not have materialized into a binding contract.

In other words, the offeror and offeree must have contractual capacity by the time acceptance is conveyed (i.e., a perfected contract arises).

Causes of extinguishment of offer

1. Death, civil interdiction, insanity or insolvency of either party *before* the perfection of consent
2. Rejection of offer
3. Lapse of the period stated in the offer without acceptance being communicated
4. Qualified or conditional acceptance (as this is a counter-offer)
5. Communication by the offeror of the revocation of his before *before* acquiring knowledge of the offeree's acceptance
    a. Not possible in an option contract.
6. Loss of the thing constituting the object of the prestation *before* the perfection of consent.

Option

Art. 1324 ⭐

When the offerer has allowed the offeree a certain period to accept, the offer may be withdrawn at any time before acceptance by communicating such withdrawal, except when the option is founded upon a consideration, as something paid or promised.

Option contract

Capalla v. COMELEC, G.R. 201112, June 13, 2012

Option contract – A contract by which the owner of the property agrees with another person that the latter shall have the right to buy the former's property at a fixed price, within a certain time.

- An option is a **preparatory contract** which grants a party the power to decide whether or not to enter into a principal contract. It binds the party who has given the option not to enter into the principal contract with any other person during the option period.
- An option is a **continuing offer** by which the owner stipulates with another that he has the right to buy the property at a fixed price, within a certain time. It is sometimes called an "**unaccepted offer**."
- It is a condition offered or a contract by which the owner stipulates with another that the latter shall have the right to buy property **at a fixed price within a certain time**.

PNOC v. Keppel, G.R. 202050, July 25, 2016

The consideration for an option contract does not need to be monetary and may be anything of value. However, when the consideration is not monetary, the consideration must be clearly specified as such in the option contract or clause.

- Nevertheless, an option, though unsupported by a separate consideration, remains an offer that, if duly accepted, generates into a contract to sell where the parties' respective obligations become reciprocally demandable.
    - Once the acceptance of the offer is duly communicated before the withdrawal of the offer, a bilateral contract to buy and sell is generated.

Right of first refusal

Ang Yu Asuncion v. CA, G.R. 109125, December 2, 1994

The right of first refusal (RFR) cannot be deemed a perfected contract of sale. Neither can it be brought within the purview of an option, or an offer.

- A RFR can only be considered a preparatory juridical relations, governed by the provisions of the Civil Code on human conduct.
- Hence, the breach of a RFR cannot justify the issuance of a writ of execution under a judgment that merely recognizes its existence, nor would it sanction an action for specific performance without negating the indispensable element of consensuality in the perfection of contracts.

Equatorial Realty Development Inc. v. Mayfair Theater Inc., G.R. 106063, November 21, 1996 ♥ *[Controlling]*

A stipulated right of first refusal should be enforced according to the law on contracts instead of the panoramic and indefinite rule on human relations. This juridical relation is neither amorphous nor merely preparatory.

- Hence, a remedy for specific performance may be availed to enforce the RFR.

Withdrawal of offer

- **General rule:** May be withdrawn any time until acceptance or expiration of period.
    - Exception: Cannot be withdrawn *during the period* if the

option has a separate consideration.

Offer unsupported by a distinct consideration

1. The offeror has a right to withdraw the offer even before the expiration of the period granted to the offeree
2. The withdrawal of the offer takes effect upon its communication to the offeree
3. Pending notice to the offeree of the withdrawal of the offer, the offer subsists and, should the offeree, before a notice of withdrawal, accepts the offer, a perfected contract arises
4. The right of the offeror to withdraw the offer before the lapse of the period should not be exercised whimsically or arbitrarily. Otherwise, he may be liable for damages (*see Ang Yu Asuncion)*.

Option contract (offer supported by a distinct consideration)

1. The offeror is bound to keep the offer open for the period agreed upon
2. Withdrawal of the offer constitutes breach, for which the offeror would be liable in damages

Right of first refusal (RFR)

- As a contractual stipulation, an RFR may be enforced by an action for specific performance.
- A distinct consideration may also be required, but *Equatorial* disputes this.
    - But *Equatorial* points out that the consideration for the lease included the consideration for the RFR. So, it *is* needed.
- Need not be writing to be enforced.
- Rules on withdrawal are *the same* as in an option contract.

Art. 1325

Unless it appears otherwise, business advertisement of things for sale are not definite offers, but mere invitations to make an offer.

Art. 1326

Advertisements for bidders are simply invitations to make proposals, and the advertiser is not bound to accept the highest or lowest bidder, unless the contrary appears.

Bid invitations

- **General rule:** The advertiser is *not bound* to accept either the highest or lowest bidder, as the case may be.
- **Exceptions:**
    1. When the contrary appears (i.e., the advertiser binds himself to accept the highest/lowest bid
    2. When the law requires the advertiser to accept the highest/lowest bid

Legal incapacity and vices of consent

Art. 1327 ⭐

The following cannot give consent to a contract:

1. Unemancipated minors;
2. Insane or demented persons, and deaf-mutes who do not know how to write.

Art. 1329

The incapacity declared in Art. 1327 is subject to the modifications determined by law, and is understood to be without prejudice to special disqualifications established in the laws.

Art. 1328

Contracts entered into during a lucid interval are valid. Contracts agreed to in a state of drunkenness or during a hypnotic spell are voidable.

Vices of consent

Art. 1330 ⭐

A contract where consent is given through mistake, violence, intimidation, undue influence, or fraud is voidable.

Mistake

Art. 1331

In order that mistake may invalidate consent, it should refer to the substance of the thing which is the object of the contract, or to those conditions which have principally moved one or both parties to enter into the contract.

Mistake as to the identity or qualifications of one of the parties will vitiate consent only when such identity or qualifications have been the principal

cause of the contract.

A simple mistake of account shall give rise to its correction.

Illiteracy

Art. 1332 ⭐

When one of the parties is unable to read, or if the contract is in a language not understood by him, and mistake or fraud is alleged, the person enforcing the contract must show that the terms thereof have been fully explained to the former.

Presumption of fraud as to illiteracy

De Vera v. Catungal, G.R. 211687, February 10, 2021

For the protection under Art. 1332 to be operative, the contracting party who alleges that there is any defect or vitiated consent must establish by clear and convincing evidence that he is unable to read at the time of the execution of contract.

To rebut the presumption, the other contracting party must show by clear and convincing evidence that the terms and contents of the contract were explained to the contracting party who is unable to read.

Cabilao v. Tampan, G.R. 209702, March 23, 2022

When a party claims that one is unable to read or is otherwise illiterate, and fraud is alleged, a presumption that there is fraud or mistake in obtaining consent of that party arises under Article 1332, NCC.

- There must be clear and convincing evidence of illiteracy.

Mistake, when not *a vice*

Art. 1333

There is no mistake if the party alleging it knew the doubt, contingency or risk affecting the object of the contract.

Mutual error

Art. 1334

Mutual error as to the legal effect of an agreement when the real purpose of the parties is frustrated, may vitiate consent.

Violence and intimidation

Art. 1335 ⭐

There is violence when in order to wrest consent, serious or irresistible force is employed.

There is intimidation when one of the contracting parties is compelled by a reasonable and well-grounded fear of an imminent and grave evil upon his person or property, or upon the person or property of his spouse, descendants or ascendants, to give his consent.

To determine the degree of intimidation, the age, sex and condition of the person shall be borne in mind.

A threat to enforce one's claim through competent authority, if the claim is just or legal, does not vitiate consent.

Art. 1336

Violence or intimidation shall annul the obligation, although it may have been employed by a third person who did not take part in the contract.

Undue influence

Art. 1337 ⭐

There is undue influence when a person takes improper advantage of his power over the will of another, depriving the latter of a reasonable freedom of choice. The following circumstances shall be considered: the confidential, family, spiritual and other relations between the parties, or the fact that the person alleged to have been unduly influenced was suffering from mental weakness, or was ignorant or in financial distress.

Fraud

Art. 1338 ⭐

There is fraud when, through insidious words or machinations of one of the contracting parties, the other is induced to enter into a contract which, without them, he would not have agreed to.

Art. 1339

Failure to disclose facts, when there is a duty to reveal them, as when the parties are bound by confidential relations, constitutes fraud.

Generally, not *fraud*

Art. 1340

The usual exaggerations in trade, when the other party had an opportunity to know the facts, are not in themselves fraudulent.

Art. 1341

A mere expression of an opinion does not signify fraud, unless made by an expert and the other party has relied on the former's special knowledge.

Art. 1342

Misrepresentation by a third person does not vitiate consent, unless such misrepresentation has created substantial mistake and the same is mutual.

Art. 1343

Misrepresentation made in good faith is not fraudulent but may constitute error.

Degree of fraud required

Art. 1344

In order that fraud may make a contract voidable, it should be serious and should not have been employed by both contracting parties.

Incidental fraud only obliges the person employing it to pay damages.

Factors vitiating consent

1. Vitiate intelligence
    a. Incapacity (Arts. 1327-1329)
        i. Minority
        ii. Insanity
        iii. Deaf-mutism with illiteracy
        iv. Intoxication/hypnotic spell
        v. Special disqualifications
    b. Mistake (Arts. 1331, 1333, 1334, 1343)
    c. Fraud (Arts. 1338-1339)
2. Vitiate freedom
    a. Violence (Art. 1335)
    b. Intimidation (Art. 1335)
    c. Undue influence (Art. 1337)

Effect of vitiated consent

1. If consent of *one* party is vitiated → voidable
2. If consent of *all* parties is vitiated → unenforceable

Incapacity

1. Minority
    a. The age of majority is 18.
2. Insanity
    a. If the extent of the mental disorder is such as to deprive him of the discretion and understanding required for contractual consent.
    b. It is the mental state of the party at the time the contract is entered into *that is material*.
        i. Thus, if an insane person enjoys a *lucid interval*, a contract entered into during such a period cannot be set aside (valid) (Art. 1328).
3. Deaf-mutism coupled with illiteracy
    a. What is incapacitating is deaf-mutism coupled with inability to write.
    b. Such a person may consequently enter into a contract only with the assistance of a duly appointed guardian.
4. Intoxication/hypnotic spell
    a. One becomes incapacitated only when the extent of the influence renders him unable to make an intelligent choice.
    b. This includes drugs or hallucinogens.
5. Special disqualifications, such as–
    a. Contracts of sale between husband and wife
    b. Donations between husband and wife or partners in a nomarital union
    c. Inter vivos disposition by a person under a sentence of civil interdiction
    d. Purchase of property by persons occupying positions of trust and confidence

Mistake

1. Mistake as to the *substance of the thing*
    a. This refers to the *object* of the contract.
    b. Example: Buying a counterfeit, when it looks legit.
2. Mistake over the principal conditions of the contract
    a. Hence, no mistake if the condition is merely incidental
3. Mistake as to person
    a. Consent is vitiated only when the identity or the qualifications of the party constitute the principal cause or

consideration for the contract

4. Mistake of law
    a. Ignorance of the law excuses no one. Persons are presumed to know the law and should comply with it.
    b. For Art. 1334 to apply, the following **requisites must be present**:
        i. The mistake must refer to the legal effect of the agreement
        ii. It must be mutual
        iii. It must have the effect of frustrating the real purpose of the parties
5. Mistake when the party is illiterate or unfamiliar with the language of the agreement
    a. See cases under Art. 1332.
6. Mistake on the effect of knowledge of doubt or uncertainty
    a. If the party knew the risk, contingency or doubt, the possibility of mistake is precluded because there would then be no misapprehension. The agreement becomes an aleatory contract.
7. Mistake due to misrepresentation without intent to deceive
    a. This will *preclude* fraud, unless the mistake involves:
        i. Mistake as to the object
        ii. Mistake as to the principal condition
        iii. Mistake as to the identity
8. Mistake in relation to fraud

