THIRD DIVISION

[G.R. No. 265567. July 07, 2025]

PHILIPPINE FISHERIES DEVELOPMENT AUTHORITY, PETITIONER, VS. MARIO DANIEL EDUARDO G. PASCUAL,* RESPONDENT.

D E C I S I O N

INTING, J.:

Before the Court is a Petition for Review on *Certiorari*[1] (Petition) under Rule 45 of the Rules of Court assailing the Decision[2] dated April 25, 2022, and the Resolution[3] dated January 26, 2023, of the Court of Appeals (CA) in CA-G.R. CV No. 114917. The CA reversed the Decision[4] dated September 6, 2019, and the Order[5] dated December 18, 2019, of Branch 87, Regional Trial Court (RTC), Quezon City in Civil Case No. R-QZN-17-09352-CV.

The Antecedents

Petitioner Philippine Fisheries Development Authority (PFDA) is a government-owned and controlled corporation created under Presidential Decree No. 977,[6] Series of 1976, as amended by Executive Order No. 772,[7] Series of 1982. Its primary responsibility is to promote the development of the fishing industry through the establishment, maintenance, and operations of fish markets and fish ports nationwide.[8] As part of its functions, PFDA leases market stalls at the Navotas Fish Port Complex (NFPC).[9]

On June 19, 1997, PFDA, as lessor, and Gelluci Trading through its sole proprietor[10] Lucila S. Bautista (Bautista), as lessee, entered into a Contract of Lease,[11] wherein Bautista undertook to construct additional market stalls at her own expense on a parcel of land at the NFPC with a total area of 168 square meters. The agreement states that the lessee, Bautista, shall pay to PFDA a basic lease rental on the land at the rate of PHP 20.00 per square meter per month, at an escalation rate of 10% per annum starting on the fifth year of the lease, subject to the clause that the payment of said rentals shall commence only after the market stalls have been completed and are fully operational. The Contract of Lease further provides that no rental payment shall be collected for the use of the market stalls until the lessee, Bautista, has fully recovered the cost of the

construction of the said market stalls.[12]

On September 6, 2010, Bautista, as assignor, and respondent Mario Daniel Eduardo G. Pascual (Pascual), as assignee, executed the Deed of Assignment,[13] wherein Bautista assigned to Pascual her leasehold rights in the Contract of Lease, inclusive of two market stalls at the Market Hall No. 5 Extension of the NFPC (subject market stalls). The Deed of Assignment states that Pascual accepted the assignment of rights and agreed to perform and discharge all the responsibilities and obligations of Bautista under the Contract of Lease, effective as of the signing of the Deed. It further provides that upon PFDA's approval of the Deed of Assignment, the assignor, Bautista, shall be subrogated by the assignee, Pascual, in the Contract of Lease and shall be absolved of any obligation whatsoever under the said contract.[14] The Deed of Assignment was approved by PFDA[15] and bears the signature of its General Manager.[16]

Thereafter, Pascual started using the subject market stalls for his fish trading business.[17] He paid the monthly rentals that accrued after the execution of the Deed of Assignment.[18]

On June 10, 2013,[19] January 2, 2014,[20] and June 19, 2014,[21] PFDA sent demand letters to Pascual for the payment of the due and unpaid rentals that accrued under the Contract of Lease prior to the execution of the Deed of Assignment.

Despite demand, Pascual did not pay the rental arrears. Thus, on July 22, 2016, PFDA wrote to Pascual a Notice of Termination with Final Demand to Pay[22] the rent-in-arrears, which amounted to PHP 4,600,586.39 at that time.

In response, on August 17, 2017, Pascual filed against PFDA a Complaint for Injunction and Specific Performance with Prayer for Issuance of Writ of Preliminary Injunction (Complaint).[23] Pascual asserted that he cannot be held liable for Bautista's rental arrears because the Deed of Assignment was effective beginning September 6, 2010 *only*. He posited that Bautista remained liable for the rentals that accrued *prior* to the date of the effectivity of the Deed of Assignment.[24]

In defense, PFDA insisted that by virtue of the Deed of Assignment, Pascual assumed all the obligations of Bautista under the Contract of Lease, including the rental arrears in issue.[25]

Ruling of the RTC

In its Decision,[26] the RTC dismissed the Complaint, viz.:

> WHEREFORE, premises considered, the instant complaint is ordered DISMISSED.

> Plaintiff [Pascual] is directed to comply with his obligations under the Deed of Assignment dated September 6, 2010 by paying PFDA the amount of [PHP] 5,786,094.35 as of August 31, 2017 plus legal interest at the rate of 6% to be computed from the filing of the from [sic] July 22, 2016 until fully paid. Plaintiff is likewise directed to pay defendant [PFDA] attorney's fees and costs of suit amounting to [PHP] 300,000.00.
>
> SO ORDERED.[27]

The RTC held that based on the terms of the Deed of Assignment, the assignor, Bautista, transferred to Pascual all her existing rights and obligations under the Contract of Lease as of September 6, 2010. It ratiocinated that by virtue of the Deed of Assignment, Bautista was absolved of her obligations under the Contract of Lease because they were assumed by Pascual. It noted that there was no limitation on the rights or obligations transferred to Pascual, therefore making him liable for the rental arrears that Bautista incurred under the Contract of Lease.[28]

The RTC also awarded attorney's fees to PFDA to compensate the latter for the expenses that it incurred in defending its interests.[29]

Pascual filed a Motion for Reconsideration[30] of the RTC Decision,[31] but the RTC denied it in its Order[32] dated December 18, 2019.

