Title:
Philippines Republic Act 386 (Civil Code)

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Article 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. (1970a)

Article 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. (1971)

Article 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. (1972)

Article 1154. The period during which the obligee was prevented by a fortuitous event from enforcing his right is not reckoned against him. (n)

Article 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. (1973a)

BOOK IV Obligations and Contracts

TITLE I Obligations

CHAPTER 1 General Provisions

Article 1156. An obligation is a juridical necessity to give, to do or not to do. (n)

Article 1157. Obligations arise from:

(1) Law;

(2) Contracts;

(3) Quasi-contracts;

(4) Acts or omissions punished by law; and

(5) Quasi-delicts. (1089a)

Article 1158. Obligations derived from law are not presumed. Only those expressly determined in this Code or in special laws are demandable, and shall be regulated by the precepts of the law which establishes them; and as to what has not been foreseen, by the provisions of this Book. (1090)

Article 1159. Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith. (1091a)

Article 1160. Obligations derived from quasi-contracts shall be subject to the provisions of Chapter 1, Title XVII, of this Book. (n)
Article 1161. Civil obligations arising from criminal offenses shall be governed by the penal laws, subject to the provisions of article 2177, and of the pertinent provisions of Chapter 2, Preliminary Title, on Human Relations, and of Title XVIII of this Book, regulating damages. (1092a)

Article 1162. Obligations derived from quasi-delicts shall be governed by the provisions of Chapter 2, Title XVII of this Book, and by special laws. (1093a)

CHAPTER 2 Nature and Effect of Obligations

Article 1163. Every person obliged to give something is also obliged to take care of it with the proper diligence of a good father of a family, unless the law or the stipulation of the parties requires another standard of care. (1094a)

Article 1164. The creditor has a right to the fruits of the thing from the time the obligation to deliver it arises. However, he shall acquire no real right over it until the same has been delivered to him. (1095)

Article 1165. When what is to be delivered is a determinate thing, the creditor, in addition to the right granted him by article 1170, may compel the debtor to make the delivery.

If the thing is indeterminate or generic, he may ask that the obligation be complied with at the expense of the debtor.

If the obligor delays, or has promised to deliver the same thing to two or more persons who do not have the same interest, he shall be responsible for any fortuitous event until he has effected the delivery. (1096)

Article 1166. The obligation to give a determinate thing includes that of delivering all its accessions and accessories, even though they may not have been mentioned. (1097a)

Article 1167. If a person obliged to do something fails to do it, the same shall be executed at his cost.

This same rule shall be observed if he does it in contravention of the tenor of the obligation. Furthermore, it may be decreed that what has been poorly done be undone. (1098)

Article 1168. When the obligation consists in not doing, and the obligor does what has been forbidden him, it shall also be undone at his expense. (1099a)

Article 1169. Those obliged to deliver or to do something incur in delay from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.

However, the demand by the creditor shall not be necessary in order that delay may exist:

(1) When the obligation or the law expressly so declare; or

(2) When from the nature and the circumstances of the obligation it appears that the designation of the time when the thing is to be delivered or the service is to be rendered was a controlling motive for the establishment of the contract; or

(3) When demand would be useless, as when the obligor has rendered it beyond his power to perform.

In reciprocal obligations, neither party incurs in delay if the other does not comply or is not ready to comply in a proper manner with what is incumbent upon him. From the moment one of the parties fulfills his obligation, delay by the other begins. (1100a)

Article 1170. Those who in the performance of their obligations are guilty of fraud, negligence, or delay, and those who in any manner contravene the tenor thereof, are liable for damages. (1101)

Article 1171. Responsibility arising from fraud is demandable in all obligations. Any waiver of an action for future fraud is void. (1102a)
Article 1172. Responsibility arising from negligence in the performance of every kind of obligation is also demandable, but such liability may be regulated by the courts, according to the circumstances. (1103)

Article 1173. The fault or negligence of the obligor consists in the omission of that diligence which is required by the nature of the obligation and corresponds with the circumstances of the persons, of the time and of the place. When negligence shows bad faith, the provisions of articles 1171 and 2201, paragraph 2, shall apply.

If the law or contract does not state the diligence which is to be observed in the performance, that which is expected of a good father of a family shall be required. (1104a)

Article 1174. Except in cases expressly specified by the law, or when it is otherwise declared by stipulation, or when the nature of the obligation requires the assumption of risk, no person shall be responsible for those events which could not be foreseen, or which, though foreseen, were inevitable. (1105a)

Article 1175. Usurious transactions shall be governed by special laws. (n)

Article 1176. The receipt of the principal by the creditor without reservation with respect to the interest, shall give rise to the presumption that said interest has been paid.

The receipt of a later installment of a debt without reservation as to prior installments, shall likewise raise the presumption that such installments have been paid. (1110a)

Article 1177. The creditors, after having pursued the property in possession of the debtor to satisfy their claims, may exercise all the rights and bring all the actions of the latter for the same purpose, save those which are inherent in his person; they may also impugn the acts which the debtor may have done to defraud them. (1111)

Article 1178. Subject to the laws, all rights acquired in virtue of an obligation are transmissible, if there has been no stipulation to the contrary. (1112)

CHAPTER 3 Different Kinds of Obligations

SECTION 1 Pure and Conditional Obligations

Article 1179. Every obligation whose performance does not depend upon a future or uncertain event, or upon a past event unknown to the parties, is demandable at once.

Every obligation which contains a resolutory condition shall also be demandable, without prejudice to the effects of the happening of the event. (1113)

Article 1180. When the debtor binds himself to pay when his means permit him to do so, the obligation shall be deemed to be one with a period, subject to the provisions of article 1197. (n)

Article 1181. In conditional obligations, the acquisition of rights, as well as the extinguishment or loss of those already acquired, shall depend upon the happening of the event which constitutes the condition. (1114)

Article 1182. When the fulfillment of the condition depends upon the sole will of the debtor, the conditional obligation shall be void. If it depends upon chance or upon the will of a third person, the obligation shall take effect in conformity with the provisions of this Code. (1115)

Article 1183. Impossible conditions, those contrary to good customs or public policy and those prohibited by law shall annul the obligation which depends upon them. If the obligation is divisible, that part thereof which is not affected by the impossible or unlawful condition shall be valid.

The condition not to do an impossible thing shall be considered as not having been agreed upon. (1116a)

Article 1184. The condition that some event happen at a determinate time shall extinguish the obligation as soon as the time expires or if it has become indubitable that the event will not take place. (1117)
Article 1185. The condition that some event will not happen at a determinate time shall render the obligation effective from the moment the time indicated has elapsed, or if it has become evident that the event cannot occur.

If no time has been fixed, the condition shall be deemed fulfilled at such time as may have probably been contemplated, bearing in mind the nature of the obligation. (1118)

Article 1186. The condition shall be deemed fulfilled when the obligor voluntarily prevents its fulfillment. (1119)

Article 1187. The effects of a conditional obligation to give, once the condition has been fulfilled, shall retroact to the day of the constitution of the obligation. Nevertheless, when the obligation imposes reciprocal prestations upon the parties, the fruits and interests during the pendency of the condition shall be deemed to have been mutually compensated. If the obligation is unilateral, the debtor shall appropriate the fruits and interests received, unless from the nature and circumstances of the obligation it should be inferred that the intention of the person constituting the same was different.

In obligations to do and not to do, the courts shall determine, in each case, the retroactive effect of the condition that has been complied with. (1120)

Article 1188. The creditor may, before the fulfillment of the condition, bring the appropriate actions for the preservation of his right.

The debtor may recover what during the same time he has paid by mistake in case of a suspensive condition. (1121a)

Article 1189. When the conditions have been imposed with the intention of suspending the efficacy of an obligation to give, the following rules shall be observed in case of the improvement, loss or deterioration of the thing during the pendency of the condition:

1. If the thing is lost without the fault of the debtor, the obligation shall be extinguished;
2. If the thing is lost through the fault of the debtor, he shall be obliged to pay damages; it is understood that the thing is lost when it perishes, or goes out of commerce, or disappears in such a way that its existence is unknown or it cannot be recovered;
3. When the thing deteriorates without the fault of the debtor, the impairment is to be borne by the creditor;
4. If it deteriorates through the fault of the debtor, the creditor may choose between the rescission of the obligation and its fulfillment, with indemnity for damages in either case;
5. If the thing is improved by its nature, or by time, the improvement shall inure to the benefit of the creditor;
6. If it is improved at the expense of the debtor, he shall have no other right than that granted to the usufructuary. (1122)

Article 1190. When the conditions have for their purpose the extinguishment of an obligation to give, the parties, upon the fulfillment of said conditions, shall return to each other what they have received.

In case of the loss, deterioration or improvement of the thing, the provisions which, with respect to the debtor, are laid down in the preceding article shall be applied to the party who is bound to return.