Fraud

1. **Dolo causante** – Causal fraud; vitiates consent
    a. It must have been employed by one party on the other
    b. It must have induced the other party to enter into the contract
    c. It must have been serious
    d. It should have caused damage or injury
2. **Dolo incidente** – Contract remains valid, but there is a liability for damages.
3. Expression of opinion (Art. 1341)
    a. The mere expression of the opinion will be fraudulent if accompanied by deceit and induces consent. It *becomes dolo causante*.
4. Nondisclosure of information (Art. 1339) – It becomes *dolo causante* if:
    a. The undisclosed fact/s are material to the contract
    b. There is duty to reveal the same
    c. The nondisclosure is accompanied or motivated by deceit

Violence

It vitiates consent if:

1. The force is irresistible
2. The said force must be the direct and determining cause in obtaining consent

Intimidation

It vitiates consent if:

1. The intimidation must have been the direct and determinative cause of consent
2. The threatened act must be unjust or unlawful
3. The threatened harm must be imminent and serious
4. The threat must produce a well-grounded fear that the person making it can and will carry it out

Undue influence

1. Presupposes a preexisting power which the perpetrator has over the will of the passive subject
2. It involves the exercise of moral suasion or authority or an appeal to emotional ties or bonds of affection
3. It must be strong enough to deprive the victim of that degree of volition required for contractual freedom

What is the effect of the vices of consent, if they are perpetrated by third persons?

a. Violence or intimidation – Voidable
b. Undue influence – Silent, *possibly* voidable
c. Fraud – Valid

Simulated contracts; types and effects

Art. 1345 ⭐

Simulation of a contract may be absolute or relative. The former takes place when the parties do not intend to be bound at all; the latter, when the parties conceal their true agreement.

Art. 1346 ⭐

An absolutely simulated or fictitious contract is void. A relative simulation, when it does not prejudice a third person and is not intended for any purpose contrary to law, morals, good customs, public order or public policy binds the parties to their real agreement.

Absolute simulation

Adelantar v. Cuartero, G.R. 230987, October 12, 2020

In absolute simulation, there is a colorable contract but it has no substance as the parties have no intention to be bound by it. However, if the parties state a false cause in the contract to conceal their real agreement, the contract is relatively simulated and the parties are still bound by their real agreement.

- Hence, where the essential requisites of a contract are present and the simulation refers only to the content or terms of the contract, the agreement is absolutely binding and enforceable between the parties and their successors in interest.

Heirs of Ureta v. Heirs of Ureta, G.R. 165748, September 14, 2011

4️⃣

The most protuberant index of simulation of contract is the complete absence of an attempt in any manner on the part of the ostensible buyer to assert rights of ownership over the subject properties.

GHI v. CEPALCO, G.R. 226213, September 27, 2017

⚡

The main characteristic of an absolute simulation is that the apparent contract is not really desired or intended to produce legal effect or in any way alter the juridical situation of the parties. As a result, an absolutely simulated or fictitious contract is void, and the parties may recover from each other what they may have given under the contract.

Relative simulation

Victoria v. Pidlaoan, G.R. 196470, April 20, 2016

The true nature of a contract is determined by the parties' intention, which can be ascertained from their contemporaneous and subsequent acts.

- Here, Elma and Normita's contemporaneous and subsequent acts show that they were about to have the COS notarized but the notary public ill-advised them to execute a deed of donation instead.

Simulation – The declaration of a fictitious will, deliberately made by agreement of the parties to produce the appearance of a juridical act which does not exist or is different from that which was really executed.

1. **Absolutely simulated contracts** (*simulados*)
   a. The parties do not intend to be bound at all, and the contract is purely fictitious.
2. **Relatively simulated contracts** (*disimulados*)
   a. One that is disguised under the appearance of another contract.
   b. The parties genuinely intend to enter into a contract, but conceal the true nature of the intended contract by giving it the semblance of another agreement.

Effects of simulation

1. Absolutely simulated → void
2. Relative simulation → valid, as to the real nature
   a. But care must be taken if the parties' underlying intent is *also* valid (i.e., if it's a donation, it must comply with the formal requisites for validity).

Section 2. Object of contracts

Art. 1347 ⭐

All things which are not outside the commerce of men, including future things, may be the object of a contract. All rights which are not intransmissible may also be the object of contracts.

No contract may be entered into upon future inheritance except in cases expressly authorized by law.

All services which are not contrary to law, morals, good customs, public order or public policy may likewise be the object of a contract.

Art. 1348

Impossible things or services cannot be the object of contracts.

Art. 1349

The object of every contract must be determinate as to its kind. The fact that the quantity is not determinate shall not be an obstacle to the existence of the contract, provided it is possible to determine the same, without the need of a new contract between the parties.

Requisites of a valid object

1. It must be within the commerce of man
   a. This is susceptibility to appropriation and transmissibility
2. It must exist or be capable of existing
   a. Present thing
   b. Future thing
      i. Except:
         1. Donations
         2. Contracts over future inheritance (Exception:

If there is a partition inter vivos done by the future decedent under Art. 1080.)

3. It must be licit and not contrary to law, morals, good customs, public order, or public policy
4. It must be possible
5. It must be determinate as to its kind at at least determinable as to its quantity
    a. Void: to give you 10 kilos os something (not determinate as to kind)
    b. Valid: to give you one-half of the harvest (determinable at a future time, i.e, by harvest time)
6. It must be transmissible

Section 3. Cause of contracts

Art. 1350

In onerous contracts the cause is understood to be, for each contracting party, the prestation or promise of a thing or service by the other; in remuneratory ones, the service or benefit which is remunerated; and in contracts of pure beneficence, the mere liberality of the benefactor.

Cause – *Why* of the contract.

Requisites for a valid cause:

1. Real, and not fictitious or simulated
2. Licit

	Cause	Object
Remuneratory	Service/benefit	The thing given to the one who rendered the service or bestowed the benefit
Gratuitous	Liberality	Thing donated
Onerous	Prestation of the other party	Also the prestation (same/overlap)

Art. 1351

The particular motives of the parties in entering into a contract are different from the cause thereof.

Uy (*supra* art. 1191)

Cause is the immediate, direct and proximate reason which justifies the creation of an obligation through the will of the contracting parties. The *motive* is the particular reason of a contracting party which does not affect the other party.

Ordinarily, a party's motives for entering into the contract do not affect the contract. However, when the motive predetermines the cause, the motive may be regarded as the cause.

There are instances when the motive may affect the validity of the contract:

1. When the realization of the motive is made a condition precedent of the contract and said motive fails to materialize
2. When motive gives rise to a mistake amounting to vitiation of consent

Art. 1352

Contracts without cause, or with unlawful cause, produce no effect whatever. The cause is unlawful if it is contrary to law, morals, good customs, public order or public policy.

E. Razon Inc. v. PPA, G.R. 75197, June 22, 1987

The invalidity springs not from vitiated consent nor absolute want of monetary consideration, but for its having had an unlawful cause—that of obtaining a government contract in violation of law.

- Hence, a contract which makes a presidential relative financially interested in any government contract is void for being unconstitutional.

Art. 1353

The statement of a false cause in contracts shall render them void, if it should not be proved that they were founded upon another cause which is

true and lawful.

This article establishes a **rebuttable presumption of absence of cause** should the stated cause be shown to be false.

- Hence, the party seeking to uphold the contract has the burden of proof to show that there is a *genuine and lawful cause*.

Art. 1354

Although the cause is not stated in the contract, it is presumed that it exists and is lawful, unless the debtor proves the contrary.

The cause, even if *unstated*, is *presumed* to be existing, genuine, and lawful.
Exceptions:

1. The existence and liceity of the cause has to be proved, if the stated cause was shown to be false (Art. 1353)
2. Contracts of option, where a consideration distinct from the price is required.
    a. In this case, the distinct consideration must be proven.

Art. 1355

Except in cases specified by law, lesion or inadequacy of cause shall not invalidate a contract, unless there has been fraud, mistake or undue influence.

Effect of lesion:

1. Lesion in itself does not affect the cause of the contract, nor does it *ipso facto* invalidate it
2. If the lesion is the result of vitiated consent → voidable contract
3. Lesion can make the contract rescissible, *e.g.*, under Art. 1381(1 & 3)

Chapter 3
Form of Contracts

Art. 1356 ⭐

Contracts shall be obligatory, in whatever form that they may have been entered into, provided all the essential requisites for their validity are present. However, when the law requires that a contract be in some form in order that it may be valid or enforceable, or that a contract be proved in a certain way, that requirement is absolute and indispensable. In such cases, the right of the parties stated in the following article cannot be exercised.

General rule: No specific or particular form is required for a contract, as long as the elements of consent, subject matter, and cause are present.

Exceptions:

1. A specific form is **essential** for validity:
    a. Donations
    b. Contracts of partnership in which immovable property is contributed
    c. Sales of land through an agent
    d. Stipulations on interest
    e. Antichresis
2. A specific form is **required** for enforceability:
    a. Contracts covered by the Statute of Frauds should be in writing
3. Those which are required to be in a public document–not for validity nor for enforceability–but for effectivity against third persons for registration (*see* Arts. 1357-1358)

N.B. In nos. 1 & 2, the prescribed for is **absolute and indispensable**, either for validity or enforceability. Furthermore, the parties in neither case may compel the other, through a judicial process (e.g., SP), to execute the required form.

Heirs of Godines v. Demaymay, G.R. 230573, June 28, 2021

Contracts that have all the essential requisites for their validity are obligatory regardless of the form they are entered into, except when the law requires that a contract be in some form to be valid or enforceable.

Art. 1357

If the law requires a document or other special form, as in the acts and contracts enumerated in the following article, the contracting parties may compel each other to observe that form, once the contract has been perfected. This right may be exercised simultaneously with the action upon the contract.

Art. 1358

The following must appear in a public document:

(1) Acts and contracts which have for their object the creation, transmission, modification or extinguishment of real rights over immovable property; sales of real property or of an interest therein are governed by Articles 1403, No. 2, and 1405.
(2) The cession, repudiation or renunciation of hereditary rights or of those of the conjugal partnership of gains;
(3) The power to administer property, or any other power which has for its object an act appearing or which should appear in a public document, or should prejudice a third person;
(4) The cession of actions or rights proceeding from an act appearing in a public document.

All other contracts where the amount involved exceeds five hundred pesos must appear in writing, even a private one. But sales of goods, chattels or things in action are governed by Articles 1403, No. 2 and 1405.

If the documents enumerated in Art. 1358 are *unnotarized*, are they valid, binding and enforceable?

- Yes, because the writing required is for the purpose of registration, or of facilitating proof of the contract, or of affecting third persons.
- Either party may also compel each other, through a proper court action, to execute the document in its required form.

Effect of a failure to notarize

Heirs of Godines (*supra* art. 1356)

Art. 1358 does not require the accomplishment of the acts or contracts in a public instrument to validate the act or contract but only to ensure its efficacy.

Chapter 4
Reformation of Instruments

Art. 1359

When, there having been a meeting of the minds of the parties to a contract, their true intention is not expressed in the instrument purporting to embody the agreement, by reason of mistake, fraud, inequitable conduct or accident, one of the parties may ask for the reformation of the instrument to the end that such true intention may be expressed.

If mistake, fraud, inequitable conduct, or accident has prevented a meeting of the minds of the parties, the proper remedy is not reformation of the instrument but annulment of the contract.

Reformation of instrument – A remedy in equity by means of which a written instrument is made or construed so as to express or conform to the real intention of the parties when some error or mistake has been committed.