Aggrieved, Pascual appealed the RTC rulings to the CA.

The Ruling of the CA

In the now assailed Decision,[33] the CA reversed the RTC rulings, viz.:

> **WHEREFORE**, the appeal is **GRANTED**. The *Decision* dated 06 September 2019 and the *Order* dated 18 December 2019 of the Regional Trial Court (RTC), Branch 87, Quezon City, in Civil Case No. R-QZN-17-09352-CV, are **REVERSED** and **SET ASIDE** and a new one is hereby entered, enjoining defendant-appellee [PFDA] from demanding from plaintiff-appellant [Pascual] to pay the rentals in arrears incurred by Gelluci Trading and/or its sole proprietor Lucila S. Bautista; and deleting the award of attorney's fees.
>
> SO ORDERED.[34] (Emphasis in the original)

The CA ruled that the Deed of Assignment cannot novate the terms of the Contract of Lease unless (1) it declares in unequivocal terms that it was supplanting the old agreement; or (2) the terms of the two contracts are incompatible on every point.[35] It concluded that the foregoing requisite for novation was not met upon the following findings:

First, under the Deed of Assignment, the assignor, Bautista, was subrogated by the assignee, Pascual, to the Contract of Lease. As held in *Ledonio v. Capitol Development Corporation*,[36] the term "subrogated" refers to the transfer of all the rights, not the obligations, of the creditor to another person.[37]

Second, the "Whereas Clause" of the Deed of Assignment only mentioned the assignment of Bautista's title, rights, and interests in the subject market stalls, without mentioning any obligations or rental arrears.[38]

Third, based on the contemporaneous acts of the parties, the Deed of Assignment did not include the arrearages incurred by Bautista, given that PFDA did not immediately demand payment of the rental arrears from Pascual. Further, Pascual did not tender any payment for the arrearages and was only paying the rents due from him for the subject market stalls after the Deed of Assignment was executed.[39]

PFDA filed a Motion for Reconsideration[40] of the CA Decision. Aside from reiterating its arguments on the merits of the case, PFDA informed the CA that while the case was still pending with the CA and before it promulgated its Decision on April 25, 2022, the parties reached a settlement agreement regarding the rental arrears in issue. Particularly, on November 19, 2021, the parties executed the Restructuring Agreement,[41] wherein Pascual expressly recognized his indebtedness to PFDA in the total amount of PHP 7,804,835.27, representing his outstanding accounts in arrears. The parties agreed to restructure the amortization payments of the rental arrears at the rate of PHP 52,000.00 per month for a period of 10 years, or from May 2021 to April 2031. PFDA thus manifested[42] that the Complaint should be dismissed on the ground of mootness.[43]

In the now assailed Resolution[44] dated January 26, 2023, the CA denied the Motion for Reconsideration upon the finding that it was a mere rehash of the arguments previously raised by PFDA.

Thus, the present Petition.[45]

Petitioner's Arguments

PFDA seeks the reversal of the CA rulings upon the following arguments:

First, by entering into the Deed of Assignment, Pascual assumed all the rights and obligations of Bautista arising from the Contract of Lease, including the rent-in-arrears. The CA incorrectly defined the term "subrogation," which is broadly understood as the assumption of rights and obligations. Meanwhile, the phrase in the Deed of Assignment, i.e., "effective as of the signing of this deed of assignment," refers only to the date of the effectivity of the agreement and does not pertain to the rights and obligations that Pascual assumed from Bautista. Pascual himself admitted during trial that he knew of the rent-in-arrears incurred by Bautista; hence, he cannot deny liability

therefor.[46]

Second, any delay on the part of PFDA in charging Bautista's rent-in-arrears against Pascual cannot be construed as an indication that the Deed of Assignment did not include the arrearages. The supposed delay in the collection of the rent-in-arrears is immaterial because it was made within the prescriptive period.[47]

Third, the Complaint had been rendered moot because while the appeal with the CA was pending, the parties reached a settlement agreement concerning the arrearages.[48] Pascual was not under duress or any undue pressure when he signed the Restructuring Agreement.[49] Thus, by voluntarily executing the Restructuring Agreement, Pascual recognized his liability for Bautista's rent-in-arrears.[50]

Respondent's Arguments

In his Comment,[51] Pascual prays for the denial of the Petition upon the following arguments:

First, the Deed of Assignment did not include the transfer of Bautista's liability for the rent-in-arrears because it expressly states that the rights and interests that Pascual assumed are those "effective as of the signing" of the contract. There was no novation of the Contract of Lease because there is no express provision in the Deed of Assignment wherein Pascual unequivocally assumed the obligation to pay the arrearages.[52]

Second, based on the contemporaneous acts of the parties, the Deed of Assignment did not include the transfer of Bautista's liability for the rent-in-arrears. For one, PFDA delayed the collection of the arrearages for four years from the execution of the Deed of Assignment. For another, before he received the demand letters from PFDA, Pascual did not tender any payment for the arrearages and was instead paying only the rent due after the execution of the Deed of Assignment.[53]

Third, the execution of the Restructuring Agreement cannot be taken as an admission of liability on the part of Pascual as he signed it only because he was under duress and pressure to maintain his standing as the assignee of the leasehold rights under the Contract of Lease. When the Restructuring Agreement was executed, the parties agreed in principle that it will be maintained if the RTC rulings are sustained but in case of the reversal thereof, the payments made under the Agreement shall be credited in Pascual's favor as future rental payments.[54]

The Issues

The issue before the Court is whether the CA erred in holding that Pascual is not liable for the rentals that accrued under the Contract of Lease prior to the execution of the

Deed of Assignment.