As for the obligations to do and not to do, the provisions of the second paragraph of article 1187 shall be observed as regards the effect of the extinguishment of the obligation. (1123)

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

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

The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period.
This is understood to be without prejudice to the rights of third persons who have acquired the thing, in accordance with articles 1385 and 1388 and the Mortgage Law. (1124)

**Article 1192.** In case both parties have committed a breach of the obligation, the liability of the first infractor shall be equitably tempered by the courts. If it cannot be determined which of the parties first violated the contract, the same shall be deemed extinguished, and each shall bear his own damages. (n)

**SECTION 2 Obligations with a Period**

**Article 1193.** Obligations for whose fulfillment a day certain has been fixed, shall be demandable only when that day comes.

Obligations with a resolutory period take effect at once, but terminate upon arrival of the day certain.

A day certain is understood to be that which must necessarily come, although it may not be known when.

If the uncertainty consists in whether the day will come or not, the obligation is conditional, and it shall be regulated by the rules of the preceding Section. (1125a)

**Article 1194.** In case of loss, deterioration or improvement of the thing before the arrival of the day certain, the rules in article 1189 shall be observed. (n)

**Article 1195.** Anything paid or delivered before the arrival of the period, the obligor being unaware of the period or believing that the obligation has become due and demandable, may be recovered, with the fruits and interests. (1126a)

**Article 1196.** Whenever in an obligation a period is designated, it is presumed to have been established for the benefit of both the creditor and the debtor, unless from the tenor of the same or other circumstances it should appear that the period has been established in favor of one or of the other. (1127)

**Article 1197.** If the obligation does not fix a period, but from its nature and the circumstances it can be inferred that a period was intended, the courts may fix the duration thereof.

The courts shall also fix the duration of the period when it depends upon the will of the debtor.

In every case, the courts shall determine such period as may under the circumstances have been probably contemplated by the parties. Once fixed by the courts, the period cannot be changed by them. (1128a)

**Article 1198.** The debtor shall lose every right to make use of the period:

1. When after the obligation has been contracted, he becomes insolvent, unless he gives a guaranty or security for the debt;
2. When he does not furnish to the creditor the guaranties or securities which he has promised;
3. When by his own acts he has impaired said guaranties or securities after their establishment, and when through a fortuitous event they disappear, unless he immediately gives new ones equally satisfactory;
4. When the debtor violates any undertaking, in consideration of which the creditor agreed to the period;
5. When the debtor attempts to abscond. (1129a)

**SECTION 3 Alternative Obligations**

**Article 1199.** A person alternatively bound by different prestations shall completely perform one of them.

The creditor cannot be compelled to receive part of one and part of the other undertaking. (1131)
Article 1200. The right of choice belongs to the debtor, unless it has been expressly granted to the creditor.

The debtor shall have no right to choose those prestations which are impossible, unlawful or which could not have been the object of the obligation. (1132)

Article 1201. The choice shall produce no effect except from the time it has been communicated. (1133)

Article 1202. The debtor shall lose the right of choice when among the prestations whereby he is alternatively bound, only one is practicable. (1134)

Article 1203. If through the creditor's acts the debtor cannot make a choice according to the terms of the obligation, the latter may rescind the contract with damages. (n)

Article 1204. The creditor shall have a right to indemnity for damages when, through the fault of the debtor, all the things which are alternatively the object of the obligation have been lost, or the compliance of the obligation has become impossible.

The indemnity shall be fixed taking as a basis the value of the last thing which disappeared, or that of the service which last became impossible.

Damages other than the value of the last thing or service may also be awarded. (1135a)

Article 1205. When the choice has been expressly given to the creditor, the obligation shall cease to be alternative from the day when the selection has been communicated to the debtor.

Until then the responsibility of the debtor shall be governed by the following rules:

(1) If one of the things is lost through a fortuitous event, he shall perform the obligation by delivering that which the creditor should choose from among the remainder, or that which remains if only one subsists;

(2) If the loss of one of the things occurs through the fault of the debtor, the creditor may claim any of those subsisting, or the price of that which, through the fault of the former, has disappeared, with a right to damages;

(3) If all the things are lost through the fault of the debtor, the choice by the creditor shall fall upon the price of any one of them, also with indemnity for damages.

The same rules shall be applied to obligations to do or not to do in case one, some or all of the prestations should become impossible. (1136a)

Article 1206. When only one prestation has been agreed upon, but the obligor may render another in substitution, the obligation is called facultative.

The loss or deterioration of the thing intended as a substitute, through the negligence of the obligor, does not render him liable. But once the substitution has been made, the obligor is liable for the loss of the substitute on account of his delay, negligence or fraud. (n)

SECTION 4 Joint and Solidary Obligations

Article 1207. The concurrence of two or more creditors or of two or more debtors in one and the same obligation does not imply that each one of the former has a right to demand, or that each one of the latter is bound to render, entire compliance with the prestation. There is a solidary liability only when the obligation expressly so states, or when the law or the nature of the obligation requires solidarity. (1137a)

Article 1208. If from the law, or the nature or the wording of the obligations to which the preceding article refers the contrary does not appear, the credit or debt shall be presumed to be divided into as many shares as there are creditors or debtors, the credits or debts being considered distinct from one another, subject to the Rules of Court governing the multiplicity of suits. (1138a)
Article 1209. If the division is impossible, the right of the creditors may be prejudiced only by their collective acts, and the
debt can be enforced only by proceeding against all the debtors. If one of the latter should be insolvent, the others shall
not be liable for his share. (1139)

Article 1210. The indivisibility of an obligation does not necessarily give rise to solidarity. Nor does solidarity of itself imply
indivisibility. (n)

Article 1211. Solidarity may exist although the creditors and the debtors may not be bound in the same manner and by
the same periods and conditions. (1140)

Article 1212. Each one of the solidary creditors may do whatever may be useful to the others, but not anything which
may be prejudicial to the latter. (1141a)

Article 1213. A solidary creditor cannot assign his rights without the consent of the others. (n)

Article 1214. The debtor may pay any one of the solidary creditors; but if any demand, judicial or extrajudicial, has been
made by one of them, payment should be made to him. (1142a)

Article 1215. Novation, compensation, confusion or remission of the debt, made by any of the solidary creditors or with
any of the solidary debtors, shall extinguish the obligation, without prejudice to the provisions of article 1219.

The creditor who may have executed any of these acts, as well as he who collects the debt, shall be liable to the others
for the share in the obligation corresponding to them. (1143)

Article 1216. The creditor may proceed against any one of the solidary debtors or some or all of them simultaneously.
The demand made against one of them shall not be an obstacle to those which may subsequently be directed against the
others, so long as the debt has not been fully collected. (1144a)

Article 1217. Payment made by one of the solidary debtors extinguishes the obligation. If two or more solidary debtors
offer to pay, the creditor may choose which offer to accept.

He who made the payment may claim from his co-debtors only the share which corresponds to each, with the interest for
the payment already made. If the payment is made before the debt is due, no interest for the intervening period may be
demanded.

When one of the solidary debtors cannot, because of his insolvency, reimburse his share to the debtor paying the
obligation, such share shall be borne by all his co-debtors, in proportion to the debt of each. (1145a)

Article 1218. Payment by a solidary debtor shall not entitle him to reimbursement from his codebtors if such payment is
made after the obligation has prescribed or become illegal. (n)

Article 1219. The remission made by the creditor of the share which affects one of the solidary debtors does not release
the latter from his responsibility towards the co-debtors, in case the debt had been totally paid by anyone of them before
the remission was effected. (1146a)

Article 1220. The remission of the whole obligation, obtained by one of the solidary debtors, does not entitle him to
reimbursement from his co-debtors. (n)

Article 1221. If the thing has been lost or if the prestation has become impossible without the fault of the solidary debtors,
the obligation shall be extinguished.

If there was fault on the part of any one of them, all shall be responsible to the creditor, for the price and the payment of
damages and interest, without prejudice to their action against the guilty or negligent debtor.

If through a fortuitous event, the thing is lost or the performance has become impossible after one of the solidary debtors
has incurred in delay through the judicial or extrajudicial demand upon him by the creditor, the provisions of the preceding
paragraph shall apply. (1147a)

Article 1222. A solidary debtor may, in actions filed by the creditor, avail himself of all defenses which are derived from
the nature of the obligation and of those which are personal to him, or pertain to his own share. With respect to those which personally belong to the others, he may avail himself thereof only as regards that part of the debt for which the latter are responsible. (1148a)

SECTION 5 Divisible and Indivisible Obligations

Article 1223. The divisibility or indivisibility of the things that are the object of obligations in which there is only one debtor and only one creditor does not alter or modify the provisions of Chapter 2 of this Title. (1149)

Article 1224. A joint indivisible obligation gives rise to indemnity for damages from the time anyone of the debtors does not comply with his undertaking. The debtors who may have been ready to fulfill their promises shall not contribute to the indemnity beyond the corresponding portion of the price of the thing or of the value of the service in which the obligation consists. (1150)

Article 1225. For the purposes of the preceding articles, obligations to give definite things and those which are not susceptible of partial performance shall be deemed to be indivisible.