Requisites for reformation ♥

1. There is an existing valid contract (i.e., a *genuine* meeting of minds)
2. The contract has been reduced to writing
3. The document failed to reflect the true intent of the parties
4. The failure must have been caused by:
    a. Mistake
    b. Fraud
    c. Inequitable conduct
    d. Accident
    e. *Relative* simulation

Banico v. Stager, G.R. 232825, September 16, 2020

Requisites for reformation:

1. There must have been a meeting of the minds of the parties to the contract
2. The instrument does not express the true intention of the parties
3. The failure of the instrument to express the true intention of the parties is due to:
    a. mistake,
    b. fraud,
    c. inequitable conduct or
    d. accident

Art. 1360

The principles of the general law on the reformation of instruments are hereby adopted insofar as they are not in conflict with the provisions of this Code.

Mutual mistake

Art. 1361

When a mutual mistake of the parties causes the failure of the instrument to disclose their real agreement, said instrument may be reformed.

What kind of mistake is contemplated here?
- It is **mutual mistake** and must refer *not* to the agreement itself, but to the manner the true agreement is reflected or expressed in the instrument
    - If the mistake affects the very agreement, it may make the contract *voidable* (*see* Art. 1331).

One-party mistake

Art. 1362

If one party was mistaken and the other acted fraudulently or inequitably in such a way that the instrument does not show their true intention, the former may ask for the reformation of the instrument.

What kind of mistake is contemplated here?
- One party was mistaken and the other acted fraudulently or inequitably
    - The fraud of inequitable conduct may have brought about the mistake or may have just been a coexistent (not a causative) circumstance.
- Still, the mistake must be in the manner in which the agreement is reflected in the instrument and *not* as to the agreement itself.

One-party mistake

Art. 1363

When one party was mistaken and the other knew or believed that the instrument did not state their real agreement, but concealed that fact from the former, the instrument may be reformed.

What kind of mistake is contemplated here?
- The fraud of one party consists merely in his failure to disclose to the other party the *failure of the instrument to reflect the true agreement*.
- Here, the aggrieved party may initiate reformation.

Art. 1364

When through the ignorance, lack of skill, negligence or bad faith on the part of the person drafting the instrument or of the clerk or typist, the instrument does not express the true intention of the parties, the courts may order that the instrument be reformed.

What kind of mistake is contemplated here?
- Mistake of the clerk or draftsmen.
- Either party may initiate reformation.

Art. 1365

If two parties agree upon the mortgage or pledge of real or personal property, but the instrument states that the property is sold absolutely or with a right of repurchase, reformation of the instrument is proper.

What kind of mistake is contemplated here?
- A personal or real property is mistakenly sold, instead of being merely mortgaged.

Art. 1366 ⭐

There shall be reformation in the following cases:
1. Simple donations *inter vivos* wherein no condition is imposed;
2. Wills;
3. When the real agreement is void.

When is reformation not allowed?
1. Simple donations
    a. All gratuitous donations (no conditions)
    b. If the donation is onerous, it may be reformed because they are treated as contracts!
2. Wills
    a. Because wills are not contracts.
3. Void agreements
    a. Because there is no legally existing vinculum juris

Art. 1367

When one of the parties has brought an action to enforce the instrument, he cannot subsequently ask for its reformation.

What is the basis?
- Estoppel. By suing on the basis of the contract, he is admitting the document's accuracy and faithfulness.

⚠️ *The basic remedies and reformation are mutually exclusive remedies.*

Art. 1368

Reformation may be ordered at the instance of either party or his successors in interest, if the mistake was mutual; otherwise, upon petition of the injured party, or his heirs and assigns.

Who has legal standing to ask for reformation?
- *General rule:* The party prejudiced
- If mutual mistake → either party

Is it transmissible?
- Yes, unless the contract is *intuitu personae*.

Art. 1369

The procedure for the reformation of instrument shall be governed by rules of court to be promulgated by the Supreme Court.

That is under Rule 63.

Chapter 5
Interpretation of Contracts

Art. 1370

If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control.

If the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former.

Literal sense – Words used in the contract should be understood in their literal, ordinary and grammatical sense, because such sense is presumably what the parties intended.

Intent as controlling norm – The words of the contract are presumed to give expression to the parties' intent (index animi sermo est).
- This presumption is *overthrown* when there is a variance between intent and the words. In this case, **intent prevails**.

Art. 1371

In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered.

It is helpful to take into account the acts of the parties at the time of the contract and subsequent thereto, as such acts relate to the contract. **Such acts are indicators of intent**.

Art. 1372

However general the terms of a contract may be, they shall not be understood to comprehend things that are distinct and cases that are different from those upon which the parties intended to agree.

Generalia verba sunt generaliter intelligenda: General terms are to be understood in a general sense.
- However, general terms must not go beyond the parties' intent.

Construed to uphold;
Construed as a whole

Art. 1373

If some stipulation of any contract should admit of several meanings, it shall be understood as bearing that import which is most adequate to render it effectual.

Art. 1374

The various stipulations of a contract shall be interpreted together, attributing to the doubtful ones that sense which may result from all of them taken jointly.

Presumption of validity – Public policy favors the validity of contracts and in case of doubt presumes such validity.

- If the contract is susceptible of two constructions, that which gives the contract validity will be adopted.

Interpreted integrally or holistically – All parts of the contract should be interpreted in such a way that all the parts fit together, without conflict or inconsistency.

ART. 1375

Words which may have different significations shall be understood in that which is most in keeping with the nature and object of the contract.

Example: If, in a contract of lease, the parties stipulate that any increase in the area leased shall "be for the benefit of the lessee," the word "benefit" is ambiguous.

If the area is increased due to accretion, in what does the lessee's "benefit" consist? *The logical and rational interpretation of the word is that the lessee shall have the right to use and enjoy the additional area as lessee, not as owner.*

ART. 1376

Words which may have different significations shall be understood in that which is most in keeping with the nature and object of the contract.

Customs and usages – In the absence of contrary stipulation, they intend their agreement to be conformable to these customs and usages.

- Customs and usages may be resorted to for clarification (*see* Arts. 11-12).

ART. 1377

The interpretation of obscure words or stipulations in a contract shall not favor the party who caused the obscurity.

Such ambiguity should be resolved *against* him and *in favor* of the other party.

ART. 1378

When it is absolutely impossible to settle doubts by the rules established in the preceding articles, and the doubts refer to incidental circumstances of a gratuitous contract, the least transmission of rights and interests shall prevail. If the contract is onerous, the doubt shall be settled in favor of the greatest reciprocity of interests.

If the doubts are cast upon the principal object of the contract in such a way that it cannot be known what may have been the intention or will of the parties, the contract shall be null and void.

Doubts as to *incidental* circumstances:

1. *Gratuitous contract* – The contract shall be interpreted in favor of the least transmission of rights.
2. *Onerous contract* – The contract shall be resolved in favor of the greatest reciprocity between the parties.

ART. 1379

The principles of interpretation stated in Rule [130] of the Rules of Court shall likewise be observed in the construction of contracts.

Defective contracts

Four types of defective contracts ♥

1. **Rescissible** – One that has caused a particular economic damage to one of the parties or to a third person and may consequently be set aside even if *intrinsically valid* (it is *extrinsically* invalid)
2. **Voidable** – One in which the consent of one of the parties is defective, either on account of want of capacity, or of the vitiation of said consent; it is effective unless judicially set aside (susceptible of

ratification)
3. **Unenforceable** – One that, for lack of authority, or of writing, or for incompetence of both parties, cannot be given effect unless properly ratified
4. **Void** – One which is an absolute nullity and produces no effect, as if it had never been executed or entered into and is incapable of ratification

Chapter 6
Rescissible Contracts

ART. 1380

Contracts validly upon may be rescinded in the cases established by law.

What is rescission?
- A remedy granted by law to the contracting parties and even to third persons, to obtain compensation for the damages caused by a contract, even if valid, by means of the replacement of the state prior to the celebration of that.

Basis?
- Economic damage or prejudice, either to the parties or a third person.

What is the extent of rescission?
- By as much as necessary to make good the damage suffered by the injured party.

Requisites of rescission ♥
1. The contract is rescissible under Art. 1381 or 1382
2. The injured party must have no other means of obtaining reparation for the economic damage suffered by him
3. The injured party must be able to return whatever he may be obliged to return if the contract is declared rescinded
4. The object of the contract must not have passed legally to a third person in good faith

Rescissible contracts

ART. 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.

ART. 1382 ⭐

Payments made in a state of insolvency for obligations to whose fulfillment the debtor could not be compelled at the time they were effected, are also rescissible.

Lesion under Art. 1381 nos. 1-2

In sales, disposition or encumbrancing of real property of the ward, the guardian has to obtain prior judicial approval
1. If such approval is obtained, the contract *cannot* be rescinded even if the lesion is >¼
2. If there is no approval, the contract will *not* be rescissible, but *unenforceable* under Art. 1317 (unauthorized contract)
3. If the contract does not require judicial approval, it will be rescissible if the lesion is >¼
    a. These contracts involve disposition of personal property of the ward or the absentee

Art. 1381, no. 3

Rescission of a contract in fraud of a creditor (accion pauliana)

Requisites ♥
1. The plaintiff asking for rescission has a credit *prior* to the alienation, although demandable later
2. The debtor has made a subsequent contract conveying a patrimonial benefit to a third person
3. The creditor has no other legal remedy to satisfy his claim
4. The act being impugned is fraudulent
5. The third person who received the property, if by *onerous* title, has been an accomplice in the fraud

Some circumstances may constitute badges of fraud, e.g.:

1. Inadequacy of consideration
2. Alienation of the property while the suit is pending
3. Sale of the thing on credit when the vendor is insolvent
4. Evidence of large indebtedness or complete insolvency
5. Transfer of all or most of the debtor's property especially when he is financially embarrassed
6. The vendee's failure to take possession of the property

N.B. *Fraud may be presumed*, if the cases in Art. 1387 apply.

Good or bad faith of transferee:

1. If the alienation of gratuitous, the good or bad faith of the donee is immaterial. For the alienation to be rescissible, it is sufficient that the donor-debtor did not reserve enough property to pay preexisting debts.
2. If the alienation is onerous, the complicity of the transferee is required (*see Lee v. Bangkok* case).

Rescission under Art. 1381(3)

Union Bank of the Philippines v. Ong, G.R. 152347, June 21, 2006 ♥

In determining whether or not a certain conveying contract is fraudulent, what comes to mind first is the question of whether the conveyance was a bona fide transaction or a trick and contrivance to defeat creditors.

The existence of fraud or the intent to defraud creditors cannot plausibly be presumed from the fact that the price paid for a piece of real estate is perceived to be slightly lower, if that really be the case, than its market value.

For a contract to be rescinded for being in fraud of creditors, both contracting parties must be shown to have acted maliciously so as to prejudice the creditors who were prevented from collecting their claims.

Things under lis pendens (Art. 1381[4])

Ada v. Baylon, G.R. 182435, August 13, 2012

Requisites of rescission under Art. 1381(4) ♥

1. The defendant, during the pendency of the case, enters into a contract which refers to the thing subject of litigation
2. The said contract was entered into without the knowledge and approval of the litigants, *or* of a competent judicial authority

It bears stressing that the right to ask for the rescission of a contract under Art. 1381(4) is not contingent upon the final determination of the ownership of the thing subject of litigation.

- A definitive judicial determination with respect to the thing subject of litigation is not a condition *sine qua non* before the rescissory action contemplated under Art. 1381(4) may be instituted.

Art 1382

Payments made by an insolvent debtor

What does this article contemplate?

- It makes rescissible payment made by an insolvent debtor, of debts which the debtor cannot, at the time of payment, be compelled to make.

Why?

- Because they create an unfair advantage for the payee and cause prejudice to creditors whose credits are already existing and are or will in the future be demandable, considering that the payor does not have sufficient assets to pay his rightful creditor.
  - Hence, it will not be rescissible if there are no creditors who will be prejudiced.