The Ruling of the Court

The Petition is granted. Pascual is liable for the rental arrears that Bautista incurred under the Contract of Lease.

Discussion

Preliminarily, the Court clarifies the effect of the parties' execution of the Restructuring Agreement on the present case.

"A compromise is a contract whereby the parties, by making reciprocal concessions, avoid a litigation or *put an end to one already commenced*."[55] By entering into a compromise agreement, the parties manifest their desire to abbreviate the legal battle and to settle the case amicably to both their satisfaction.[56] Thus, in general, a valid compromise agreement may *terminate* the controversy between the parties and render a pending case moot.[57] However, being a contract, the parties may opt to put in their settlement agreement a clause or condition that would prevent a pending case from becoming moot, as when they agreed that the compromise is *without prejudice* to the final disposition of the case.[58]

In the case at bench, the parties admit having executed the Restructuring Agreement in which Pascual agreed to pay the rental arrears in issue. However, Pascual avers that the parties agreed in principle that the execution of the Restructuring Agreement is essentially without prejudice to the final disposition of the present case, i.e., in the event that he is *not* found liable for the rent-in-arrears, then the payments that he made pursuant to the Restructuring Agreement shall be credited in his favor as future rental payments.

Given the situation, the Court finds that the execution of the Restructuring Agreement did *not* terminate the controversy between the parties as to render the present case moot. The Court must therefore rule on the merits of the case.

The crux of the present controversy revolves around the correct interpretation of the Deed of Assignment, which pertinently states:

WITNESSETH:

> WHEREAS, the ASSIGNOR [Bautista] had obtained from the Philippine Fisheries Development Authority-Navotas Fishport Complex a Contract of Lease over three (3) market stalls situated at Market Hall No. 5 Extension, Navotas Fishport Complex, Navotas, Metro-Manila.
>
> WHEREAS, the ASSIGNOR desires to assign, cede and transfer unto the ASSIGNEE [Pascual] her title, rights and interests [in] the market stall

particularly described as two (2) market stalls situated at the Market Hall No. 5 Extension NFPC and immediately adjacent to assignee's market stall at the same location, subject to the terms and conditions set forth in the written Contract of Lease, which is hereto attached and made integral part hereof as Annex "A".

NOW, THEREFORE, for and in consideration of the foregoing premises and of the mutual stipulations hereunder stated, the parties have agreed as follows:

1. The ASSIGNOR hereby assigns her leasehold rights and obligations mentioned and specified in the Contract of Lease (Annex "A" hereof) on the said two (2) market stalls unto the ASSIGNEE, who hereby accepts the assignment of leasehold rights from the ASSIGNOR and to perform and discharge all the responsibilities and obligations of the ASSIGNOR effective as of the signing of this deed of assignment.

2. The ASSIGNOR upon approval by the Philippine Fisheries Development Authority of this Deed of Assignment, shall be subrogated by the ASSIGNEE in the Contract of Lease and shall be absolved of any obligation whatsoever under the said contract.

3. This Deed of Assignment shall be subject to the approval of and conformity of the Philippine Fisheries Development Authority.

In WITNESS WHEREOF, the parties have hereunto affixed their signatures on this [06 September 2010] at the Quezon City, Metro Manila.[59]

The Court finds that based on the terms of the Deed of Assignment, Pascual is *liable* for the rental arrears in issue.

First, the Court has held that when an assignor assigns his or her credit to another person, the latter is deemed subrogated to the rights *as well as to the obligations* of the former and is bound by exactly the same conditions as those which bound the assignor.[60] Further, the assignee merely steps into the shoes of the assignor; thus, the existing burdens or liens on the thing assigned are not terminated.[61]

In the present case, the Deed of Assignment states that Pascual agreed to "perform and discharge *all* the responsibilities and *obligations*" of Bautista, who shall be "absolved of *any obligation whatsoever*" under the Contract of Lease. When Bautista assigned all of her interests in the Contract of Lease to Pascual, the latter was deemed subrogated not only to the rights but also to the obligations of Bautista under the lease, including the rental arrears in question.

Contrary to Pascual's assertions, a plain reading of the Deed of Assignment readily reveals that there is no limitation or qualification to the rights or obligations that Bautista transferred to Pascual pursuant to their agreement. Verily, Pascual's assumption

of "*all* the responsibilities and obligations" of Bautista under the Contract of Lease is couched in *general* terms. Had it been the intention of the parties to *exclude* the arrearages in question, then the Deed of Assignment would have specified the same, yet it does not.[62]

Second, Pascual is liable for the rental arrears because he substituted Bautista as the *debtor-lessee* in the Contract of Lease.

Article 1649[63] of the Civil Code states that the "lessee cannot assign the lease without the consent of the lessor, unless there is a stipulation to the contrary." The law generally requires the consent of the lessor because in an assignment of a lease, there is a *novation* by the *substitution* of the person of one of the parties—the lessee.[64] The provision must be read together with Article 1293[65] of the same law, which states that novation through the *substitution* of a new *debtor* in place of the original debtor cannot be made without the consent of the creditor.