When the obligation has for its object the execution of a certain number of days of work, the accomplishment of work by metrical units, or analogous things which by their nature are susceptible of partial performance, it shall be divisible.

However, even though the object or service may be physically divisible, an obligation is indivisible if so provided by law or intended by the parties.

In obligations not to do, divisibility or indivisibility shall be determined by the character of the prestation in each particular case. (1151a)

SECTION 6 Obligations with a Penal Clause

Article 1226. In obligations with a penal clause, the penalty shall substitute the indemnity for damages and the payment of interests in case of noncompliance, if there is no stipulation to the contrary. Nevertheless, damages shall be paid if the obligor refuses to pay the penalty or is guilty of fraud in the fulfillment of the obligation.

The penalty may be enforced only when it is demandable in accordance with the provisions of this Code. (1152a)

Article 1227. The debtor cannot exempt himself from the performance of the obligation by paying the penalty, save in the case where this right has been expressly reserved for him. Neither can the creditor demand the fulfillment of the obligation and the satisfaction of the penalty at the same time, unless this right has been clearly granted him. However, if after the creditor has decided to require the fulfillment of the obligation, the performance thereof should become impossible without his fault, the penalty may be enforced. (1153a)

Article 1228. Proof of actual damages suffered by the creditor is not necessary in order that the penalty may be demanded. (n)

Article 1229. The judge shall equitably reduce the penalty when the principal obligation has been partly or irregularly complied with by the debtor. Even if there has been no performance, the penalty may also be reduced by the courts if it is iniquitous or unconscionable. (1154a)

Article 1230. The nullity of the penal clause does not carry with it that of the principal obligation.

The nullity of the principal obligation carries with it that of the penal clause. (1155)

CHAPTER 4 Extinguishment of Obligations

General Provisions
Article 1231. Obligations are extinguished:

(1) By payment or performance;
(2) By the loss of the thing due;
(3) By the condonation or remission of the debt;
(4) By the confusion or merger of the rights of creditor and debtor;
(5) By compensation; (6) By novation.

Other causes of extinguishment of obligations, such as annulment, rescission, fulfillment of a resolutory condition, and prescription, are governed elsewhere in this Code. (1156a)

SECTION 1 Payment or Performance

Article 1232. Payment means not only the delivery of money but also the performance, in any other manner, of an obligation. (n)

Article 1233. A debt shall not be understood to have been paid unless the thing or service in which the obligation consists has been completely delivered or rendered, as the case may be. (1157)

Article 1234. If the obligation has been substantially performed in good faith, the obligor may recover as though there had been a strict and complete fulfillment, less damages suffered by the obligee. (n)

Article 1235. When the obligee accepts the performance, knowing its incompleteness or irregularity, and without expressing any protest or objection, the obligation is deemed fully complied with. (n)

Article 1236. The creditor is not bound to accept payment or performance by a third person who has no interest in the fulfillment of the obligation, unless there is a stipulation to the contrary.

Whoever pays for another may demand from the debtor what he has paid, except that if he paid without the knowledge or against the will of the debtor, he can recover only insofar as the payment has been beneficial to the debtor. (1158a)

Article 1237. Whoever pays on behalf of the debtor without the knowledge or against the will of the latter, cannot compel the creditor to subrogate him in his rights, such as those arising from a mortgage, guaranty, or penalty. (1159a)

Article 1238. Payment made by a third person who does not intend to be reimbursed by the debtor is deemed to be a donation, which requires the debtor's consent. But the payment is in any case valid as to the creditor who has accepted it. (n)

Article 1239. In obligations to give, payment made by one who does not have the free disposal of the thing due and capacity to alienate it shall not be valid, without prejudice to the provisions of article 1427 under the Title on "Natural Obligations." (1160a)

Article 1240. Payment shall be made to the person in whose favor the obligation has been constituted, or his successor in interest, or any person authorized to receive it. (1162a)

Article 1241. Payment to a person who is incapacitated to administer his property shall be valid if he has kept the thing delivered, or insofar as the payment has been beneficial to him.

Payment made to a third person shall also be valid insofar as it has redounded to the benefit of the creditor. Such benefit to the creditor need not be proved in the following cases:

(1) If after the payment, the third person acquires the creditor's rights;
(2) If the creditor ratifies the payment to the third person;
(3) If by the creditor's conduct, the debtor has been led to believe that the third person had authority to receive the payment. (1163a)

**Article 1242.** Payment made in good faith to any person in possession of the credit shall release the debtor. (1164)

**Article 1243.** Payment made to the creditor by the debtor after the latter has been judicially ordered to retain the debt shall not be valid. (1165)

**Article 1244.** The debtor of a thing cannot compel the creditor to receive a different one, although the latter may be of the same value as, or more valuable than that which is due.

In obligations to do or not to do, an act or forbearance cannot be substituted by another act or forbearance against the obligee's will. (1166a)

**Article 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. (n)

**Article 1246.** When the obligation consists in the delivery of an indeterminate or generic thing, whose quality and circumstances have not been stated, the creditor cannot demand a thing of superior quality. Neither can the debtor deliver a thing of inferior quality. The purpose of the obligation and other circumstances shall be taken into consideration. (1167a)

**Article 1247.** Unless it is otherwise stipulated, the extrajudicial expenses required by the payment shall be for the account of the debtor. With regard to judicial costs, the Rules of Court shall govern. (1168a)

**Article 1248.** Unless there is an express stipulation to that effect, the creditor cannot be compelled partially to receive the prestations in which the obligation consists. Neither may the debtor be required to make partial payments.

However, when the debt is in part liquidated and in part unliquidated, the creditor may demand and the debtor may effect the payment of the former without waiting for the liquidation of the latter. (1169a)

**Article 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 the abeyance. (1170)

**Article 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. (n)

**Article 1251.** Payment shall be made in the place designated in the obligation.

There being no express stipulation and if the undertaking is to deliver a determinate thing, the payment shall be made wherever the thing might be at the moment the obligation was constituted.

In any other case the place of payment shall be the domicile of the debtor.

If the debtor changes his domicile in bad faith or after he has incurred in delay, the additional expenses shall be borne by him.

These provisions are without prejudice to venue under the Rules of Court. (1171a)

**SUBSECTION 1. Application of Payments**

**Article 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. (1172a)

Article 1253. If the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered. (1173)

Article 1254. When the payment cannot be applied in accordance with the preceding rules, or if application can not be inferred from other 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. (1174a)

SUBSECTION 2. Payment by Cession

Article 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. (1175a)

SUBSECTION 3. Tender of Payment and Consignation

Article 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 the 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. (1176a)

Article 1257. In order that the consignation of the thing due may release the obligor, 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. (1177)

Article 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. (1178)

Article 1259. The expenses of consignation, when properly made, shall be charged against the creditor. (1179)

Article 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 the sum deposited, allowing the obligation to remain in force. (1180)

**Article 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 codebtors, guarantors and sureties shall be released. (1181a)

### SECTION 2 Loss of the Thing Due

**Section 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. (1182a)

**Article 1263.** In an obligation to deliver a generic thing, the loss or destruction of anything of the same kind does not extinguish the obligation. (n)

**Article 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. (n)

**Article 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. (1183a)

**Article 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. (1184a)

**Article 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. (n)

**Article 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 may be 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. (1185)

**Article 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. (1186)

### SECTION 3 Condonation or Remission of the Debt

**Article 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. (1187)

**Article 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.

If 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. (1188)

**Article 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. (1189)

**Article 1273.** The renunciation of the principal debt shall extinguish the accessory obligations; but the waiver of the latter
shall leave the former in force. (1190)

Article 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. (1191a)

SECTION 4 Confusion or Merger of Rights

Article 1275. The obligation is extinguished from the time the characters of creditor and debtor are merged in the same person. (1192a)

Article 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. (1193)

Article 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. (1194)

SECTION 5 Compensation

Article 1278. Compensation shall take place when two persons, in their own right, are creditors and debtors of each other. (1195)

Article 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. (1196)

Article 1280. Notwithstanding the provisions of the preceding article, the guarantor may set up compensation as regards what the creditor may owe the principal debtor. (1197)

Article 1281. Compensation may be total or partial. When the two debts are of the same amount, there is a total compensation. (n)

Article 1282. The parties may agree upon the compensation of debts which are not yet due. (n)

Article 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. (n)

Article 1284. When one or both debts are rescissible or voidable, they may be compensated against each other before they are judicially rescinded or avoided. (n)

Article 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 the 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. (1198a)

**Article 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. (1199a)

**Article 1287.** Compensation shall not be proper when one of the debts arises from a depositum or from the obligations of a depositary or of a bailee in commodatum.