What kind of payments are covered?

- Payments of obligations that are not yet legally demandable, e.g.:
  - Fictitious
  - Void
  - Natural
  - Prescribed
  - Remitted
  - Subject to a suspensive term that has not yet arrived
  - Subject to a suspensive condition

What kind of insolvency is contemplated?

- Factual insolvency (debts > assets)

Rescission as a subsidiary action

ART. 1383

The action for rescission is subsidiary; it cannot be instituted except when the party suffering damage has no other legal means to obtain reparation for the same.

Union Bank of the Philippines (*supra*) ♥

Where a creditor fails to show that he has no other legal recourse to obtain satisfaction for his claim, then he is not entitled to the rescission asked.

ART. 1384

Rescission shall be only to the extent necessary to cover the damages caused.

Rescission is not only subsidiary (*see* Art. 1383), but also *pro tanto*–it will extend only to whatever is necessary to make good the damage.

Mutual restitution;
When rescission not available

ART. 1385 ⭐

Rescission creates the obligation to return the things which were the object of the contract, together with their fruits, and the price with its interest; consequently, it can be carried out only when he who demands rescission can return whatever he may be obliged to restore.

Neither shall rescission take place when the things which are the object of the contract are legally in the possession of third persons who did not act in bad faith.

In this case, indemnity for damages may be demanded from the person causing the loss.

Mutual restitution

- Rescission creates the duty of mutual restitution, which may be *partial* or *total* (*see* Art. 1384).

When is mutual restitution not applicable?

- When the contract is under Art. 1381 nos. 3 and 4 (*accion pauliana* and *lis pendens*) and Art. 1382 (payment in fraud of creditors).

What if mutual restitution is required, but cannot be done?

- There will be *no* rescission, which happens if:
  - The party required to make the restitution has lost the thing
  - The thing has passed to a third person (an IPV)

What happens, then?

- Only damages will be awarded (quasi-delict).

ART. 1386

Rescission referred to in Nos. 1 and 2 of article 1381 shall not take place with respect to contracts approved by the courts.

See comments under Art. 1381.

Presumption of fraud

ART. 1387 ⭐

All contracts by virtue of which the debtor alienates property by gratuitous title are presumed to have been entered into in fraud of creditors, when the donor did not reserve sufficient property to pay all debts contracted before the donation.

Alienations by onerous title are also presumed fraudulent when made by persons against whom some judgment has been rendered in any instance or some writ of attachment has been issued. The decision or attachment need not refer to the property alienated, and need not have been obtained by the party seeking the rescission.

In addition to these presumptions, the design to defraud creditors may be proved in any other manner recognized by the law of evidence.

Lee v. Bangkok Public Co. Ltd., G.R. 173349, February 9, 2011

1. The presumption of fraud established under Art. 1387 does not apply to registered lands if the judgment or attachment made is not also registered.
2. If Art. 1387 is applicable, it will only apply to the person who made such alienation, and against whom some judgment has been rendered or some writ of attachment has been issued.
   a. A third person is not automatically presumed to be in fraud or in collusion with the judgment debtor.
   b. This is because so long as the person who is in legal possession of the property did not act in bad faith, rescission cannot take place.

Fraud is *presumed* when:

1. A debtor donates property without reserving enough assets to pay off debts existing prior to the donation.
2. The alienation is made by a person against whom:
    a. A judgment has been rendered in any instance, or
    b. A writ of attachment has been issued.

In any other cases, fraud is a question of fact, which needs to be proven by evidence.

Acquirer in bad faith

ART. 1388

Whoever acquires in bad faith the things alienated in fraud of creditors, shall indemnify the latter for damages suffered by them on account of the alienation, whenever, due to any cause, it should be impossible for him to return them.

If there are two or more alienations, the first acquirer shall be liable first, and so on successively.

What is the liability of the acquirer in bad faith?
- The acquirer is liable to return the thing alienated, upon proper demand of the prejudiced creditor.
- If he is unable to do so, he must pay damages to the creditor.

When does this rule apply?
- For both onerous and gratuitous acquisitions (e.g., donations and sale).

Prescriptive period for rescission

ART. 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 unknown.

When does the four-year period commences?
- Upon execution of the contract which caused economic damage.
- But if the fraudulent alienation was not made known to the creditor, the period should start running only from the time he acquires knowledge thereof.

Exceptions?
- In cases falling under Art. 1381 (1-2), it begins from the termination of the ward's incapacity or of the absentee, as the case may be.

Chapter 7
Voidable Contracts

ART. 1390 ⭐

The following contracts are voidable or annullable, even though there may have been no damage to the contracting parties:
1. Those where one of the parties is incapable of giving consent to a contract;
2. Those where the consent is vitiated by mistake, violence, intimidation, undue influence or fraud.

These contracts are binding, unless they are annulled by a proper action in court.

They are susceptible of ratification.

Characteristics of voidable contracts
1. Effective unless judicially set aside
2. Can be assailed *only* in a proper action for the purpose; it cannot be attacked collaterally
3. Can be ratified
4. Can be assailed *only* by the party whose consent was defective

Two categories
1. Those in which one of the parties is incapacitated to give consent
    a. Minority
    b. Insane or demented persons
    c. Deaf-mutism who cannot write
2. Those in which consent is vitiated by violence, intimidation, undue influence, fraud or mistake

Prescriptive period

ART. 1391 ⭐

The action for annulment shall be brought within four years.

In cases of intimidation, violence or undue influence, from the time the defect of the consent ceases.

In case of mistake or fraud, from the time of the discovery of the same.

And when the action refers to contracts entered into by minors or other incapacitated persons, from the time the guardianship ceases.

Vice of consent	Prescriptive period	Reckoned from?
Intimidation	4 years	From the time the defect ceases
Violence or undue influence		
Mistake		From the time of discovery
Fraud		
Incapacity (e.g., minority)		From the time guardianship ceases (e.g, from 18th birthday)

Ratification;
When occurring;
Its effects

ART. 1392

Ratification extinguishes the action to annul a voidable contract.

Art. 1393

Ratification may be effected expressly or tacitly. It is understood that there is a tacit ratification if, with knowledge of the reason which renders the contract voidable and such reason having ceased, the person who has a right to invoke it should execute an act which necessarily implies an intention to waive his right.

Art. 1394

Ratification may be effected by the guardian of the incapacitated person.

Art. 1395

Ratification does not require the conformity of the contracting party who has no right to bring the action for annulment.

Art. 1396

Ratification cleanses the contract from all its defects from the moment it was constituted.

Three modes of curing the defects of contracts

1. **Confirmation** – The process of curing the defect of the voidable contract
2. **Ratification** – Mode of curing the defect of a contract by one who has entered into on behalf of a party by one who has no authority or who has acted beyond his authority
3. **Acknowledgement** – Refers to to the mode of curing a *deficiency of proof*, such as when an oral contract is subsequently reduced to writing by the parties (i.e., to conform with the Statute of Frauds)

Requisites of ratification ♥

1. The contract is voidable under Art. 1390
2. The confirmation is made consciously and deliberately (*i.e.*, with knowledge of the defect)
3. It must have been made *after* the cessation of the cause of voidability
4. It must be made by the party whose consent was defective or vitiated, or in proper cases, by his guardian

Effects of ratification

1. **Curative** – It converts the contract from being voidable to a valid one
    a. Once ratified, any action for annulment will be barred
2. **Retroactive** – The validity of the contract retroacts to the moment of perfection of the contract

Forms of ratification

1. **Express** – Includes any statement or declaration that the party is accepting or adopting the contract. It may be written or oral.
2. **Implied** – Can include any act, conduct or behavior of the party entitled to annul, from which an intention to abide by or accept the contract may be reasonably gleaned or interfered.
    a. **Example**: Performance of the prestation by the party whose consent was vitiated.

Who may ratify?

1. Only the party who has a defective consent (Art. 1396)
2. Exceptionally: The guardian of an incapacitated person (Art. 1394)

Who may annul the contract (legal standing)

ART. 1397

The action for the annulment of contracts may be instituted by all who are thereby obliged principally or subsidiarily. However, persons who are capable cannot allege the incapacity of those with whom they contracted; nor can those who exerted intimidation, violence, or undue influence, or employed fraud, or caused mistake base their action upon these flaws of the contract.

Who may annul?

1. Incapacitated person or the person whose consent is vitiated
    a. His guardian, if any, may file the appropriate action on his behalf
2. His successors-in-interest
3. Those principally or subsidiarily bound with him, unless:
    a. They were aware of the defect at the time of celebration
    b. The guaranty or suretyship was constituted precisely to assume liability in the event of the annulment of the obligation

N.B. In any case, the party whose consent was *not* vitiated cannot annul the contract.

Effects of annulment

ART. 1398

An obligation having been annulled, the contracting parties shall restore to each other the things which have been the subject of the contract, with their fruits, and the price with its interest, except in cases provided by law.

In obligations to render service, the value thereof shall be the basis for damages.

Mutual restitution

- The annulment of the contract creates the obligation of mutual restitution.

What must be returned?

1. What each party has received by virtue of the contract
2. The fruits or their value produced by the thing
    a. If in good faith → no obligation to return the fruits
    b. If in bad faith → he must return the fruits

Is this rule absolute?

- No, because it is qualified by the rule against unjust enrichment (*see Heirs of Kim v. Quicho*).
- If the cause of annulment is duress or fraud, the party employing it may be liable for damages (*see* Art. 1170).

No restitution if party is incapacitated; Exception

ART. 1399

When the defect of the contract consists in the incapacity of one of the parties, the incapacitated person is not obliged to make any restitution except insofar as he has benefited by the thing or price received by him.

General rule: No mutual restitution if the party is incapacitated.
Exception: Restitution may be made to the extent that he has benefited from it.

What is the benefit contemplated here?

- Is the use to which a prudent person would have devoted the thing.

Restitution when the thing has been lost

ART. 1400

Whenever the person obliged by the decree of annulment to return the thing can not do so because it has been lost through his fault, he shall return the fruits received and the value of the thing at the time of the loss, with interest from the same date.

ART. 1401

The action for annulment of contracts shall be extinguished when the thing is the object thereof is lost through the fraud or fault of the person who has a right to institute the proceedings.

If the right of action is based upon the incapacity of any one of the contracting parties, the loss of the thing shall not be an obstacle to the success of the action, unless said loss took place through the fraud or fault of the plaintiff.

Party	Cause of loss	Effects
Defendant	Fortuitous loss	Defendant is liable for: 1. Value of the thing 2. fruits 3. Interest 4. Damages
	Defendant's fault	1. If in bad faith: Liable as if at fault (same as above) 2. If in good faith: No liability
Plaintiff	Fortuitous loss	Right to annul is extinguished
	Defendant's fault	Two views: 1. Plaintiff can annul if willing and able to return the value (A. Tolentino) 2. Plaintiff can annul without obligation to return value (E. Caguioa)

Simultaneous restitution rule

ART. 1402

As long as one of the contracting parties does not restore what in virtue of the decree of annulment he is bound to return, the other cannot be compelled to comply with what is incumbent upon him.

Rationale: Since the duty is mutual, failure (or refusal) of one party to restore excuses the other from compliance with his own obligation.

- In any case, the decree of annulment remains binding and effective.