Under Article 1293 of the Civil Code, the substitution of the debtor may occur through *delegacion*, in which "the debtor offers, and the creditor accepts, a third person who consents to the substitution *and assumes the obligation*."[66] For such novation to take place, "it is necessary that the old debtor be *released* from the obligation, and the third person or new debtor take his [or her] place in the relation."[67] If novation through the substitution of debtor is validly made, the old debtor is absolved from its contractual obligations, which are then assumed by the new debtor, who is deemed to have taken the place of the old debtor in the contractual relation.[68]

Contrary to Pascual's argument, the foregoing requisites of novation through the substitution of the debtor, Bautista, as the lessee in the Contract of Lease, were met in the present case. *For one*, it is undisputed that PFDA, as the creditor-lessor, consented to the Deed of Assignment. *For another*, paragraph 2 of the Deed of Assignment expressly states that upon PFDA's approval of the assignment, Bautista shall be subrogated by Pascual in the Contract of Lease and shall be *absolved* or *released* from any obligation whatsoever under the said Contract.

It should be emphasized that in novation through the substitution of debtor, the consent of the creditor is necessary because the latter would effectively waive its right to enforce the obligation against the old debtor.[69] Surely, PFDA would not have consented to the Deed of Assignment and agreed to release Bautista from any and all obligations under the Contract of Lease if such obligations, including the rent-in-arrears, were not assumed by Pascual. Having agreed to take the place of Bautista in the Contract of Lease, Pascual cannot now deny his liability for the rental fees that accrued when Bautista was still the lessee of PFDA and before the effectivity date of the Deed of Assignment.

Notably, in defining the term "subrogated" appearing in paragraph 2 of the Deed of Assignment, the CA cited *Ledonio v. Capitol Development Corporation*[70] and held

that it pertains to the transfer of "*credit* with all the rights thereto appertaining," which does *not* include the transfer of "obligations." However, *Ledonio* finds no application to the present case.

Ledonio involved the assignment of a creditor's right to collect a debt under a loan agreement. The transaction in *Ledonio* therefore pertained to novation through the substitution of the person of the creditor, *not the debtor*, in accordance with Articles 1300 and 1303 of the Civil Code, to wit:

> ARTICLE 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. (Emphasis supplied)
>
> ARTICLE 1303. Subrogation transfers to the person subrogated the credit with all the rights thereto appertaining, either against the debtor or against third persons, be they guarantors or possessors of mortgages, *subject to stipulation in a conventional subrogation*. (Emphasis supplied)

The Court has explained that Article 1303 of the Civil Code provides for the legal effects of the substitution of the person of the *creditor*, not the debtor, in a contract.[71] It recognizes "an extinctive subjective novation by *a change of creditor*, which 'transfers to the person subrogated, the credit and all the rights thereto appertaining, either against the debtor or against third persons.'"[72]

In contrast to *Ledonio*, the present controversy pertains to Bautista's *obligation to pay* the price of the lease in accordance with Article 1657(1)[73] of the Civil Code and the Contract of Lease. Thus, insofar as the rental arrears are concerned, Pascual substituted Bautista in the Contract of Lease in her capacity as a *debtor-lessee*, not as a creditor. It is therefore incorrect to invoke *Ledonio* and Article 1303 of the Civil Code to define the term "subrogated" in paragraph 2 of the Deed of Assignment as it relates to the rental arrears in question, given that they refer to the substitution of the person of the creditor, not the debtor.

In denying liability for the arrearages in issue, Pascual also invokes the "Whereas Clause" of the Deed of Assignment, which states that Bautista desired to transfer to Pascual "her title, rights and interests" in the subject market stalls, without mentioning the assignment of "obligations" under the Contract of Lease. However, the Court has held that a "whereas clause" is a mere recital or a preliminary statement that does *not* create binding rights and obligations between the contracting parties. Neither may it supersede the express terms of the contract, viz.:

> A "whereas clause," which is more properly referred to as a recital or perambulatory clause, has been defined as *"[a] preliminary statement in a contract or deed explaining the reasons for entering into it or the background of the transaction, or showing the existence of particular facts [. . .] Traditionally, each recital begins with the word whereas*." The recitals

> in a contract or other written instrument are mere introductory and preparatory statements and are **not an essential part of the operating portions of the contract**. They may be used as a guide in interpreting ambiguous portions of the operative **part, but cannot supersede the latter**.
>
> While it is true that the recitals of a contract or other legally binding instrument **do not create binding rights and obligations**, courts have nevertheless referred to them in order to determine the cause, consideration, or *raison d'etre* therefor[.][74] (Emphasis in the original; additional emphasis supplied)

Hence, the fact that the "Whereas Clause" does not mention the transfer of Bautista's "obligations" under the Contract of Lease is of no moment because the matter was expressly included in the terms of the Deed of Assignment. Specifically, paragraph 1 of the Deed states that Bautista, as assignor, assigned her "leasehold rights *and obligations*" under the Contract of Lease. It also includes an undertaking on the part of Pascual to "perform and discharge all the responsibilities *and obligations*" of Bautista under the Contract of Lease. Paragraph 2 further provides that after the Deed of Assignment is approved by PFDA, Bautista shall be absolved of "any *obligation*" under the Contract of Lease. Paragraphs 1 and 2 of the Deed of Assignment prevail over the "Whereas Clause," as the latter cannot supplant the express terms of the parties' agreement.

In addition, Pascual makes much of the statement in paragraph 1 of the Deed of Assignment, i.e., "effective as of the signing of this deed of assignment," which he interpreted to mean that he agreed to assume only those obligations under the Contract of Lease effective as of the signing of the Deed of Assignment. The argument lacks merit.