Neither can compensation be set up against a creditor who has a claim for support due by gratuitous title, without prejudice to the provisions of paragraph 2 of article 301. (1200a)

**Article 1288.** Neither shall there be compensation if one of the debts consists in civil liability arising from a penal offense. (n)

**Article 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 the compensation. (1201)

**Article 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. (1202a)

**SECTION 6 Novation**

**Article 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. (1203)

**Article 1292.** In order that an obligation may be extinguished by another which substitute 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. (1204)

**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. (1205a)

**Article 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 obligations shall not give rise to any liability on the part of the original debtor. (n)

**Article 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 the delegated his debt. (1206a)

**Article 1296.** When the principal obligation is extinguished in consequence of a novation, accessory obligations may subsist only insofar as they may benefit third persons who did not give their consent. (1207)

**Article 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. (n)

**Article 1298.** The novation is void if the original obligation was void, except when annulment may be claimed only by the debtor or when ratification validates acts which are voidable. (1208a)

**Article 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. (n)
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. (1209a)

Article 1301. Conventional subrogation of a third person requires the consent of the original parties and of the third person. (n)

Article 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. (1210a)

Article 1303. Subrogation transfers to the persons 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. (1212a)

Article 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. (1213)

TITLE II CONTRACTS

CHAPTER 1 General Provisions

Article 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. (1254a)

Article 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. (1255a)

Article 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. (n)

Article 1308. The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them. (1256a)

Article 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. (n)

Article 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. (n)

Article 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. (1257a)

Article 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. (n)
Article 1313. Creditors are protected in cases of contracts intended to defraud them. (n)

Article 1314. Any third person who induces another to violate his contract shall be liable for damages to the other contracting party. (n)

Article 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. (1258)

Article 1316. Real contracts, such as deposit, pledge and commodatum, are not perfected until the delivery of the object of the obligation. (n)

Article 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 in 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. (1259a)

CHAPTER 2 Essential Requisites of Contracts

General Provisions

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. (1261)

SECTION 1 Consent

Article 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 in the place where the offer was made. (1262a)

Article 1320. An acceptance may be express or implied. (n)

Article 1321. The person making the offer may fix the time, place, and manner of acceptance, all of which must be complied with. (n)

Article 1322. An offer made through an agent is accepted from the time acceptance is communicated to him. (n)

Article 1323. An offer becomes ineffective upon the death, civil interdiction, insanity, or insolvency of either party before acceptance is conveyed. (n)

Article 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. (n)
Article 1325. Unless it appears otherwise, business advertisements of things for sale are not definite offers, but mere invitations to make an offer. (n)

Article 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. (n)

Article 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. (1263a)

Article 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. (n)

Article 1329. The incapacity declared in article 1327 is subject to the modifications determined by law, and is understood to be without prejudice to special disqualifications established in the laws. (1264)

Article 1330. A contract where consent is given through mistake, violence, intimidation, undue influence, or fraud is voidable. (1265a)

Article 1331. A simple mistake of account shall give rise to its correction. (1266a)

Article 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. (n)

Article 1333. There is no mistake if the party alleging it knew the doubt, contingency or risk affecting the object of the contract. (n)

Article 1334. Mutual error as to the legal effect of an agreement when the real purpose of the parties is frustrated, may vitiate consent. (n)

Article 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. (1267a)

Article 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. (1268)

Article 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. (n)

Article 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. (1269)

**Article 1339.** Failure to disclose facts, when there is a duty to reveal them, as when the parties are bound by confidential relations, constitutes fraud. (n)

**Article 1340.** The usual exaggerations in trade, when the other party had an opportunity to know the facts, are not in themselves fraudulent. (n)

**Article 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. (n)

**Article 1342.** Misrepresentation by a third person does not vitiate consent, unless such misrepresentation has created substantial mistake and the same is mutual. (n)

**Article 1343.** Misrepresentation made in good faith is not fraudulent but may constitute error. (n)

**Article 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. (1270)

**Article 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. (n)

**Article 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. (n)

**SECTION 2 Object of Contracts**

**Article 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. (1271a)

**Article 1348.** Impossible things or services cannot be the object of contracts. (1272)

**Article 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. (1273)

**SECTION 3 Cause of Contracts**

**Article 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. (1274)

**Article 1351.** The particular motives of the parties in entering into a contract are different from the cause thereof. (n)

**Article 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. (1275a)

**Article 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. (1276)
Article 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. (1277)

Article 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. (n)

CHAPTER 3 Form of Contracts

Article 1356. Contracts shall be obligatory, in whatever form 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. (1278a)

Article 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. (1279a)

Article 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. (1280a)

CHAPTER 4 Reformation of Instruments (n)

Article 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.

Article 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.

Article 1361. When a mutual mistake of the parties causes the failure of the instrument to disclose their real agreement, said instrument may be reformed.

Article 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.

Article 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.

Article 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.

**Article 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.

**Article 1366.** There shall be no reformation in the following cases:

1. Simple donations inter vivos wherein no condition is imposed;
2. Wills;
3. When the real agreement is void.

**Article 1367.** When one of the parties has brought an action to enforce the instrument, he cannot subsequently ask for its reformation.

**Article 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.

**Article 1369.** The procedure for the reformation of instrument shall be governed by rules of court to be promulgated by the Supreme Court.

**CHAPTER 5 Interpretation of Contracts**

**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. (1281)

**Article 1371.** In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered. (1282)

**Article 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. (1283)

**Article 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. (1284)

**Article 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. (1285)

**Article 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. (1286)

**Article 1376.** The usage or custom of the place shall be borne in mind in the interpretation of the ambiguities of a contract, and shall fill the omission of stipulations which are ordinarily established. (1287)

**Article 1377.** The interpretation of obscure words or stipulations in a contract shall not favor the party who caused the obscurity. (1288)

**Article 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. (1289)
Article 1379. The principles of interpretation stated in Rule 123 of the Rules of Court shall likewise be observed in the construction of contracts. (n)

CHAPTER 6 Rescissible Contracts

Article 1380. Contracts validly agreed upon may be rescinded in the cases established by law. (1290)

Article 1381. The following contracts are rescissible:

1. Those which are entered into by guardians whenever the wards whom they represent suffer lesion by more than one-fourth of the value of the things which are the object thereof;

2. Those agreed upon in representation of absentees, if the latter suffer the lesion stated in the preceding number;

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

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

5. All other contracts specially declared by law to be subject to rescission. (1291a)

Article 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. (1292)

Article 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. (1294)

Article 1384. Rescission shall be only to the extent necessary to cover the damages caused. (n)

Article 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. (1295)

Article 1386. Rescission referred to in Nos. 1 and 2 of article 1381 shall not take place with respect to contracts approved by the courts. (1296a)

Article 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. (1297a)

Article 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. (1298a)

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

For persons under guardianship and for absentees, the period of four years shall not begin until the termination of the former's incapacity, or until the domicile of the latter is known. (1299)

**CHAPTER 7 Voidable Contracts**

**Article 1390.** The following contracts are voidable or annulable, 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. (n)

**Article 1391.** The action for annulment shall be brought within four years.

This period shall begin:

- 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. (1301a)

**Article 1392.** Ratification extinguishes the action to annul a voidable contract. (1309a)

**Article 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. (1311a)

**Article 1394.** Ratification may be effected by the guardian of the incapacitated person. (n)

**Article 1395.** Ratification does not require the conformity of the contracting party who has no right to bring the action for annulment. (1312)

**Article 1396.** Ratification cleanses the contract from all its defects from the moment it was constituted. (1313)

**Article 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. (1302a)

**Article 1398.** An obligation having been annulled, the contracting parties shall restore to each other the things which have been the subject matter 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. (1303a)

**Article 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 been benefited by the thing or price received by him. (1304)
Article 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. (1307a)

Article 1401. The action for annulment of contracts shall be extinguished when the thing which 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. (1314a)

Article 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. (1308)

CHAPTER 8 Unenforceable Contracts (n)

Article 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.

Article 1404. Unauthorized contracts are governed by article 1317 and the principles of agency in Title X of this Book.

Article 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 benefit under them.

Article 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.

Article 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.

**Article 1408.** Unenforceable contracts cannot be assailed by third persons.

**CHAPTER 9 Void and Inexistent Contracts**

**Article 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.

**Article 1410.** The action or defense for the declaration of the inexistence of a contract does not prescribe.

**Article 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. (1305)

**Article 1412.** If the act in which the unlawful or forbidden cause consists 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 his promise. (1306)

**Article 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.

**Article 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.

**Article 1415.** Where one of the parties to an illegal contract is incapable of giving consent, the courts may, if the interest of justice so demands allow recovery of money or property delivered by the incapacitated person.