Chapter 8

Unenforceable Contracts

ART. 1403 ⭐

The following contracts are unenforceable, unless they are ratified:

1. Those entered into in the name of another person by one who has been given no authority or legal representation, or who has acted beyond his powers;
2. Those that do not comply with the Statute of Frauds as set forth in this number. In the following cases an agreement hereafter made shall be unenforceable by action, unless the same, or some note or memorandum, thereof, be in writing, and subscribed by the party charged, or by his agent; evidence, therefore, of the agreement cannot be received without the writing, or a secondary evidence of its contents:
    a. An agreement that by its terms is not to be performed within a year from the making thereof;
    b. A special promise to answer for the debt, default, or miscarriage of another;
    c. An agreement made in consideration of marriage, other than a mutual promise to marry;
    d. An agreement for the sale of goods, chattels or things in action, at a price not less than five hundred pesos, unless the buyer accept and receive part of such goods and chattels, or the evidences, or some of them, of such things in action, or pay at the time some part of the purchase money; but when a sale is made by auction and entry is made by the auctioneer in his sales book, at the time of the sale, of the amount and kind of property sold, terms of sale, price, names of the purchasers and person on whose account the sale is made, it is a sufficient memorandum;
    e. An agreement for the leasing for a longer period than one year, or for the sale of real property or of an interest therein;
    f. A representation as to the credit of a third person.
3. Those where both parties are incapable of giving consent to a contract.

Three classes of unenforceable contracts

1. Those entered into on behalf of another, either–
    a. Without authority at all
        i. The Supreme Court has, on at least two cases, held that contracts falling under this are *void contracts* due to the total absence of consent (see e.g., *Heirs of Sevilla v. Sevilla* [2003] *& Gochan v. Heirs of Baba*

[2003])
   b. In excess of authority
2. Statute of Frauds (*see sidebar*)
3. Contracts where both parties are incapable of giving consent
   a. If the contract is ratified by one party, it becomes voidable
   b. To be valid, it must be ratified by *both* parties

Heirs of Ureta (*supra* art. 1346) ♥

The failure to obtain authority from his co-heirs to sign the Deed of Extrajudicial Partition rendered the contract valid but unenforceable against his co-heirs for having been entered into without their authority.

- An oral partition by the heirs is valid if no creditors are affected.

Sps. Alcantara v. Nido, G.R. 165133, April 19, 2010

A special power of attorney is necessary to enter into any contract by which the ownership of an immovable is transmitted or acquired for a valuable consideration. Without an authority in writing, a vendor cannot validly sell the lot to the buyer. Hence, any "sale" is void.

N.B. This case was decided *not* on the basis of Art. 1403, but Art. 1874.

Statute of Frauds (SOF) ♥

1. Requirement of writing under the SOF:
   a. The contracts enumerated by it must be in writing (either in a public or private document), and must be signed by the party sought to be made liable under the agreement or his duly constituted agent/representative
   b. The lack of writing does not make the agreement void, but merely bars suit for performance of breach. It is a defect that can be cured by acknowledgement or ratification
2. Basic rules:
   a. It *does not apply* to actions which are neither for violation of the contract nor for the performance thereof
   b. It *does not* annul agreements that fail to observe the requirement of writing
   c. It applies *only* to executory contracts (i.e., those in which there has been no performance at all by either parties)

Agreements under the SOF

1. **Agreement that is not to be performed within a year from the making.** This has two views:
   a. Those which are not to be performed within a year from perfection; or
      i. This is preferred because case #2 already involves a *partially* executed contract, rendering it outside the ambit of SOF!
   b. Those which cannot be completed within a year (*see e.g., Babao v. Perez* [1957])
2. **A special promise to answer for the debt, default, or miscarriage of another** (contract of guaranty)
   a. To be covered by the SOF, the original debtor must continue to be bound. If not (i.e., the debtor is released), it becomes novation–either *expromision* or *delegacion*!
3. **An agreement made in consideration of marriage, other than a mutual promise to marry**
   a. Included: Collateral agreements made in contemplation of marriage.
   b. Excluded: Mutual promises to marry. These are actionable for damages, if such breach is contrary to morals, good customs and results in prejudice or injury (*Wassmer v. Velez* [1964]).
4. **Sale of personal property at a price of more than P500**
   a. To *remove* it from the SOF, the payment must be made at the time of sale.
   b. If payment is made *after* sale, it is ratification.
5. **Lease for a longer period than one year, *or* sale of real property or of an interest therein**
   a. The price of the real property is immaterial–it must be in writing at all times.
   b. Correlate with Art. 1874 (sale of a realty through an agent):
      i. If agent's authority is *not* in writing → void
      ii. If sale is *not* in writing → unenforceable
6. **Representation as to the credit of a third person** (you're vouching)
   a. What this forbids is the *presentation of oral evidence* in a claim arising from *quasi-delict*
7. *Additional:* **Under Art. 1443, express trust over an immovable or an interest therein must be in writing**

SOF not applicable to partially/totally executed contracts

Willy (*supra* art. 1305)

Contracts that are either partially or totally executed are removed from the ambit of the Statute of Frauds and cannot be considered as unenforceable contracts.

- Hence, oral proof is admissible.

Enumeration of SOF is exclusive;

Oral partition valid

Heirs of Bandoy v. Bandoy, G.R. 255258, October 19, 2022

An oral partition may be valid because there is no law requiring partition among heirs to be in writing to be valid.

Oral RFR valid as it is not covered by SOF

Rosencor v. Inquing, G.R. 140479, March 8, 2001

A right of first refusal is not covered by the statute of frauds, because it is not among those listed as unenforceable under the statutes of fraud.

ART. 1404

Unauthorized contracts are governed by Article 1317 and the principles of agency in Title X of this Book.

See comments under Art. 1317 (unauthorized contracts) and Art. 1403(1).

What to listen to during trial of oral contracts;
Acceptance of benefits as implied ratification

ART. 1405 ⭐

Contracts infringing the Statute of Frauds, referred to in No. 2 of Article 1403, are ratified by the failure to object to the presentation of oral evidence to prove the same, or by the acceptance of benefits under them.

Unenforceable contracts are ratified by:

1. Failure to object to oral evidence (waiver)
2. Acceptance of benefits

👂 Listen closely during trial!

ART. 1406

When a contract is enforceable under the Statute of Frauds, and a public document is necessary for its registration in the Registry of Deeds, the parties may avail themselves of the right under Article 1357.

What contract is contemplated here?

- Enforceable between the parties, but unregistrable for lack of a public document.
- Example: A COS over a registered parcel of land embodied in a private document.

What is the remedy?

- Either contracting party has the right to compel the other to execute the needed public document to effect the registration of the contract in the Registry of Deeds (*see* Art. 1357)

Ratification where both or one parties are incapacitated;
How ratification may be made, retroactive effect

ART. 1407

In a contract where both parties are incapable of giving consent, express or implied ratification by the parent, or guardian, as the case may be, of one of the contracting parties shall give the contract the same effect as if only one of them were incapacitated.

If ratification is made by the parents or guardians, as the case may be, of both contracting parties, the contract shall be validated from the inception.

See comments under Art. 1403.

Who may assail the contract (legal standing)

ART. 1408 ⭐

Unenforceable contracts cannot be assailed by third persons.

Unenforceable contracts **cannot be attacked by strangers**.

- Only the party against whom they are sought to be enforced can set up the defense of unenforceability.

Chapter 9
Void or Inexistent Contracts

Void contracts – (an oxymoron) No force and effect from the very beginning, as if it had never been entered into, and which cannot be validated, either by time or by ratification.

Characteristics of void contracts

1. Produces no effect whatsoever
2. No action for annulment is necessary
3. Can *neither* be confirmed nor ratified
4. If there has been performance, there is mutual restitution, except in cases of *pari delicto*
5. The right to set up the defense of nullity cannot be waived
6. An action for, or defense of, nullity does not prescribe
7. The nullity may be invoked by anyone against whom any provision or effect of the contract is asserted

ART. 1409 ⭐

The following contracts are inexistent and void from the beginning:

1. Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy;
2. Those which are absolutely simulated or fictitious;
3. Those whose cause or object did not exist at the time of the transaction;
4. Those whose object is outside the commerce of men;
5. Those which contemplate an impossible service;
6. Those where the intention of the parties relative to the principal object of the contract cannot be ascertained;
7. Those expressly prohibited or declared void by law.

These contracts cannot be ratified. Neither can the right to set up the defense of illegality be waived.

What are the void contracts?

1. Those whose *cause, object or purpose* is contrary to law, morals, good customs, public order or public policy
    a. Correlate this with Arts. 1306, 1347 and 1352
2. Absolutely simulated or fictitious contracts
    a. Correlate this with Arts. 1345 and 1346
3. Object did not exist at the time of the transaction
    a. What the code probably meant here is a contract whose cause or object **could not have existed** or **could not come into existence** at the time of transaction
    b. This is because future things can be the subject of a contract
4. Object is outside the commerce of man
    a. This is because the object is legally nonexistent
5. Those which contemplate an impossible service
    a. Correlate with Art. 1348
6. Ambiguity over the intention on the principal objects
    a. All efforts must be exerted to discover the parties' true intent
7. Those expressly prohibited or declared void by law, *e.g.:*
    a. Contracts executed against mandatory/prohibitory laws, except when the law itself allows for their validity (Art. 5)
    b. Donation, or grant of gratuitous advantage between spouses during marriage (Art. 87, FC)
    c. Changing the share of co-owners from the benefits and charges of their respective interests (Art. 485)
    d. Contract over future inheritance (Art. 1347, par. 2)
    e. Sale of property between husband and wife (Art. 1490)

Unlawful object and consideration

Estate of Marcos v. Republic, G.R. 212330, November 14, 2023

A lease contract contrary to the constitution is void for having an unlawful consideration. Moreover, the contract is void for want of object–Marcos not having any authority to lease the land.

Disposition of conjugal property without spousal consent

Alexander v. Sps. Escalona, G.R. 256141, July 19, 2022

The alienation or encumbrance of the conjugal property, without the authority of the court or the written consent of the other spouse, made after the effectivity of the Family Code is void.

Unless the transaction is accepted by the non-consenting spouse or is authorized by the court, an action for declaration of nullity of the contract may be filed before the continuing offer on the part of the consenting spouse and the third person becomes ineffective.

Absolutely simulated contract

Valenzuela v. Sps. Pabilani, G.R. 241330, December 5, 2022

The contract is false* and therefore, null and void by reason of its having been made after the death of the party who appears as one of the contracting parties therein.

* It's a forgery!

Imprescriptibility

ART. 1410 ⭐

The action or defense for the declaration of the inexistence of a contract does not prescribe.

Reconveyance

Gatmaytan v. MLI, G.R. 222166, June 10, 2020

An action for reconveyance may be prescriptible or imprescriptible.

1. Reconveyance based on a *void contract* – Imprescriptible, as long as the land wrongfully registered is still in the name of the person who caused such registration.
2. Reconveyance of fraudulently registered property – 10 years from the date of the issuance of the certificate of title. This period begins to run from the date the adverse party repudiates the implied trust, which repudiation takes place when the adverse party registers the land.

Void contracts are imprescriptible.

Is an action for nullity required?

- Properly speaking, no, because the nullity is automatic and *ipso jure*.
- If anything, the decree of nullity is merely declaratory in nature.

Pari delicto rule

ART. 1411 ⭐

When the nullity proceeds from the illegality of the cause or object of the contract, and the act constitutes a criminal offense, both parties being *in pari delicto*, they shall have no action against each other, and both shall be prosecuted. Moreover, the provisions of the Penal Code relative to the disposal of effects or instruments of a crime shall be applicable to the things or the price of the contract.

This rule shall be applicable when only one of the parties is guilty; but the innocent one may claim what he has given, and shall not be bound to comply with his promise.

ART. 1412

If the act in which the unlawful or forbidden cause does not constitute a criminal offense, the following rules shall be observed:

1. When the fault is on the part of both contracting parties, neither may recover what he has given by virtue of the contract, or demand the performance of the other's undertaking;
2. When only one of the contracting parties is at fault, he cannot recover what he has given by reason of the contract, or ask for the fulfillment of what has been promised him. The other, who is not at fault, may demand the return of what he has given without any obligation to comply with his promise.