The Court agrees with the RTC that the foregoing phrase in paragraph 1 of the Deed of Assignment pertains only to the date when the assignment became effective. Also, the phrase refers to "all the responsibilities and obligations" of Bautista under the Contract of Lease effective as of the signing of the Deed of Assignment. "Effective" simply means "in effect; operative; active."[75] In the context of the Deed of Assignment, it obviously refers to *outstanding* obligations, which are defined as "*effective* obligations;"[76] "pending obligations;"[77] or "uncollected" or "unsettled debts."[78] The phrase should therefore be taken as referring to the assignment of the *outstanding* obligations of Bautista under the Contract of Lease as of the signing date of the Deed of Assignment, i.e., September 6, 2010, which necessarily includes the rental arrears in issue.

Paragraph 1 must likewise be read together with paragraph 2 of the Deed of Assignment, which released Bautista from *any* obligation under the Contract of Lease upon PFDA's approval of the Deed of Assignment. Again, there is no qualification or limitation as to the kinds of obligation that Pascual agreed to perform in substitution of Bautista under the Contract of Lease. Had this been the intention of the parties, then the Deed of Assignment would have specified the same, yet it does not.

Besides, Pascual's argument makes no logical sense. It should be stressed that the Deed of Assignment took effect on September 6, 2010, the date when it was signed by all the concerned parties, i.e., Bautista as assignor, Pascual as assignee, and PFDA as creditor-lessor.[79] In accordance with paragraph 2 of the Deed of Assignment, Bautista was absolved of any obligation under the Contract of Lease as of the Deed's signing date. Pascual's interpretation of the contract would therefore render paragraph 1 ineffectual, as Bautista no longer had any obligation to assign to Pascual after the signing of the Deed. Such interpretation should be avoided as it would run contrary to the elementary principle that an agreement must be interpreted in a manner that grants full effect to all of its terms.[80]

Third, it is apparent from the terms of the Deed of Assignment that one of the *considerations* for the contract is Pascual's assumption of all of Bautista's liabilities or obligations under the Contract of Lease, including the rental arrears.

Consideration, as an element of a contract under Article 1318[81] of the Civil Code, is *"the why of the contracts" or "the essential reason which moves the contracting parties to enter into the contract."*[82] Consideration need not be in the form of money but may be anything of value; it may consist of either a benefit to the promisee or a detriment to the promisor.[83] Hence, in a contract involving the transfer of assets, the consideration may consist of the transferee's assumption of the transferor's liabilities appurtenant to the assets that were transferred.[84]

Here, the object or subject matter of the Deed of Assignment was Bautista's leasehold rights under the Contract of Lease. However, the Deed of Assignment does *not* provide any monetary consideration for the object of the contract. It only states that after the execution of the Deed of Assignment, the assignee, Bautista, "*shall be absolved of any obligation whatsoever*" under the Contract of Lease.

It is obvious from the terms of the Deed of Assignment that Pascual's assumption of Bautista's liabilities under the Contract of Lease, including the rent-in-arrears, is a consideration for the agreement. This is further confirmed by Pascual's statement during trial that prior to the execution of the Deed of Assignment, he knew that Bautista incurred arrearages under the Contract of Lease.[85] Indeed, it would be incredible for Bautista to simply transfer to Pascual all of her interests under the Contract of Lease and the subject market stalls without receiving anything of value in exchange therefor.

Finally, the Restructuring Agreement amounts to an admission of liability for the rental arrears on the part of Pascual.

Rule 130, Section 28[86] of the 2019 Revised Rules on Evidence provides the general rule in civil cases that an offer of compromise or a settlement agreement is *not* an admission of any liability on the part of the contracting parties.[87] By way of exception, a compromise is *admissible* to prove an indebtedness if in the course of

settlement, the party making the offer *admits* the existence of the debt combined with a proposal to settle the claim amicably.[88]

In the present case, the Restructuring Agreement contains an *express admission* of liability on the part of Pascual for the rental arrears in issue, to wit:

> ***WHEREAS**, the **LESSEE** [Pascual] owes the **LESSOR** [PFDA] at **Navotas Fish Port Complex** the sum of **[PHP] 7,804,835.27** as of December 04, 2020, representing its outstanding accounts in arrears.*
>
> **WHEREAS**, the **LESSEE** in order to settle the above-stated accounts offered to the **LESSOR** a proposal for deferred payment by means of issuance of post dated checks the particulars of which are detailed as follows:
>
> . . . .
>
> **WHEREAS**, the **LESSOR** is agreeable to the said proposal for deferred payment offered by the **LESSEE**;[89] (Emphasis in the original; additional emphasis supplied)

Importantly, Pascual himself recognizes that the Restructuring Agreement covered the rental arrears subject of the present controversy. However, he avers that he signed it only because he was under duress and pressure to maintain his status as a lessee of PFDA. Further, the Restructuring Agreement is allegedly subject to certain conditions in the event of affirmation or reversal of the RTC Decision.[90]

Pascual's assertions lack basis in law and in the records.

The legal presumption[91] is that private transactions have been fair and regular and that the ordinary course of business has been followed.[92] Thus, mere allegations of duress, fraud, or mistake as vices of consent are not enough; instead, the party alleging that its consent was vitiated bears the burden to prove the same with clear and convincing evidence.[93]

PFDA correctly points out that Pascual's averments of duress, pressure, or undue influence in the execution of the Restructuring Agreement consist of nothing more than bare allegations that are unsupported by adequate proof. Contrary to his assertion, the records actually show that Pascual *voluntarily* entered into the Restructuring Agreement as he was even the one who proposed to settle the rental arrears with PFDA, to wit:

> Dear Sir's,
>
> I received the copy of the billing of ***M34-096-B*** Market 5 Extension amounting to [PHP] 7,804,835.27. I was informed by my Legal Counsel that they already forwarded a settlement offer to PFDA, but up to this

moment, we were not informed of PFDA's response [to] our proposal.