**Article 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.
Article 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.

Article 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. 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.

Article 1419. When the law sets, or authorizes the setting of 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.

Article 1420. In case of a divisible contract, if the illegal terms can be separated from the legal ones, the latter may be enforced.

Article 1421. The defense of illegality of contract is not available to third persons whose interests are not directly affected.

Article 1422. A contract which is the direct result of a previous illegal contract, is also void and inexistent.

TITLE III NATURAL OBLIGATIONS

Article 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.

Article 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.

Article 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.

Article 1426. When a minor between eighteen and twenty-one years of age who has entered into a contract without the consent of the parent or guardian, after the annulment of the contract voluntarily returns the whole thing or price received, notwithstanding the fact that he has not been benefited thereby, there is no right to demand the thing or price thus returned.

Article 1427. When a minor between eighteen and twenty-one years of age, who has entered into a contract without the consent of the parent or guardian, voluntarily pays a sum of money or delivers a fungible thing in fulfillment of the obligation, there shall be no right to recover the same from the obligee who has spent or consumed it in good faith.

(1160A)

Article 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.

Article 1429. When a 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.

Article 1430. When a will is declared void because it has not been executed in accordance 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.

TITLE IV ESTOPPEL (n)

Article 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.

Article 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.

Article 1433. Estoppel may in pais or by deed.

Article 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.

Article 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.

Article 1436. A lessee or a bailee is estopped from asserting title to the thing leased or received, as against the lessor or bailor.

Article 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.

Article 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.

Article 1439. Estoppel is effective only as between the parties thereto or their successors in interest.

[...]

Article 1581. The form of sale of large cattle shall be governed by special laws. (n)

CHAPTER 5 Obligations of the Vendee

Article 1582. The vendee is bound to accept delivery and to pay the price of the thing sold at the time and place
stipulated in the contract.

If the time and place should not have been stipulated, the payment must be made at the time and place of the delivery of
the thing sold. (1500a)

Article 1583. Unless otherwise agreed, the buyer of goods is not bound to accept delivery thereof by installments.

Where there is a contract of sale of goods to be delivered by stated instalments, which are to be separately paid for, and
the seller makes defective deliveries in respect of one or more instalments, or the buyer neglects or refuses without just
cause to take delivery of or pay for one or more instalments, it depends in each case on the terms of the contract and the
circumstances of the case, whether the breach of contract is so material as to justify the injured party in refusing to
proceed further and suing for damages for breach of the entire contract, or whether the breach is severable, giving rise to
a claim for compensation but not to a right to treat the whole contract as broken. (n)

Article 1584. Where goods are delivered to the buyer, which he has not previously examined, he is not deemed to have
accepted them unless and until he has had a reasonable opportunity of examining them for the purpose of ascertaining
whether they are in conformity with the contract if there is no stipulation to the contrary.

Unless otherwise agreed, when the seller tenders delivery of goods to the buyer, he is bound, on request, to afford the
buyer a reasonable opportunity of examining the goods for the purpose of ascertaining whether they are in conformity
with the contract.

Where goods are delivered to a carrier by the seller, in accordance with an order from or agreement with the buyer, upon
the terms that the goods shall not be delivered by the carrier to the buyer until he has paid the price, whether such terms
are indicated by marking the goods with the words "collect on delivery," or otherwise, the buyer is not entitled to examine
the goods before the payment of the price, in the absence of agreement or usage of trade permitting such examination.
(n)

Article 1585. The buyer is deemed to have accepted the goods when he intimates to the seller that he has accepted
them, or when the goods have been delivered to him, and he does any act in relation to them which is inconsistent with
the ownership of the seller, or when, after the lapse of a reasonable time, he retains the goods without intimating to the
seller that he has rejected them. (n)

Article 1586. In the absence of express or implied agreement of the parties, acceptance of the goods by the buyer shall
not discharge the seller from liability in damages or other legal remedy for breach of any promise or warranty in the
contract of sale. But, if, after acceptance of the goods, the buyer fails to give notice to the seller of the breach in any
promise of warranty within a reasonable time after the buyer knows, or ought to know of such breach, the seller shall not
be liable therefor. (n)

Article 1587. Unless otherwise agreed, where goods are delivered to the buyer, and he refuses to accept them, having
the right so to do, he is not bound to return them to the seller, but it is sufficient if he notifies the seller that he refuses to
accept them. If he voluntarily constitutes himself a depositary thereof, he shall be liable as such. (n)

Article 1588. If there is no stipulation as specified in the first paragraph of article 1523, when the buyer's refusal to accept
the goods is without just cause, the title thereto passes to him from the moment they are placed at his disposal. (n)
Article 1589. The vendee shall owe interest for the period between the delivery of the thing and the payment of the price, in the following three cases:

(1) Should it have been so stipulated;

(2) Should the thing sold and delivered produce fruits or income;

(3) Should he be in default, from the time of judicial or extrajudicial demand for the payment of the price. (1501a)

Article 1590. Should the vendee be disturbed in the possession or ownership of the thing acquired, or should he have reasonable grounds to fear such disturbance, by a vindicatory action or a foreclosure of mortgage, he may suspend the payment of the price until the vendor has caused the disturbance or danger to cease, unless the latter gives security for the return of the price in a proper case, or it has been stipulated that, notwithstanding any such contingency, the vendee shall be bound to make the payment. A mere act of trespass shall not authorize the suspension of the payment of the price. (1502a)

Article 1591. Should the vendor have reasonable grounds to fear the loss of immovable property sold and its price, he may immediately sue for the rescission of the sale.

Should such ground not exist, the provisions of article 1191 shall be observed. (1503)

Article 1592. In the sale of immovable property, even though it may have been stipulated that upon failure to pay the price at the time agreed upon the rescission of the contract shall of right take place, the vendee may pay, even after the expiration of the period, as long as no demand for rescission of the contract has been made upon him either judicially or by a notarial act. After the demand, the court may not grant him a new term. (1504a)

Article 1593. With respect to movable property, the rescission of the sale shall of right take place in the interest of the vendor, if the vendee, upon the expiration of the period fixed for the delivery of the thing, should not have appeared to receive it, or, having appeared, he should not have tendered the price at the same time, unless a longer period has been stipulated for its payment. (1505)

CHAPTER 6 Actions for Breach of Contract of Sale of Goods

Article 1594. Actions for breach of the contract of sale of goods shall be governed particularly by the provisions of this Chapter, and as to matters not specifically provided for herein, by other applicable provisions of this Title. (n)

Article 1595. Where, under a contract of sale, the ownership of the goods has passed to the buyer and he wrongfully neglects or refuses to pay for the goods according to the terms of the contract of sale, the seller may maintain an action against him for the price of the goods.

Where, under a contract of sale, the price is payable on a certain day, irrespective of delivery or of transfer of title and the buyer wrongfully neglects or refuses to pay such price, the seller may maintain an action for the price although the ownership in the goods has not passed. But it shall be a defense to such an action that the seller at any time before the judgment in such action has manifested an inability to perform the contract of sale on his part or an intention not to perform it.

Although the ownership in the goods has not passed, if they cannot readily be resold for a reasonable price, and if the provisions of article 1596, fourth paragraph, are not applicable, the seller may offer to deliver the goods to the buyer, and, if the buyer refuses to receive them, may notify the buyer that the goods are thereafter held by the seller as bailee for the buyer. Thereafter the seller may treat the goods as the buyer's and may maintain an action for the price. (n)

Article 1596. Where the buyer wrongfully neglects or refuses to accept and pay for the goods, the seller may maintain an action against him for damages for nonacceptance.

The measure of damages is the estimated loss directly and naturally resulting in the ordinary course of events from the buyer's breach of contract.

Where there is an available market for the goods in question, the measure of damages is, in the absence of special
circumstances showing proximate damage of a different amount, the difference between the contract price and the market or current price at the time or times when the goods ought to have been accepted, or, if no time was fixed for acceptance, then at the time of the refusal to accept.

If, while labor or expense of material amount is necessary on the part of the seller to enable him to fulfill his obligations under the contract of sale, the buyer repudiates the contract or notifies the seller to proceed no further therewith, the buyer shall be liable to the seller for labor performed or expenses made before receiving notice of the buyer’s repudiation or countermand. The profit the seller would have made if the contract or the sale had been fully performed shall be considered in awarding the damages. (n)

Article 1597. Where the goods have not been delivered to the buyer, and the buyer has repudiated the contract of sale, or has manifested his inability to perform his obligations thereunder, or has committed a breach thereof, the seller may totally rescind the contract of sale by giving notice of his election so to do to the buyer. (n)

Article 1598. Where the seller has broken a contract to deliver specific or ascertained goods, a court may, on the application of the buyer, direct that the contract shall be performed specifically, without giving the seller the option of retaining the goods on payment of damages.