Yu v. Heirs of Sia, G.R. 248495, July 6, 2022

In pari delicto is a universal doctrine which holds that no action arises, in equity or at law, from an illegal contract; no suit can be maintained for its specific performance, or to recover the property agreed to be sold or delivered, or the money agreed to be paid, or damages for its violation; and where the parties are in pari delicto, no affirmative relief of any kind will be given to one against the other.

Does the *pari delicto* rule apply to *all* void contracts?

- No, because it only applies to contracts which are void on account of illegality of the cause or object.
- Thus, absolutely simulated contracts ***do not*** fall under the *pari delicto* rule!

Status of act or prestation	Who is/are at fault	Effects
Constitutes a criminal offense	Both (*in pari delicto*)	1. No action for performance on *either* side 2. No action for restitution on *either* side
	Only one party	1. No action for performance on *either* side 2. Guilty party cannot demand restitution, but the innocent may
Unlawful or forbidden,	Both (in pari delicto)	1. No action for

but not criminal		performance on *either* side 2. No action for restitution on *either* side
	Only one party	1. No action for performance on *either* side 2. The party at fault *cannot* demand restitution, but the innocent may

ART. 1413

Interest paid in excess of the interest allowed by the usury laws may be recovered by the debtor, with interest thereon from the date of the payment.

This article is inoperative due to the suspension of the Usury Law. Unconscionable interest/penalty may be voided for being contrary to morals (see Art. 1306 *& Lara's Gift).*

ART. 1414

When money is paid or property delivered for an illegal purpose, the contract may be repudiated by one of the parties before the purpose has been accomplished, or before any damage has been caused to a third person. In such case, the courts may, if the public interest will thus be subserved, allow the party repudiating the contract to recover the money or property.

Requisites ♥

1. The contract must have an illegal purpose
2. Money or property is delivered by virtue thereof
3. One of the parties repudiates the contract
4. The repudiation is made before the illegal purpose is accomplished
5. The public interest will be promoted or subserved by the return to the repudiating party of what he has delivered

Void contract with an incapable party

ART. 1415

Where one of the parties to an illegal contract is incapable of giving consent, the courts may, in the interest of justice so demands allow recovery of money or property delivered by the incapacitated person.

Properly speaking, the parties here are *not in pari delicto*, because the incompetent party cannot be said to be culpable.

See comments under Art. 1399.

Social legislation;
Recovery allowed

ART. 1416

When the agreement is not illegal *per se* but is merely prohibited, and the prohibition by the law is designed for the protection of the plaintiff, he may, if public policy is thereby enhanced, recover what he has paid or delivered.

Requisites of Art. 1416

Lim v. Cruz, G.R. 248650, March 15, 2023

Under Art. 1416, the plaintiff may recover what he paid or delivered pursuant to a void contract if the following requisites are met:

1. The contract is not illegal per se but merely prohibited
2. The prohibition is for the plaintiff's protection
3. Public policy will be enhanced by his recovery

ART. 1417

When the price of any article or commodity is determined by statute, or by authority of law, any person paying any amount in excess of the maximum price allowed may recover such excess.

This contemplates violation of the Price Control Law.

ART. 1418

When the law fixes, or authorizes the fixing of the maximum number of hours

of labor, and a contract is entered into whereby a laborer undertakes to work longer than the maximum thus fixed, he may demand additional compensation for service rendered beyond the time limit.

ART. 1419

When the law sets, or authorizes the setting or a minimum wage for laborers, and a contract is agreed upon by which a laborer accepts a lower wage, he shall be entitled to recover the deficiency.

Rationale: The worker is the intended beneficiary of these provisions. He may demand the rightful amount fixed by law even if he agreed to something else.

Severability

ART. 1420

In case of a divisible contract, if the illegal terms can be separated from the legal ones, the latter may be enforced.

This provision is an application of the severability or separability rule.

ART. 1421 ⭐

The defense of illegality of contract is not available to third persons whose interests are not directly affected.

Rapid City v. Cline, G.R. 217148, December 7, 2021

There is no reason to depart from the court's pronouncements in *House International* regarding interest as referring to **material interest** and not mere incidental interest in relation to the definition of a real party in interest who can assail the illegality of the contract under Art. 1421.

Also, the indispensable burden in *Ibanez* "to show the detriment which positively would result to the third person/party from the contract in which he/she had no intervention" had to be hurdled.

General rule: Third party may not assail nor set up defense of nullity

Exception: If the third party can show:
1. Material interest
2. A showing of the detriment which would result to the third party

ART. 1422

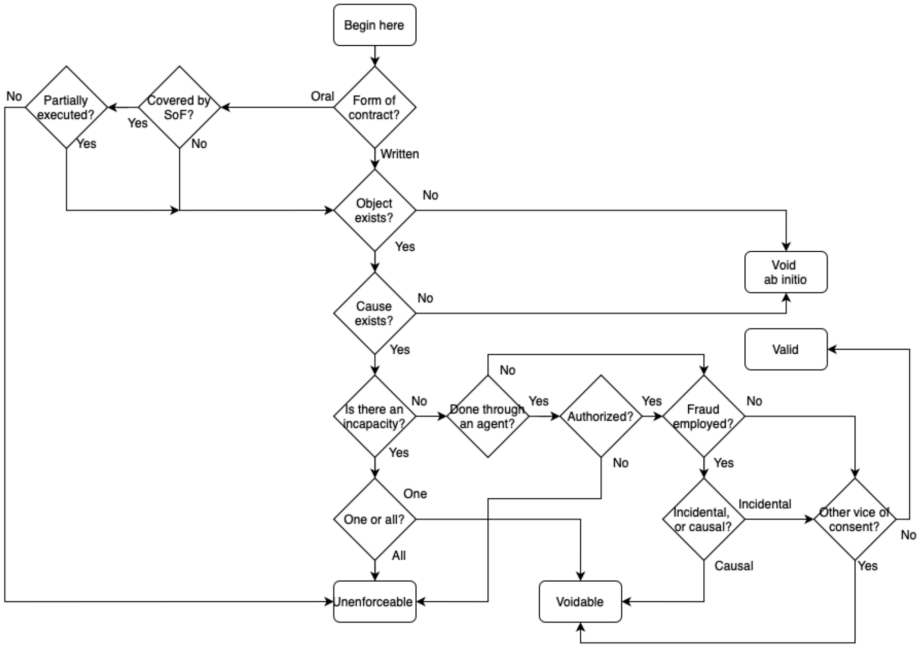
A contract which is the direct result of a previous illegal contract, is also void and inexistent.

Example: There was a void sale between A and B. If B sells the land to C, that subsequent sale is also void.

By way of a summary

	Rescissible	**Voidable**	**Unenforceable**	**Void**
Cause	Economic lesion (e.g., in fraud of a creditor)	Vice of consent of a single party Legal incapacity	Unauthorized contract Noncompliance with the Statute of Frauds Both parties are incapacitated	Lack of one or more essential elements of a contract Contrary to law
Cure	1. Waiver 2. Ratification of the injured/incapacitated party			None
Prescription	4 years from exhaustion of all remedies/assets, or from violation of an RFR	4 years from (a) cessation of incapacity; (b) cessation of the violence or undue influence, or intimidation; or (c) discovery of the mistake or fraud	Imprescriptible	
Effectivity	Valid until rescinded	Valid until annulled	Valid but not enforceable (i.e., cannot be used to compel performance)	No legal effect, as if not existing
Who has standing to assail	Any injured party	Any injured party	Contracting party only	Any party who has material interest and has

				suffered injury
Mutual restitution	Required, except when in (a) contract in fraud of creditors, or (b) rescissible payment	Required, except when the party is incapacitated, unless the incapacitated party has benefited	N/A	



Other matters

Title III
Natural Obligations

Art. 1423

Obligations are civil or natural. Civil obligations give a right of action to compel their performance. Natural obligations, not being based on positive law but on equity and natural law, do not grant a right of action to enforce their performance, but after voluntary fulfillment by the obligor, they authorize the retention of what has been delivered or rendered by reason thereof. Some natural obligations are set forth in the following articles.

Aspect	Civil obligation	Natural obligation
Source	Positive law	Equity and natural law
Juridical tie?	Yes	None
Enforceability	Can be compelled by judicial action - The creditor can sue (e.g. specific performance)	Cannot be enforced by the courts
Consequences	Nonperformance leads to liability for damages or specific performance	No legal consequences for nonperformance.
Effect of voluntary fulfillment	Performance is mandatory and expected.	Once voluntarily performed, the obligor cannot reclaim what was delivered.
Some examples	Payment of a loan, sale of goods, breach of contract damages.	Payment of a prescribed debt, fulfillment of a void contract, voluntary support beyond legal duty. - A debt that has prescribed based on a written contract (10 years). If you paid in the 11th year, the creditor has the right to retain the payment.

Key in natural obligation: **Voluntary performance**.
- It must not be compelled by the courts, or anyone else.

- If one is compelled to enforce a natural obligation, such enforcement (e.g., a court order) is void.

Performance of an obligation that has prescribed

ART. 1424

When a right to sue upon a civil obligation has lapsed by extinctive prescription, the obligor who voluntarily performs the contract cannot recover what he has delivered or the value of the service he has rendered.

When an obligation is extinguished by prescription, it ceases to be enforceable at law.

- It subsists, however, as a natural obligation.

Voluntary performance is legally effective. And if done, the obligor cannot recover his payment.

Requisites of voluntariness:

1. The obligor must know that the obligation has lapsed by prescription
2. He must prestation the prestation freely, with full knowledge and consent

Payment by a third person of a debt that has prescribed

ART. 1425

When without the knowledge or against the will of the debtor, a third person pays a debt which the obligor is not legally bound to pay because the action thereon has prescribed, but the debtor later voluntarily reimburses the third person, the obligor cannot recover what he has paid.

See comments on Art. 1424 (same requisites) and payment by a third person (Art. 1236).

Arts. 1426 and 1427 are now inoperative.

Voluntary performance of a defendant that has succeeded

ART. 1428

When, after an action to enforce a civil obligation has failed the defendant voluntarily performs the obligation, he cannot demand the return of what he has delivered or the payment of the value of the service he has rendered.

What is contemplated?

- The plaintiff sues the defendant for performance and the plaintiff losses. Despite prevailing, the defendant performs anyway.

Overpayment of the decedent's debt beyond the legitime of the heir

ART. 1429

When the testate or intestate heir voluntarily pays a debt of the decedent exceeding the value of the property which he received by will or by the law of intestacy from the estate of the deceased, the payment is valid and cannot be rescinded by the payer.

Pecuniary debts left by the decedent are enforceable directly against the estate, and not the heirs.

If estate's asset is *less than* the decedent's debt, the payment of the obligations *cannot* be enforced against the heirs.

However, if the heirs voluntarily pay the excess debts, such payment cannot be recovered as it is deemed payment of a natural obligation.

Payment due to a defective will

ART. 1430

When a will is declared void because it has not been executed with the formalities required by law, but one of the intestate heirs, after the settlement of the debts of the deceased, pays a legacy in compliance with a clause in the defective will, the payment is effective and irrevocable.

The implementation of the provisions of the void will is valid and, once carried out, cannot be rescinded by the heir.

Title IV
Estoppel

ART. 1431 ⭐

Through estoppel an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon.

Estoppel – A bar which precludes a person from denying or asserting anything to the contrary of that which has been established as the truth, either by acts of judicial or legislative officers, or by his acts, representations, or admissions, either express or implied.