For my part[,] I am willing to proceed with the settlement with a 20% down payment ([PHP] 1,560,967.00). The account and the balance [PHP] 6,243,868.00 payable in 10 years at [PHP] 52,032/month.

I am hoping that you can consider my proposal.

Respectfully yours,
(signed)
Mario Daniel Eduardo DG. Pascual[94]

The Court also notes that Pascual has been in the fishing business since 1990 and is a doctor of medicine, although he stopped his medical practice in 2006.[95] Given Pascual's high level of education and extensive business experience, the Court finds it difficult to believe that he was merely pressured to sign the Restructuring Agreement.[96] He may have been reluctant to settle his liabilities with PFDA, but that is not tantamount to a vitiation of his consent to the compromise.[97]

Pascual's assertion on the parties' agreement "in principle" to credit the payments made under the Restructuring Agreement as advance rentals if the RTC Decision is reversed is equally bereft of merit. There is nothing in the Restructuring Agreement which provides for the purported "agreement in principle" between the parties. It should be emphasized that the Restructuring Agreement was reduced in writing; hence, in accordance with the Parol Evidence Rule,[98] Pascual is *not* allowed to incorporate into the Agreement any additional conditions that are not mentioned at all in the written instrument.[99] Whatever is not found in the written Restructuring Agreement is understood to have been waived or abandoned by the parties.[100]

Anent Pascual's argument that the Deed of Assignment should be interpreted based on the contemporaneous acts of the parties, suffice it to state that in accordance with Article 1370[101] of the Civil Code, "if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulation shall control." There is no need for the Court to resort to extrinsic aids for the interpretation of a contract because the intention of the parties is already determinable from the terms of the Deed of Assignment.[102]

All told, pursuant to the Deed of Assignment, Pascual substituted Bautista as lessee under the Contract of Lease and expressly agreed to assume all of Bautista's rights and obligations under the lease. As such, Pascual is liable for the rental arrears or those due but unpaid rental fees that accrued when Bautista was still the lessee during the period prior to the execution of the Deed of Assignment.

Given that the payment schedule of the foregoing rental arrears have been agreed upon by the parties in the Restructuring Agreement, the Court finds it proper to reverse and

set aside the CA rulings and reinstate the RTC Decision with modification, in that Pascual is instead directed to comply with his obligation to pay the rental arrears in accordance with the Restructuring Agreement.

The RTC's award of attorney's fees is retained. Article 2208[103] of the Civil Code allows a party to recover reasonable attorney's fees if there is a contractual stipulation on the matter. In this regard, Section 17[104] of the Contract of Lease provides that if either party resorts to judicial proceedings to enforce any of its rights under the said agreement, the party at fault will pay the other reasonable compensation for its expenses and other charges including *attorney's fees*, in addition to litigation expenses and the costs of suit. It cannot be denied that PFDA incurred expenses in litigating the present case, notwithstanding the execution of the Restructuring Agreement.[105]

Nonetheless, under the circumstances, the Courts finds that the award of attorney's fees should be reduced to PHP 100,000.00.[106] In ascertaining the reasonable amount of attorney's fees, the Court may consider the legal extent of the work undertaken, the length of time that elapsed to prosecute the case, and any unjustified refusal on the part of the losing party to pay a clearly demandable claim.[107] Here, while PFDA was forced to litigate to protect its interests, the Court notes that Pascual eventually offered to voluntarily settle the debt while the case was still pending before the CA, which warrants a reduction on the award of attorney's fees to PFDA.

ACCORDINGLY, the Petition for Review on *Certiorari* is **GRANTED**. The Decision dated April 25, 2022, and the Resolution dated January 26, 2023, of the Court of Appeals in CA-G.R. CV No. 114917 are **REVERSED** and **SET ASIDE**. The Decision dated September 6, 2019, and the Order dated December 18, 2019 of Branch 87, Regional Trial Court, Quezon City in Civil Case No. R-QZN-17-09352-CV are **REINSTATED** with **MODIFICATION** in that:

(1) The Complaint in Civil Case No. R-QZN-17-09352-CV is **DISMISSED** for lack of cause of action; and

(2) Respondent Mario Daniel Eduardo G. Pascual is **ORDERED** to **PAY** to petitioner Philippine Fisheries Development Authority the following:

   (a) The rental arrears incurred by Lucila S. Bautista under the Contract of Lease, to be paid in accordance with the Restructuring Agreement;
   (b) Attorney's fees in the amount of PHP 100,000.00; and
   (c) Costs of suit.

The interest of 6% per annum is imposed on the monetary awards for attorney's fees and costs of suit from the date of the finality of this Decision until fully paid.

SO ORDERED.

Caguioa (Chairperson), Gaerlan, and *Dimaampao, JJ.,* concur.

Singh,[**] *J.,* on leave.

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[*] "Mario Daniel Eduardo DG. Pascual," in some parts of the *rollo*.

[**] On leave.

[1] *Rollo*, pp. 3-23.

[2] *Id*. at 24-42. Penned by Associate Justice Alfredo D. Ampuan and concurred in by Associate Justices Pedro B. Corales and Emily L. San Gaspar-Gito of the Sixteenth Division, Court of Appeals, Manila.

[3] *Id*. at 43-45. Penned by Associate Justice Alfredo D. Ampuan and concurred in by Associate Justices Pedro B. Corales and Emily L. San Gaspar-Gito of the Former Sixteenth Division, Court of Appeals, Manila.

[4] *Id*. at 46-53. Penned by Presiding Judge Aurora A. Hernandez-Calledo.