The judgment or decree may be unconditional, or upon such terms and conditions as to damages, payment of the price and otherwise, as the court may deem just. (n)

Article 1599. Where there is a breach of warranty by the seller, the buyer may, at his election:

(1) Accept or keep the goods and set up against the seller, the breach of warranty by way of recoupment in diminution or extinction of the price;

(2) Accept or keep the goods and maintain an action against the seller for damages for the breach of warranty;

(3) Refuse to accept the goods, and maintain an action against the seller for damages for the breach of warranty;

(4) Rescind the contract of sale and refuse to receive the goods or if the goods have already been received, return them or offer to return them to the seller and recover the price or any part thereof which has been paid.

When the buyer has claimed and been granted a remedy in anyone of these ways, no other remedy can thereafter be granted, without prejudice to the provisions of the second paragraph of article 1191.

Where the goods have been delivered to the buyer, he cannot rescind the sale if he knew of the breach of warranty when he accepted the goods without protest, or if he fails to notify the seller within a reasonable time of the election to rescind, or if he fails to return or to offer to return the goods to the seller in substantially as good condition as they were in at the time the ownership was transferred to the buyer. But if deterioration or injury of the goods is due to the breach or warranty, such deterioration or injury shall not prevent the buyer from returning or offering to return the goods to the seller and rescinding the sale.

Where the buyer is entitled to rescind the sale and elects to do so, he shall cease to be liable for the price upon returning or offering to return the goods. If the price or any part thereof has already been paid, the seller shall be liable to repay so much thereof as has been paid, concurrently with the return of the goods, or immediately after an offer to return the goods in exchange for repayment of the price.

Where the buyer is entitled to rescind the sale and elects to do so, if the seller refuses to accept an offer of the buyer to return the goods, the buyer shall thereafter be deemed to hold the goods as bailee for the seller, but subject to a lien to secure the payment of any portion of the price which has been paid, and with the remedies for the enforcement of such lien allowed to an unpaid seller by article 1526.

(5) In the case of breach of warranty of quality, such loss, in the absence of special circumstances showing proximate damage of a greater amount, is the difference between the value of the goods at the time of delivery to the buyer and the value they would have had if they had answered to the warranty. (n)
CHAPTER 7 Extinguishment of Sale

Article 1600. Sales are extinguished by the same causes as all other obligations, by those stated in the preceding articles of this Title, and by conventional or legal redemption. (1506)

SECTION 1 Conventional Redemption

Article 1601. Conventional redemption shall take place when the vendor reserves the right to repurchase the thing sold, with the obligation to comply with the provisions of article 1616 and other stipulations which may have been agreed upon. (1507)

ARTICLE 1602. The contract shall be presumed to be an equitable mortgage, in any of the following cases:

1. When the price of a sale with right to repurchase is unusually inadequate;
2. When the vendor remains in possession as lessee or otherwise;
3. When upon or after the expiration of the right to repurchase another instrument extending the period of redemption or granting a new period is executed;
4. When the purchaser retains for himself a part of the purchase price;
5. When the vendor binds himself to pay the taxes on the thing sold;
6. In any other case where it may be fairly inferred that the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation.

In any of the foregoing cases, any money, fruits, or other benefit to be received by the vendee as rent or otherwise shall be considered as interest which shall be subject to the usury laws. (n)

[...]

Article 1866. A contributor, unless he is a general partner, is not a proper party to proceedings by or against a partnership, except where the object is to enforce a limited partner's right against or liability to the partnership.

Article 1867. A limited partnership formed under the law prior to the effectivity of this Code, may become a limited partnership under this Chapter by complying with the provisions of article 1844, provided the certificate sets forth:

1. The amount of the original contribution of each limited partner, and the time when the contribution was made; and
2. That the property of the partnership exceeds the amount sufficient to discharge its liabilities to persons not claiming as general or limited partners by an amount greater than the sum of the contributions of its limited partners.

A limited partnership formed under the law prior to the effectivity of this Code, until or unless it becomes a limited partnership under this Chapter, shall continue to be governed by the provisions of the old law.

TITLE X AGENCY

CHAPTER 1 Nature, Form and Kinds of Agency

Article 1868. By the contract of agency a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter. (1709a)

Article 1869. Agency may be express, or implied from the acts of the principal, from his silence or lack of action, or his failure to repudiate the agency, knowing that another person is acting on his behalf without authority.

Agency may be oral, unless the law requires a specific form. (1710a)

Article 1870. Acceptance by the agent may also be express, or implied from his acts which carry out the agency, or from
his silence or inaction according to the circumstances. (n)

**Article 1871.** Between persons who are present, the acceptance of the agency may also be implied if the principal delivers his power of attorney to the agent and the latter receives it without any objection. (n)

**Article 1872.** Between persons who are absent, the acceptance of the agency cannot be implied from the silence of the agent, except:

1. When the principal transmits his power of attorney to the agent, who receives it without any objection;
2. When the principal entrusts to him by letter or telegram a power of attorney with respect to the business in which he is habitually engaged as an agent, and he did not reply to the letter or telegram. (n)

**Article 1873.** If a person specially informs another or states by public advertisement that he has given a power of attorney to a third person, the latter thereby becomes a duly authorized agent, in the former case with respect to the person who received the special information, and in the latter case with regard to any person.

The power shall continue to be in full force until the notice is rescinded in the same manner in which it was given. (n)

**Article 1874.** When a sale of a piece of land or any interest therein is through an agent, the authority of the latter shall be in writing; otherwise, the sale shall be void. (n)

**Article 1875.** Agency is presumed to be for a compensation, unless there is proof to the contrary. (n)

**Article 1876.** An agency is either general or special.

The former comprises all the business of the principal. The latter, one or more specific transactions. (1712)

**Article 1877.** An agency couched in general terms comprises only acts of administration, even if the principal should state that he withholds no power or that the agent may execute such acts as he may consider appropriate, or even though the agency should authorize a general and unlimited management. (n)

**Article 1878.** Special powers of attorney are necessary in the following cases:

1. To make such payments as are not usually considered as acts of administration;
2. To effect novations which put an end to obligations already in existence at the time the agency was constituted;
3. To compromise, to submit questions to arbitration, to renounce the right to appeal from a judgment, to waive objections to the venue of an action or to abandon a prescription already acquired;
4. To waive any obligation gratuitously;
5. To enter into any contract by which the ownership of an immovable is transmitted or acquired either gratuitously or for a valuable consideration;
6. To make gifts, except customary ones for charity or those made to employees in the business managed by the agent;
7. To loan or borrow money, unless the latter act be urgent and indispensable for the preservation of the things which are under administration;
8. To lease any real property to another person for more than one year;
9. To bind the principal to render some service without compensation;
10. To bind the principal in a contract of partnership;
11. To obligate the principal as a guarantor or surety;
(12) To create or convey real rights over immovable property;

(13) To accept or repudiate an inheritance;

(14) To ratify or recognize obligations contracted before the agency;

(15) Any other act of strict dominion. (n)

Article 1879. A special power to sell excludes the power to mortgage; and a special power to mortgage does not include the power to sell. (n)

Article 1880. A special power to compromise does not authorize submission to arbitration. (1713a)

Article 1881. The agent must act within the scope of his authority. He may do such acts as may be conducive to the accomplishment of the purpose of the agency. (1714a)

Article 1882. The limits of the agent's authority shall not be considered exceeded should it have been performed in a manner more advantageous to the principal than that specified by him. (1715)

Article 1883. If an agent acts in his own name, the principal has no right of action against the persons with whom the agent has contracted; neither have such persons against the principal.

In such case the agent is the one directly bound in favor of the person with whom he has contracted, as if the transaction were his own, except when the contract involves things belonging to the principal.

The provisions of this article shall be understood to be without prejudice to the actions between the principal and agent. (1717)

CHAPTER 2 Obligations of the Agent

Article 1884. The agent is bound by his acceptance to carry out the agency, and is liable for the damages which, through his non-performance, the principal may suffer.

He must also finish the business already begun on the death of the principal, should delay entail any danger. (1718)

Article 1885. In case a person declines an agency, he is bound to observe the diligence of a good father of a family in the custody and preservation of the goods forwarded to him by the owner until the latter should appoint an agent or take charge of the goods. (n)

Article 1886. Should there be a stipulation that the agent shall advance the necessary funds, he shall be bound to do so except when the principal is insolvent. (n)

Article 1887. In the execution of the agency, the agent shall act in accordance with the instructions of the principal.