- The principle of estoppel is limited to supplying deficiency in the law, but should *not* supplant positive law.
- It is only invoked in highly exceptional and justifiable cases, and must be sparingly applied.
- Estoppel does not apply against the government suing in its capacity as sovereign or asserting government rights.
    - Exceptions:
        1. Estoppel by laches to protect the rights of an IPV
        2. If the state, through its agent, acted in bad faith

ART. 1432

The principles of estoppel are hereby adopted insofar as they are not in conflict with the provisions of this Code, the Code of Commerce, the Rules of Court and special laws.

ART. 1433

Estoppel may be *in pais* or by deed.

Kinds of estoppel

1. Estoppel in pais/equitable estoppel – A party may not withdraw a representation or backtrack from an act/conduct to the prejudice of another
2. Estoppel by deed (document) – A party and his privies to a deed are precluded from denying any material fact stated in the deed as against the other party and his privies
3. Estoppel by laches – Sleeping on one's rights. A person who has failed for an unreasonable length of time to timely assert one's right. It is presumed that he has abandoned or declined to assert such right

Kalalo v. Luz, G.R. L-27782, July 31, 1970 ♥

The essential elements of estoppel *in pais* may be considered in relation to the party sought to be estopped, and in relation to the party invoking the estoppel in his favor

1. As to the party *to be estopped*:
    a. Conduct amounting to false representation or concealment of material facts or at least calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert;
    b. Intent, or at least expectation that his conduct shall be acted upon by, or at least influence, the other party; and
    c. Knowledge, actual or constructive, of the real facts.

B. As to the party *claiming estoppel*:
    a. Lack of knowledge and of the means of knowledge of the truth as the facts in questions
    b. Reliance, in good faith, upon the conduct or statements of the party to be estopped
    c. Action or inaction based thereon of such character as to change the position or status of the party claiming the estoppel, to his injury, detriment or prejudice

ART. 1434

When a person who is not the owner of a thing sells or alienates and delivers it, and later the seller or grantor acquires title thereto, such title passes by operation of law to the buyer or grantee.

ART. 1435

If a person in representation of another sells or alienates a thing, the former cannot subsequently set up his own title as against the buyer or grantee.

ART. 1436

A lessee or a bailee is estopped from asserting to the thing leased or received, as against the lessor or bailor.

ART. 1437 ⭐

When in a contract between third persons concerning immovable property,

one of them is misled by a person with respect to the ownership or real right over the real estate, the latter is precluded from asserting his legal title or interest therein, provided all these requisites are present:

1. There must be fraudulent representation or wrongful concealment of facts known to the party estopped;
2. The party precluded must intend that the other should act upon the facts as misrepresented;
3. The party misled must have been unaware of the true facts; and
4. The party defrauded must have acted in accordance with the misrepresentation.

ART. 1438

One who has allowed another to assume apparent ownership of personal property for the purpose of making any transfer of it, cannot, if he received the sum for which a pledge has been constituted, set up his own title to defeat the pledge of the property, made by the other to a pledgee who received the same in good faith and for value.

ART. 1439

Estoppel is effective only as between the parties thereto or their successors in interest.

Title V
Trusts

Chapter 1
General Provisions

ART. 1440

A person who establishes a trust is called the trustor; one in whom confidence is reposed as regards property for the benefit or another person is known as the trustee; and the person for whose benefit the trust has been created is referred to as the beneficiary.

No implied trust if it violates the law or the constitution

Heirs of Ribac v. Ribac-Putolan, G.R. 249754, October 19, 2022

A trust will not be created when, for the purpose of evading the law prohibiting one from taking or holding real property, he takes a conveyance thereof in the name of a third person.

Gaw v. Chua, G.R. No. 206404, February 14, 2022

The constitution dictates that non-Filipinos cannot acquire or hold title to private lands or to lands of public domain, except only by way of legal succession. Not even ownership in trust is allowed.

- There is no implied trust if the enforcement of the trust would be against law or public policy.

A beneficiary in an implied trust receives the beneficial ownership over the property subject of the trust. It follows that such beneficiary must be capacitated to own real property in the Philippines.

- Hence, *both* the beneficiary and the legal owner *must* be capacitated to own land for a trust to exist.

ART. 1441

Trusts are either express or implied. Express trusts are created by the intention of the trustor or of the parties. Implied trusts come into being by operation of law.

ICCS v. Labrador, G.R. 233127, July 10, 2023

A beneficiary of a trust possessing mortgaged property is not holding the same adversely to the judgment debtor who is the trustee.

The failure to annotate the express trust on the title makes it binding *only* on the parties to the deed and does not affect third parties (e.g., a mortgagee).

Moreover, the beneficiary in the trust agreement is a successor or assignee of the trustee, and is bound by the acts of the latter, absent any allegation of fraud.

ART. 1442

The principles of the general law of trusts, insofar as they are not in conflict with this Code, the Code of Commerce, the Rules of Court and special laws are hereby adopted.

Chapter 2
Express Trusts

ART. 1443

No express trusts concerning an immovable or any interest therein may be proved by parol evidence.

ART. 1444

No particular words are required for the creation of an express trust, it being sufficient that a trust is clearly intended.

ART. 1445

No trust shall fail because the trustee appointed declines the designation, unless the contrary should appear in the instrument constituting the trust.

ART. 1446

Acceptance by the beneficiary is necessary. Nevertheless, if the trust imposes no onerous condition upon the beneficiary, his acceptance shall be presumed, if there is no proof to the contrary.

Chapter 3
Implied Trusts

ART. 1447

The enumeration of the following cases of implied trust does not exclude others established by the general law of trust, but the limitation laid down in Article 1442 shall be applicable.

ART. 1448 ⭐

There is an implied trust when property is sold, and the legal estate is granted to one party but the price is paid by another for the purpose of having the beneficial interest of the property. The former is the trustee, while the latter is the beneficiary. However, if the person to whom the title conveyed is a child, legitimate or illegitimate, of the one paying the price of the sale, no trust is implied by law, it being disputably presumed that there is a gift in favor of the child.

ART. 1449

There is also an implied trust when a donation is made to a person but it appears that although the legal estate is transmitted to the donee, he nevertheless is either to have no beneficial interest or only a part thereof.

ART. 1450

If the price of a sale of property is loaned or paid by one person for the benefit of another and the conveyance is made to the lender or payor to secure the payment of the debt, a trust arises by operation of law in favor of the person to whom the money is loaned or for whom it is paid. The latter may redeem the property and compel a conveyance thereof to him.

ART. 1451 ⭐

When land passes by succession to any person and he causes the legal title to be put in the name of another, a trust is established by implication of law for the benefit of the true owner.

ART. 1452

If two or more persons agree to purchase property and by common consent the legal title is taken in the name of one of them for the benefit of all, a trust is created by force of law in favor of the others in proportion to the interest of each.

ART. 1453

When property is conveyed to a person in reliance upon his declared intention to hold it for, or transfer it to another or the grantor, there is an implied trust in favor of the person whose benefit is contemplated.

ART. 1454

If an absolute conveyance of property is made in order to secure the performance of an obligation of the grantor toward the grantee, a trust by virtue of law is established. If the fulfillment of the obligation is offered by the grantor when it becomes due, he may demand reconveyance of the property to him.

ART. 1455

When any trustee, guardian or other person holding a fiduciary relationship uses trust funds for the purchase of property and causes the conveyance to be made to him or to a third person, a trust is established by operation of law in favor of the person to whom the funds belong.

ART. 1456 ⭐

If property is acquired through mistake or fraud, the person obtaining it is, by force of law, considered a trustee of an implied trust for the benefit of the person from whom the property comes.

Implied trusts in succession

Treyes v. Larlar, G.R. 232579, September 8, 2020

In a situation where an heir misrepresents in an affidavit of self-adjudication that he is the sole heir of his wife when in fact there are other legal heirs, and thereafter manages to secure a certificate of title under his name, then a constructive trust under Art. 1456 is established.

Prescriptive period: In cases wherein fraud was alleged to have been attendant in the trustee's registration of the subject property in his/her own name, the prescriptive period is 10 years reckoned from the date of the issuance of the OCT or TCT (constructive notice).

No fraud = no implied (constructive) trust

PDAF v. Fortune, G.R. 209090, September 23, 2020

The person alleging that a constructive trust exists must prove by clear and convincing evidence that the party with a legal title acquired it through fraud.

What fraud is contemplated

PNB v. Sps. Tad-y, G.R. 214588, September 7, 2022 ♥

The fraud contemplated in Art. 1456 is either actual or constructive fraud:

1. **Actual fraud** – Intentional fraud; deception, intentionally practiced to induce another to part with property or to surrender some legal right, and which accomplishes the end designed.
2. **Constructive fraud** – A breach of legal or equitable duty, irrespective of the moral guilt of the fraud feasor, the law declares fraudulent because of its tendency to deceive others, to violate public or private confidence, or to injure public interests.
    a. This usually proceeds from a breach of duty arising out of a fiduciary or confidential relationship.

Estoppel: The agent is estopped from acquiring or assessing a title adverse to that of the principal.

- Hence, PNB, as the agent of Sps. Tad-y, cannot acquire title to the disputed properties, since it bought them on the latter's behalf and held them strictly for the purpose of foreclosure: an option which it never exercised.

Prescription of action based on implied trust

Heirs of Sumagang v. Aznar, G.R. 214315, August 14, 2019

When property is registered in another's name, an implied or constructive trust is created by law in favor of the true owner.

The prescriptive period to enforce this trust is 10 years from the time the right of action accrues. In an action for reconveyance, the right of action accrues from the time the property is registered.

Resulting trust

Serrano v. Sps. Guzman, G.R. 204887, March 3, 2021

The person alleging that a constructive trust exists must prove by clear and convincing evidence that the party with a legal title acquired it through fraud.

ART. 1457

An implied trust may be proven by oral evidence.

Lopez v. Saludo, G.R. 233775, September 15, 2021

The burden of proving the existence of a trust is on the party asserting its existence, and such proof must be clear and satisfactorily show the existence of the trust and its elements.

It may be proven by oral evidence that must be trustworthy, such as proof of actual possession, spending millions to improve the property, and transfer of tax declarations in favor of the beneficiary (circumstances that point to the fact that the beneficial ownership belongs to the party asserting the trust).

BOOK III
Different Modes of Acquiring Ownership

TITLE V
Prescription

Chapter 1
General Provisions

ART. 1106 ⭐

By prescription, one acquires ownership and other real rights through the lapse of time in the manner and under the conditions laid down by law.

In the same way, rights and actions are lost by prescription.

ART. 1107

Persons who are capable of acquiring property or rights by the other legal modes may acquire the same by means of prescription.

Minors and other incapacitated persons may acquire property or rights by prescription, either personally or through their parents, guardians or legal representatives.

ART. 1108

Prescription, both acquisitive and extinctive, runs against:
1. Minors and other incapacitated persons who have parents, guardians or other legal representatives;
2. Absentees who have administrators, either appointed by them before their disappearance, or appointed by the courts;
3. Persons living abroad, who have managers or administrators;
4. Juridical persons, except the State and its subdivisions.

Persons who are disqualified from administering their property have a right to claim damages from their legal representatives whose negligence has been the cause of prescription.

De La Cruz v. Wellex Group Inc., G.R. 247439, August 23, 2023

The right of the State to recover properties unlawfully acquired by public officers from them or from their nominees or transferees shall not be barred by prescription, laches, or estoppel.

Legal bases:
1. §20, Anti-Plunder Law
2. Const. art. XI, §15
3. Art. 1108, New Civil Code

These provisions extend to the recovery of ill-gotten wealth from the transferees of the erring public officers.

ART. 1109

Prescription does not run between husband and wife, even though there be a separation of property agreed upon in the marriage settlements or by judicial decree.

Neither does prescription run between parents and children, during the minority or insanity of the latter, and between guardian and ward during the continuance of the guardianship.