[5] *Id*. at 54-55. Penned by Presiding Judge Aurora A. Hernandez-Calledo.

[6] Titled, "CREATING THE PHILIPPINE FISH MARKETING AUTHORITY, DEFINING ITS FUNCTIONS AND POWERS, AND FOR OTHER PURPOSES." Approved on August 11, 1976.

[7] Titled, "AMENDING PRESIDENTIAL DECREE NO. 977 CREATING THE PHILIPPINE FISH MARKETING AUTHORITY, DEFINING ITS FUNCTIONS AND POWERS, AND FOR OTHER PURPOSES." Approved on February 8, 1982.

[8] PRESIDENTIAL DECREE NO. 977 (1976), sec. 1 states:

> SECTION 1. *Declaration of Policy*. – It is hereby declared to be the policy of the Government to promote the development of the fishing industry and improve efficiency in the handling, preserving, marketing and distribution of fish and fishery/aquatic products through the establishment and operation of fish markets and the efficient operation of fishing ports' harbors and other marketing facilities.

[9] *Rollo*, p. 5, Petition.

[10] *Id*. at 41, CA Decision.

[11] *Id*. at 56-64.

[12] *Id*. at 57-58.

[13] *Id*. at 65-66.

[14] *Id*. at 65.

[15] *Id*. at 6, Petition.

[16] *Id*. at 66. The Deed of Assignment was signed by Petronila B. Buendia, General Manager of PFDA.

[17] *Id*. at 25, CA Decision.

[18] Id at 39, CA Decision.

[19] *Id*. at 68-70.

[20] *Id*. at 71-73.

[21] *Id*. at 74.

[22] *Id*. at 75-76.

[23] *Id*. at 6-7, Petition.

[24] *Id*. at 48-49, RTC Decision.

[25] *Id*. at 26, CA Decision.

[26] *Id*. at 46-53.

[27] *Id*. at 52, RTC Decision.

[28] *Id*.

[29] *Id*.

[30] *Id*. at 54, RTC Order.

[31] *Id*. at 46-53.

[32] *Id*. at 54-55.

[33] *Id*. at 24-42.

[34] *Id*. at 61.

[35] *Id*. at 36, CA Decision.

[36] **Ledonio v. Capitol Development Corp.**, 553 Phil. 344 (2007).

[37] *Id*. at 361.

[38] *Id*. at 37-38, CA Decision.

[39] *Id*. at 38-39.

[40] *Id*. at 124-133.

[41] *Id*. at 96-100.

[42] A manifestation was included in the Motion for Reconsideration, *id*. at 125. However, the Prayer in the Motion did not include the dismissal of the case on the ground of mootness, *id*. at 132.

[43] *Id*. at 125, Motion for Reconsideration.

[44] *Id*. at 43-45.

[45] *Id*. at 3-23.

[46] *Id*. at 13-15.

[47] *Id*. at 16.

[48] *Id*. at 18.

[49] *Id*. at 199, Reply.

[50] *Id*.

[51] *Id*. at 157-168.

[52] *Id*. at 159.

[53] *Id*. at 162.

[54] *Id*. at 164-165.

[55] CIVIL CODE, art. 2028.

[56] **National Commercial Bank of Saudi Arabia v. Court of Appeals**, 489 Phil. 314, 319 (2005).

[57] **Magsaysay Maritime Corp. v. De Jesus**, 817 Phil. 533, 647 (2017).

[58] *Id*.; **Philippine Transmarine Carriers, Inc. v. Pelagio**, 766 Phil. 504, 512 (2015).

[59] *Rollo*, p. 65.

[60] **Diversified Plastic Film System, Inc. v. Philippine Investment One (SPV-AMC), Inc.**, 939 Phil. 221, 239 (2023); **Fort Bonifacio Development Corp. v. Fong**, 757 Phil. 314, 324 (2015); **Koa v. Court of Appeals**, 292 Phil. 539 (1993); **Gonzales vs. Land Bank of the Philippines**, 262 Phil. 568, 574 (1990).

[61] **Diversified Plastic Film System, Inc. v. Philippine Investment One (SPV-AMC), Inc.**, *id*. at 240-241.

[62] *See* **Spouses Noynay v. Citihomes Builder and Development. Inc.**, 743 Phil. 571, 578 (2014); **Empire Insurance Co. v. Rufino**, 179 Phil. 359, 366-368 (1979).

[63] ARTICLE 1649. The lessee cannot assign the lease without the consent of the lessor, unless there is a stipulation to the contrary.

[64] **Sime Darby Pilipinas, Inc. v. Goodyear Phils., Inc.**, 666 Phil. 546, 558 (2011).

[65] ARTICLE 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.

[66] **Arco Pulp and Paper Co., Inc. v. Lim**, 737 Phil. 133, 144 (2014).

[67] **Garcia v. Llamas**, 462 Phil. 779, 788 (2003).

[68] **Food Fest Land, Inc. v. Siapno**, 848 Phil. 55, 66 (2019); **Paradigm Development**

Corp. of the Philippines v. Bank of the Philippine Islands, 810 Phil. 539, 555 (2017).

[69] **Food Fest Land, Inc. v. Siapno**, *id*. at 554.

[70] **Ledonio v. Capitol Development Corp.**, *supra* note 36, at 365.

[71] **Henson, Jr. v. UCPB General Insurance Co., Inc.**. 859 Phil. 481, 508 (2019).

[72] **Autocorp Group v. Intra Strata Assurance Corp.**, 578 Phil. 804, 822 (2008); CIVIL CODE, art. 1303.