In default thereof, he shall do all that a good father of a family would do, as required by the nature of the business. (1719)

Article 1888. An agent shall not carry out an agency if its execution would manifestly result in loss or damage to the principal. (n)

Article 1889. The agent shall be liable for damages if, there being a conflict between his interests and those of the principal, he should prefer his own. (n)

Article 1890. If the agent has been empowered to borrow money, he may himself be the lender at the current rate of interest. If he has been authorized to lend money at interest, he cannot borrow it without the consent of the principal. (n)

Article 1891. Every agent is bound to render an account of his transactions and to deliver to the principal whatever he may have received by virtue of the agency, even though it may not be owing to the principal.
Every stipulation exempting the agent from the obligation to render an account shall be void. (1720a)

**Article 1892.** The agent may appoint a substitute if the principal has not prohibited him from doing so; but he shall be responsible for the acts of the substitute:

1. When he was not given the power to appoint one;
2. When he was given such power, but without designating the person, and the person appointed was notoriously incompetent or insolvent.

All acts of the substitute appointed against the prohibition of the principal shall be void. (1721)

**Article 1893.** In the cases mentioned in Nos. 1 and 2 of the preceding article, the principal may furthermore bring an action against the substitute with respect to the obligations which the latter has contracted under the substitution. (1722a)

**Article 1894.** The responsibility of two or more agents, even though they have been appointed simultaneously, is not solidary, if solidarity has not been expressly stipulated. (1723)

**Article 1895.** If solidarity has been agreed upon, each of the agents is responsible for the nonfulfillment of agency, and for the fault or negligence of his fellows agents, except in the latter case when the fellow agents acted beyond the scope of their authority. (n)

**Article 1896.** The agent owes interest on the sums he has applied to his own use from the day on which he did so, and on those which he still owes after the extinguishment of the agency. (1724a)

**Article 1897.** The agent who acts as such is not personally liable to the party with whom he contracts, unless he expressly binds himself or exceeds the limits of his authority without giving such party sufficient notice of his powers. (1725)

**Article 1898.** If the agent contracts in the name of the principal, exceeding the scope of his authority, and the principal does not ratify the contract, it shall be void if the party with whom the agent contracted is aware of the limits of the powers granted by the principal. In this case, however, the agent is liable if he undertook to secure the principal's ratification. (n)

**Article 1899.** If a duly authorized agent acts in accordance with the orders of the principal, the latter cannot set up the ignorance of the agent as to circumstances whereof he himself was, or ought to have been, aware. (n)

**Article 1900.** So far as third persons are concerned, an act is deemed to have been performed within the scope of the agent's authority, if such act is within the terms of the power of attorney, as written, even if the agent has in fact exceeded the limits of his authority according to an understanding between the principal and the agent. (n)

**Article 1901.** A third person cannot set up the fact that the agent has exceeded his powers, if the principal has ratified, or has signified his willingness to ratify the agent's acts. (n)

**Article 1902.** A third person with whom the agent wishes to contract on behalf of the principal may require the presentation of the power of attorney, or the instructions as regards the agency.

Private or secret orders and instructions of the principal do not prejudice third persons who have relied upon the power of attorney or instructions shown them. (n)

**Article 1903.** The commission agent shall be responsible for the goods received by him in the terms and conditions and as described in the consignment, unless upon receiving them he should make a written statement of the damage and deterioration suffered by the same. (n)

**Article 1904.** The commission agent who handles goods of the same kind and mark, which belong to different owners, shall distinguish them by countermarks, and designate the merchandise respectively belonging to each principal. (n)

**Article 1905.** The commission agent cannot, without the express or implied consent of the principal, sell on credit. Should he do so, the principal may demand from him payment in cash, but the commission agent shall be entitled to any interest or benefit, which may result from such sale. (n)
Article 1906. Should the commission agent, with authority of the principal, sell on credit, he shall so inform the principal, with a statement of the names of the buyers. Should he fail to do so, the sale shall be deemed to have been made for cash insofar as the principal is concerned. (n)

Article 1907. Should the commission agent receive on a sale, in addition to the ordinary commission, another called a guarantee commission, he shall bear the risk of collection and shall pay the principal the proceeds of the sale on the same terms agreed upon with the purchaser. (n)

Article 1908. The commission agent who does not collect the credits of his principal at the time when they become due and demandable shall be liable for damages, unless he proves that he exercised due diligence for that purpose. (n)

Article 1909. The agent is responsible not only for fraud, but also for negligence, which shall be judged with more or less rigor by the courts, according to whether the agency was or was not for a compensation. (1726)

CHAPTER 3 Obligations of the Principal

Article 1910. The principal must comply with all the obligations which the agent may have contracted within the scope of his authority.

As for any obligation wherein the agent has exceeded his power, the principal is not bound except when he ratifies it expressly or tacitly. (1727)

Article 1911. Even when the agent has exceeded his authority, the principal is solidarily liable with the agent if the former allowed the latter to act as though he had full powers. (n)

Article 1912. The principal must advance to the agent, should the latter so request, the sums necessary for the execution of the agency.

Should the agent have advanced them, the principal must reimburse him therefor, even if the business or undertaking was not successful, provided the agent is free from all fault.

The reimbursement shall include interest on the sums advanced, from the day on which the advance was made. (1728)

Article 1913. The principal must also indemnify the agent for all the damages which the execution of the agency may have caused the latter, without fault or negligence on his part. (1729)

Article 1914. The agent may retain in pledge the things which are the object of the agency until the principal effects the reimbursement and pays the indemnity set forth in the two preceding articles. (1730)

Article 1915. If two or more persons have appointed an agent for a common transaction or undertaking, they shall be solidarily liable to the agent for all the consequences of the agency. (1731)

Article 1916. When two persons contract with regard to the same thing, one of them with the agent and the other with the principal, and the two contracts are incompatible with each other, that of prior date shall be preferred, without prejudice to the provisions of article 1544. (n)

Article 1917. In the case referred to in the preceding article, if the agent has acted in good faith, the principal shall be liable in damages to the third person whose contract must be rejected. If the agent acted in bad faith, he alone shall be responsible. (n)

Article 1918. The principal is not liable for the expenses incurred by the agent in the following cases:

1. If the agent acted in contravention of the principal's instructions, unless the latter should wish to avail himself of the benefits derived from the contract;

2. When the expenses were due to the fault of the agent;
(3) When the agent incurred them with knowledge that an unfavorable result would ensue, if the principal was not aware thereof;

(4) When it was stipulated that the expenses would be borne by the agent, or that the latter would be allowed only a certain sum. (n)

CHAPTER 4 Modes of Extinguishment of Agency

Article 1919. Agency is extinguished:

(1) By its revocation;

(2) By the withdrawal of the agent;

(3) By the death, civil interdiction, insanity or insolvency of the principal or of the agent;

(4) By the dissolution of the firm or corporation which entrusted or accepted the agency;

(5) By the accomplishment of the object or purpose of the agency;

(6) By the expiration of the period for which the agency was constituted. (1732a)

Article 1920. The principal may revoke the agency at will, and compel the agent to return the document evidencing the agency. Such revocation may be express or implied. (1733a)

Article 1921. If the agency has been entrusted for the purpose of contracting with specified persons, its revocation shall not prejudice the latter if they were not given notice thereof. (1734)

Article 1922. If the agent had general powers, revocation of the agency does not prejudice third persons who acted in good faith and without knowledge of the revocation. Notice of the revocation in a newspaper of general circulation is a sufficient warning to third persons. (n)

Article 1923. The appointment of a new agent for the same business or transaction revokes the previous agency from the day on which notice thereof was given to the former agent, without prejudice to the provisions of the two preceding articles. (1735a)

Article 1924. The agency is revoked if the principal directly manages the business entrusted to the agent, dealing directly with third persons. (n)

Article 1925. When two or more principals have granted a power of attorney for a common transaction, any one of them may revoke the same without the consent of the others. (n)

Article 1926. A general power of attorney is revoked by a special one granted to another agent, as regards the special matter involved in the latter. (n)

Article 1927. An agency cannot be revoked if a bilateral contract depends upon it, or if it is the means of fulfilling an obligation already contracted, or if a partner is appointed manager of a partnership in the contract of partnership and his removal from the management is unjustifiable. (n)

Article 1928. The agent may withdraw from the agency by giving due notice to the principal. If the latter should suffer any damage by reason of the withdrawal, the agent must indemnify him therefor, unless the agent should base his withdrawal upon the impossibility of continuing the performance of the agency without grave detriment to himself. (1736a)

Article 1929. The agent, even if he should withdraw from the agency for a valid reason, must continue to act until the principal has had reasonable opportunity to take the necessary steps to meet the situation. (1737a)

Article 1930. The agency shall remain in full force and effect even after the death of the principal, if it has been constituted in the common interest of the latter and of the agent, or in the interest of a third person who has accepted the
stipulation in his favor. (n)

Article 1931. Anything done by the agent, without knowledge of the death of the principal or of any other cause which extinguishes the agency, is valid and shall be fully effective with respect to third persons who may have contracted with him in good faith. (1738)

Article 1932. If the agent dies, his heirs must notify the principal thereof, and in the meantime adopt such measures as the circumstances may demand in the interest of the latter. (1739)

TITLE XI LOAN

General Provisions

Article 1933. By the contract of loan, one of the parties delivers to another, either something not consumable so that the latter may use the same for a certain time and return it, in which case the contract is called a commodatum; or money or other consumable thing, upon the condition that the same amount of the same kind and quality shall be paid, in which case the contract is simply called a loan or mutuum.