ART. 1110

Prescription, acquisitive and extinctive, runs in favor of, or against a married woman.

ART. 1111

Prescription obtained by a co-proprietor or a co-owner shall benefit the

others.

ART. 1112

Persons with capacity to alienate property may renounce prescription already obtained, but not the right to prescribe in the future.

Prescription is deemed to have been tacitly renounced when the renunciation results from acts which imply the abandonment of the right acquired.

ART. 1113 ⭐

All things which are within the commerce of men are susceptible of prescription, unless otherwise provided. Property of the State or any of its subdivisions not patrimonial in character shall not be the object of prescription.

Registered land cannot be subject of acquisitive prescription

Heirs of Yadao v. Heirs of Caletina, G.R. 230784, February 15, 2022 ♥

No title to registered land in derogation of the title of the registered owner shall be acquired by prescription or adverse possession

ART. 1114

Creditors and all other persons interested in making the prescription effective may avail themselves thereof notwithstanding the express or tacit renunciation by the debtor or proprietor.

ART. 1115

The provisions of the present Title are understood to be without prejudice to what in this Code or in special laws is established with respect to specific cases of prescription.

ART. 1116

Prescription already running before the effectivity of this Code shall be governed by laws previously in force; but if since the time this Code took effect the entire period herein required for prescription should elapse, the present Code shall be applicable, even though by the former laws a longer period might be required.

Chapter 2
Prescription of Ownership and Other Real Rights

ART. 1117 ⭐

Acquisitive prescription of dominion and other real rights may be ordinary or extraordinary.

Ordinary acquisitive prescription required possession of things in good faith and with just title for the time fixed by law.

Laches vs. prescription

Lorenzo v. Eustaquio, G.R. 209435, August 10, 2022

Laches – The failure or neglect for an unreasonable or unexplained length of time to do that which by exercising due diligence, could or should have been done earlier warranting a presumption that he has abandoned his right or declined to assert it.

Essential elements of laches:

1. Conduct of the part of defendant or one under whom he claims, giving rise to the situation complained of
2. Delay in asserting complainant's right after he had knowledge of the defendant's conduct and after he has an opportunity to sue
3. Lack of knowledge or notice on the part of the defendant that the complainant would assert the right which he bases his suit
4. Injury or prejudice to the defendant in the event relief is accorded to the complainant

Silence, delay, or neglect in asserting and enforcing one's rights for an unexplained long period of time gives rise to a presumption that there is no merit at all to one's claim.

	Laches	**Prescription**
Nature	Equitable	Statutory

Focus	Effect of delay	Fact or length of delay
Concerned with	Whether the delay has made it inequitable to enforce the right	Whether the time period to bring an action has lapsed
Time period	Depends on circumstances and equities of the case	Fixed by law
Application	Applies in equity	Applies at law
Determining factor	Change in the condition of property or relationship of the parties due to the delay	Passage of a specific statutory period
Defense based on	Inaction or inexcusable neglect in asserting a right	Expiration of a legal time period to file a claim
Legal basis	Based on equity	Grounded on statutory provisions

ART. 1118 ⭐

Possession has to be in the concept of an owner, public, peaceful and uninterrupted.

ART. 1119

Acts of possessory character executed in virtue of license or by mere tolerance of the owner shall not be available for the purposes of possession.

ART. 1120

Possession is interrupted for the purposes of prescription, naturally or civilly.

ART. 1121

Possession is naturally interrupted when through any cause it should cease for more than one year.

The old possession is not revived if a new possession should be exercised by the same adverse claimant.

ART. 1122

If the natural interruption is for only one year or less, the time elapsed shall be counted in favor of the prescription.

ART. 1123

Civil interruption is produced by judicial summons to the possessor.

ART. 1124

Judicial summons shall be deemed not to have been issued and shall not give rise to interruption:

1. If it should be void for lack of legal solemnities;
2. If the plaintiff should desist from the complaint or should allow the proceedings to lapse;
3. If the possessor should be absolved from the complaint

In all these cases, the period of the interruption shall be counted for the prescription.

ART. 1125

Any express or tacit recognition which the possessor may make of the owner's right also interrupts possession.

ART. 1126 ⭐

Against a title recorded in the Registry of Property, ordinary prescription of ownership or real rights shall not take place to the prejudice of a third person, except in virtue of another title also recorded; and the time shall begin to run from the recording of the latter.

Good faith possession, defined

ART. 1127 ⭐

The good faith of the possessor consists in the reasonable belief that the person from whom he received the thing was the owner thereof, and could transmit his ownership.

ART. 1128

The conditions of good faith required for possession in Articles 526, 527, 528, and 529 of this Code are likewise necessary for the determination of good faith in the prescription of ownership and other real rights.

Just title, defined

ART. 1129

For the purposes of prescription, there is just title when the adverse claimant came into possession of the property through one of the modes recognized by law for the acquisition of ownership or other real rights, but the grantor was not the owner or could not transmit any right.

ART. 1130

The title for prescription must be true and valid.

Just title not presumed

ART. 1131

For the purposes of prescription, just title must be proved; it is never presumed.

Prescriptive periods for acquisitive prescription (personal property)

ART. 1132 ⭐

The ownership of movables prescribes through uninterrupted possession for four years in good faith.

The ownership of personal property also prescribes through uninterrupted possession for eight years, without need of any other condition.

With regard to the right of the owner to recover personal property lost or of which he has been illegally deprived, as well as with respect to movables acquired in a public sale, fair, or market, or from a merchant's store the provisions of Articles 559 and 1505 of this Code shall be observed.

Proceeds of a crime–no acquisitive prescription

ART. 1133

Movables possessed through a crime can never be acquired through prescription by the offender.

Prescriptive period for acquisitive prescription (realty; ordinary)

ART. 1134 ⭐

Ownership and other real rights over immovable property are acquired by ordinary prescription through possession of ten years.

ART. 1135

In case the adverse claimant possesses by mistake an area greater, or less, than that expressed in his title, prescription shall be based on the possession.

ART. 1136

Possession in wartime, when the civil courts are not open, shall not be counted in favor of the adverse claimant.

Prescriptive period for acquisitive prescription (realty; extraordinary)

ART. 1137

Ownership and other real rights over immovables also prescribe through uninterrupted adverse possession thereof for thirty years, without need of title or of good faith.

ART. 1138

In the computation of time necessary for prescription the following rules shall be observed:

1. The present possessor may complete the period necessary for prescription by tacking his possession to that of his grantor or predecessor in interest;

2. It is presumed that the present possessor who was also the possessor at a previous time, has continued to be in possession during the intervening time, unless there is proof to the contrary;
3. The first day shall be excluded and the last day included.

Chapter 3
Prescription of Actions

ART. 1139

Actions prescribe by the mere lapse of time fixed by law.

Heirs of Yadao (*supra* art. 1113)

Extinctive prescription – Rights and actions are lost by the lapse of time.

While the registered owner keeps their substantive right over the lot, they are nonetheless prevented by law from invoking the legal remedies otherwise available to them.

Exceptions: Extinctive prescription does not lie against the heirs of the registered owner in two instances (in these two cases, their action is imprescriptible):
1. The heirs are in actual possession of the lot
2. If the conveyance to the party in possession of the lot is unlawful, void or nonexistent (reconveyance based on a void contract, *see Gatmaytan v. MLI*)

ART. 1140

Actions to recover movables shall prescribe eight years from the time the possession thereof is lost, unless the possessor has acquired the ownership by prescription for a less period, according to Articles 1132, and without prejudice to the provisions of Articles 559, 1505, and 1133.

ART. 1141 ⭐

Real actions over immovables prescribe after thirty years.

This provision is without prejudice to what is established for the acquisition of ownership and other real rights by prescription.

ART. 1142

A mortgage action prescribes after ten years.

Imprescriptible actions

ART. 1143

The following rights, among other specified elsewhere in this Code, are not extinguished by prescription:
1. To demand a right of way, regulated in Article 649;
2. To bring an action to abate a public or private nuisance.

ART. 1144 ⭐

The following actions must be brought within ten years from the time the right of action accrues:
1. Upon a written contract;
2. Upon an obligation created by law;
3. Upon a judgment.

ART. 1145 ⭐

The following actions must be commenced within six years:
1. Upon an oral contract;
2. Upon a quasi-contract.

ART. 1146 ⭐

The following actions must be instituted within four years:
1. Upon an injury to the rights of the plaintiff;
2. Upon a quasi-delict.

However, when the action arises from or out of any act, activity, or conduct of any public officer involving the exercise of powers or authority arising from Martial Law including the arrest, detention and/or trial of the plaintiff, the same must be brought within one (1) year.

ART. 1147 ⭐

The following actions must be filed within one year:
1. For forcible entry and detainer;
2. For defamation.

ART. 1148

The limitations of action mentioned in Articles 1140 to 1142, and 1144 to 1147 are without prejudice to those specified in other parts of this Code, in the Code of Commerce, and in special laws.

Catch-all period

ART. 1149

All other actions whose periods are not fixed in this Code or in other laws must be brought within five years from the time the right of action accrues.

ART. 1150

The time for prescription for all kinds of actions, when there is no special provision which ordains otherwise, shall be counted from the day they may be brought.

ART. 1151

The time for the prescription of actions which have for their object the enforcement of obligations to pay principal with interest or annuity runs from the last payment of the annuity or of the interest.

ART. 1152

The period for prescription of actions to demand the fulfillment of obligation declared by a judgment commences from the time the judgment became final.

ART. 1153

The period for prescription of actions to demand accounting runs from the day the persons who should render the same cease in their functions.

The period for the action arising from the result of the accounting runs from the date when said result was recognized by agreement of the interested parties.

ART. 1154

The period during which the obligee was prevented by a fortuitous event from enforcing his right is not reckoned against him.

When prescription is interrupted

ART. 1155 ⭐

The prescription of actions is interrupted when they are filed before the court, when there is a written extrajudicial demand by the creditors, and when there is any written acknowledgment of the debt by the debtor.

Sps. Bautista v. Premiere Development Bank, G.R. 201881, July 15, 2024 ♥

Three modes through which prescription of an action may be interrupted:
1. **When the action is filed before the court**
    a. An extrajudicial foreclosure sale is not a judicial action, as it is filled with the sheriff.
2. **When there is a written extrajudicial demand** by the creditors
3. **When there is any written acknowledgment of the debt** by the debtor
    a. An admission in a pleading that the debtor defaulted is not a written acknowledgement of debt.
    b. For an acknowledgment of a debt to interrupt prescription under Art. 1155 it must be accompanied by or coupled with the purpose and intention of the debtor–acknowledges to interrupt the prescription then running
    c. A written acknowledgment of a debt is insufficient under Art. 1155 if the debtor admits having received a statement of account of the indebtedness but declines to recognize the correctness of the account for being exorbitant.

Prescriptive period	Article
None	1. 1143 – (1) To demand a right of way; (3) Abate a nuisance 2. 1410 – **Void contracts**

30 years	1. 1137 – Extraordinary acquisitive prescription of real properties 2. 1141 – Real actions over immovables
10 years	1. 1134 – Ordinary acquisitive prescription of real properties 2. 1142 – Mortgage action 3. 1144 – **(1) Written contract; (2) Obligation under the law**; (3) Obligation from a judgment
8 years	1140 – Action to recover movables
6 years	1145 – (1) Oral contracts; **(2) Quasi-contracts**
5 years	1149 – All other actions not specified in the Code
4 years	1. 1146 – (1) Upon an injury to the plaintiff's rights; **(2) Quasi-delict** 2. 1389 – **Rescissible contracts** 3. 1391 – **Voidable contracts**
1 year	1. 1146 – Injury due to martial law 2. 1147 – (1) Forcible entry and detainer; (2) Defamation

End of course.