[73] ARTICLE 1657. The lessee is obliged:

(1) To pay the price of the lease according to the terms stipulated[.]

[74] **Bawasanta v. People**, 915 Phil. 577, 596-597 (2021).

[75] WEBSTER'S NEW WORLD COLLEGE DICTIONARY (3rd ed.), p. 432.

[76] BLACK'S LAW DICTIONARY (rev. 4th ed., 1968), p. 1256.

[77] **Machuca v. Chuidian, Buenaventura & Co.**, 2 Phil. 210, 214 (1903).

[78] BLACK'S LAW DICTIONARY (rev. 4th ed., 1968), p. 1256.

[79] *Rollo*, pp. 65-66.

[80] **Escaño v. Ortigas, Jr.**, 553 Phil. 24, 36 (2007); **Layug v. Intermediate Appellate Court**, 249 Phil. 583, 587 (1988).

[81] ARTICLE 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.

[82] **Sps. Villamor v. Court of Appeals**, 279 Phil. 664, 673 (1991), *citing* **Gonzales v. Trinidad**, 67 Phil. 682, 684 (1939).

[83] **JMA House, Inc. v. Sta. Monica Industrial and Development Corp.**, 532 Phil. 233, 264 (2006).

[84] **Far East Bank and Trust Co. v. Phil. Deposit Insurance Corp.**, 764 Phil. 488 (2015); **Caltex (Phil.), Inc. v. PNOC Shipping and Transport Corp.**, 530 Phil. 149 (2006).

[85] *Rollo*, p. 49, RTC Decision.

[86] SECTION 28. *Offer of Compromise Not Admissible*. – In civil cases, an offer of compromise is not an admission of any liability, and is not admissible in evidence against the offeror. Neither is evidence of conduct nor statements made in compromise negotiations admissible, except evidence otherwise discoverable or offered for another purpose, such as proving bias or prejudice of a witness, negativing a contention of undue delay, or proving an effort to obstruct a criminal investigation or prosecution[.]

[87] *See* **Servicewide Specialists, Inc. v. Court of Appeals**, 327 Phil. 431, 446 (1996); REV. RULES ON EVIDENCE, Rule 130, sec. 27.

[88] **Trans-Pacific Industrial Supplies, Inc. v. Court of Appeals**, 305 Phil. 534, 544-545 (1994).

[89] *Rollo*, pp. 96-99.

[90] *Id*. at 165, Comment.

[91] RULES ON EVIDENCE (2019), Rule 131, sec. 3, pars. p and q.

[92] **Spouses Ramos v. Obispo**, 705 Phil. 221, 230 (2013); REV. RULES OF COURT, Rule 131, sec. 3(p).

[93] **BLEMP Commercial of the Philippines, Inc. v. Sandiganbayan, (First Division)**, 930 Phil. 821, 893 (2022).

[94] *Rollo*, p. 94, Letter dated December 3, 2020.

[95] *Id*. at 49, RTC Decision.

[96] *See* **Sps. Ramos v. Obispo**, 705 Phil. 221, 231 (2013); **Borja, Sr. v. Sulyap Inc.**, 447 Phil. 750, 757 (2003); **Fule v. Court of Appeals**, 350 Phil. 349 (1998).

[97] **Sps. Genotiva v. Equitable-PCI Bank**, 905 Phil. 642, 651 (2021).

[98] REVISED RULES ON EVIDENCE (2019), Rule 130, sec. 10 states:

SECTION 10. *Evidence of Written Agreements*. – When the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, as between the parties and their successors in interest, no evidence of such terms other than the contents of the written agreement.

However, a party may present evidence to modify, explain or add to the terms of the written agreement if he or she puts in issue in a verified pleading:

(a) An intrinsic ambiguity, mistake or imperfection in the written agreement;
(b) The failure of the written agreement to express the true intent and agreement of the parties thereto;
(c) The validity of the written agreement; or
(d) The existence of other terms agreed to by the parties or their successors in interest after the execution of the written agreement.

The term "agreement" includes wills.

[99] **Pioneer Savings & Loan Bank v. Court of Appeals**, 297 Phil. 822, 826-827 (1993).

[100] **Ibañez v. People**, 864 Phil. 861, 873 (2019); **Norton Resources v. All Asia Bank Corporation**, 620 Phil. 381, 390 (2009); **Hrs. of the Deceased Carmen Cruz-Zamora v. Multiwood International, Inc.**, 596 Phil. 150, 160 (2009); **Roble v. Arbasa**, 414 Phil. 343, 356 (2001).

[101] ARTICLE 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.

[102] **Berman Memorial Park Inc. v. Cheng**, 497 Phil. 441, 456 (2005); **Inter-Asia Services Corp. (International) v. Court of Appeals**, 331 Phil. 708, 719 (1996).

[103] ARTICLE 2208. In the absence of stipulation, attorney's fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

. . . .

In all cases, the attorney's fees and expenses of litigation must be reasonable.

[104] *Rollo*, p. 62.

[105] **Cabildo v. Navarro**, 153 Phil. 310, 314 (1973).

[106] **Gotesco Properties, Inc. v. Cua**, 936 Phil. 284, 298 (2023); **Banta v. Equitable Bank, Inc.**, 894 Phil. 541, 549 (2021).

[107] **Gotesco Properties, Inc. v. Cua**, *id*. at 299; **Camp John Hay Development Corp. v. Charter Chemical and Coating Corp.**, 858 Phil. 970, 996 (2019); **Lim v. Tan**, 801 Phil. 13, 25-26 (2016).

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