Commodatum is essentially gratuitous.

Simple loan may be gratuitous or with a stipulation to pay interest.

In commodatum the bailor retains the ownership of the thing loaned, while in simple loan, ownership passes to the borrower. (1740a)

Article 1934. An accepted promise to deliver something by way of commodatum or simple loan is binding upon parties, but the commodatum or simple loan itself shall not be perfected until the delivery of the object of the contract. (n)

[...]

TITLE XVII EXTRA-CONTRACTUAL OBLIGATIONS

CHAPTER 1 Quasi-contracts

SECTION 2 Solutio Indebiti

Article 2154. If something is received when there is no right to demand it, and it was unduly delivered through mistake, the obligation to return it arises. (1895)

Article 2155. Payment by reason of a mistake in the construction or application of a doubtful or difficult question of law may come within the scope of the preceding article. (n)

Article 2156. If the payer was in doubt whether the debt was due, he may recover if he proves that it was not due. (n)

Article 2157. The responsibility of two or more payees, when there has been payment of what is not due, is solidary. (n)

Article 2158. When the property delivered or money paid belongs to a third person, the payee shall comply with the provisions of article 1984. (n)

Article 2159. Whoever in bad faith accepts an undue payment, shall pay legal interest if a sum of money is involved, or shall be liable for fruits received or which should have been received if the thing produces fruits.

He shall furthermore be answerable for any loss or impairment of the thing from any cause, and for damages to the person who delivered the thing, until it is recovered. (1896a)

Article 2160. He who in good faith accepts an undue payment of a thing certain and determinate shall only be
responsible for the impairment or loss of the same or its accessories and accessions insofar as he has thereby been benefited. If he has alienated it, he shall return the price or assign the action to collect the sum. (1897)

**Article 2161.** As regards the reimbursement for improvements and expenses incurred by him who unduly received the thing, the provisions of Title V of Book II shall govern. (1898)

**Article 2162.** He shall be exempt from the obligation to restore who, believing in good faith that the payment was being made of a legitimate and subsisting claim, destroyed the document, or allowed the action to prescribe, or gave up the pledges, or cancelled the guaranties for his right. He who paid unduly may proceed only against the true debtor or the guarantors with regard to whom the action is still effective. (1899)

**Article 2163.** It is presumed that there was a mistake in the payment if something which had never been due or had already been paid was delivered; but he from whom the return is claimed may prove that the delivery was made out of liberality or for any other just cause. (1901)

[...]

**TITLE XVIII DAMAGES 1**

**CHAPTER 1 General Provisions**

[...]

**Article 2197.** Damages may be:

1. Actual or compensatory;

2. Moral;

3. Nominal;

4. Temperate or moderate;

5. Liquidated; or

6. Exemplary or corrective.

**Article 2198.** The principles of the general law on damages are hereby adopted insofar as they are not inconsistent with this Code.

**CHAPTER 2 Actual or Compensatory Damages**

**Article 2199.** Except as provided by law or by stipulation, one is entitled to an adequate compensation only for such pecuniary loss suffered by him as he has duly proved. Such compensation is referred to as actual or compensatory damages.

**Article 2200.** Indemnification for damages shall comprehend not only the value of the loss suffered, but also that of the profits which the obligee failed to obtain. (1106)

**Article 2201.** In contracts and quasi-contracts, the damages for which the obligor who acted in good faith is liable shall be those that are the natural and probable consequences of the breach of the obligation, and which the parties have foreseen or could have reasonably foreseen at the time the obligation was constituted.

In case of fraud, bad faith, malice or wanton attitude, the obligor shall be responsible for all damages which may be reasonably attributed to the non-performance of the obligation. (1107a)
Article 2202. In crimes and quasi-delicts, the defendant shall be liable for all damages which are the natural and probable consequences of the act or omission complained of. It is not necessary that such damages have been foreseen or could have reasonably been foreseen by the defendant.

Article 2203. The party suffering loss or injury must exercise the diligence of a good father of a family to minimize the damages resulting from the act or omission in question.

Article 2204. In crimes, the damages to be adjudicated may be respectively increased or lessened according to the aggravating or mitigating circumstances.

Article 2205. Damages may be recovered:

1. For loss or impairment of earning capacity in cases of temporary or permanent personal injury;

2. For injury to the plaintiff's business standing or commercial credit.

Article 2206. The amount of damages for death caused by a crime or quasi-delict shall be at least three thousand pesos, even though there may have been mitigating circumstances. In addition:

1. The defendant shall be liable for the loss of the earning capacity of the deceased, and the indemnity shall be paid to the heirs of the latter; such indemnity shall in every case be assessed and awarded by the court, unless the deceased on account of permanent physical disability not caused by the defendant, had no earning capacity at the time of his death;

2. If the deceased was obliged to give support according to the provisions of article 291, the recipient who is not an heir called to the decedent's inheritance by the law of testate or intestate succession, may demand support from the person causing the death, for a period not exceeding five years, the exact duration to be fixed by the court;

3. The spouse, legitimate and illegitimate descendants and ascendants of the deceased may demand moral damages for mental anguish by reason of the death of the deceased.

Article 2207. If the plaintiff's property has been insured, and he has received indemnity from the insurance company for the injury or loss arising out of the wrong or breach of contract complained of, the insurance company shall be subrogated to the rights of the insured against the wrongdoer or the person who has violated the contract. If the amount paid by the insurance company does not fully cover the injury or loss, the aggrieved party shall be entitled to recover the deficiency from the person causing the loss or injury.

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

1. When exemplary damages are awarded;

2. When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest;

3. In criminal cases of malicious prosecution against the plaintiff;

4. In case of a clearly unfounded civil action or proceeding against the plaintiff;

5. Where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's plainly valid, just and demandable claim;

6. In actions for legal support;

7. In actions for the recovery of wages of household helpers, laborers and skilled workers;

8. In actions for indemnity under workmen's compensation and employer's liability laws;
(9) In a separate civil action to recover civil liability arising from a crime;

(10) When at least double judicial costs are awarded;

(11) In any other case where the court deems it just and equitable that attorney's fees and expenses of litigation should be recovered.

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

**Article 2209.** If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum. (1108)

**Article 2210.** Interest may, in the discretion of the court, be allowed upon damages awarded for breach of contract.

**Article 2211.** In crimes and quasi-delicts, interest as a part of the damages may, in a proper case, be adjudicated in the discretion of the court.

**Article 2212.** Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point. (1109a)

**Article 2213.** Interest cannot be recovered upon unliquidated claims or damages, except when the demand can be established with reasonable certainty.

**Article 2214.** In quasi-delicts, the contributory negligence of the plaintiff shall reduce the damages that he may recover.

**Article 2215.** In contracts, quasi-contracts, and quasi-delicts, the court may equitably mitigate the damages under circumstances other than the case referred to in the preceding article, as in the following instances:

1. That the plaintiff himself has contravened the terms of the contract;
2. That the plaintiff has derived some benefit as a result of the contract;
3. In cases where exemplary damages are to be awarded, that the defendant acted upon the advice of counsel;
4. That the loss would have resulted in any event;
5. That since the filing of the action, the defendant has done his best to lessen the plaintiff's loss or injury.

**Referring Principles:**

- I.1.1 - Good faith and fair dealing in international trade
- II.1 - Prerequisites and effects of agency
- II.3 - Agent acting without or outside his authority
- II.4 - Agency by estoppel / apparent authority
- II.7 - General agent
- III.1 - Set-off
- IV.1.2 - Sanctity of contracts
- IV.2.1 - Contractual consent
- IV.2.4 - Lapse of an offer
- IV.5.1 - Intentions of the parties
IV.5.3 - Interpretation in favor of effectiveness of contract
IV.5.4 - Interpretation against the party that supplied the term
IV.5.2 - Context-oriented interpretation
IV.6.10 - Conditions
IV.6.11 - Plurality of debtors
IV.7.1 - Invalidity of contract that violates good morals ("boni mores")
IV.7.3 - Right to avoid the contract for mistake in fact or law
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V.1.1 - Place of performance
VI.2 - Deadline for notice of defects
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VIII.1 - Definition
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IX.1 - Basic rule
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