

Title: Leung Yee vs. Frank L. Strong Machinery Company and J. G. Williamson

Facts:

The Compañía Agrícola Filipina purchased rice-cleaning machinery from the defendant, Frank L. Strong Machinery Company, and executed a chattel mortgage on the machinery and the building housing it, though without reference to the land the building was on. The chattel mortgage was to secure payment of the purchase. When the company failed to pay the indebtedness, the machinery and the building were sold at a sheriff's auction to Strong Machinery.

The sale was registered in the chattel mortgage registry but not in the property registry. Shortly after, on January 14, 1914, Compañía Agrícola Filipina sold the land to Strong Machinery. This sale didn't mention the building and was not registered in the property registry.

Concurrently, before the default, the Compañía had also mortgaged the building to plaintiff Leung Yee to secure a separate debt. When the company defaulted on its payment to Leung Yee, he secured a judgment, levied execution on the building, bought it at a sheriff's auction, and registered the sheriff's sale.

Strong Machinery, in possession of the property, opposed the levy by Leung Yee, filing a sworn claim of ownership which led to Leung Yee posting an indemnity bond. Despite this, the sheriff sold the building to Leung Yee, who then sought to recover possession from Strong Machinery. The trial court ruled in favor of Strong Machinery, citing Article 1473 of the Civil Code concerning the precedence of property rights.

Issues:

1. Whether a building treated as personal property by the parties can be subject to a chattel mortgage.
2. How Article 1473 of the Civil Code applies to successive property claims and the effect of good faith in registration and possession.

Court's Decision:

The Court held that the contracts and conduct of the parties indicated they treated the building as personal property; therefore, the chattel mortgage registry had no legal effect over the building as it was indeed real property. However, the Court concluded that Leung Yee was not a purchaser in good faith since he had knowledge of Strong Machinery's property claim and continued with the auction. Hence, the judgment was sustained and

Strong Machinery confirmed as the owner by virtue of prior possession and purchase of the building in good faith.

Doctrine:

The measure of good faith in property acquisition is gauged by the purchaser's knowledge of the seller's defect of title and the necessity of inquiry. A purchaser with knowledge of a defect in title or facts necessitating inquiry cannot claim they acquired title in good faith. Registration of property in bad faith does not confer preferential rights.

Class Notes:

- A chattel mortgage can only affect personal property; buildings are considered real property even if dealt with separately from the land.
- Good faith is essential in property registration, purchase, and subsequent rights. Knowledge of defects in the vendor's title negates good faith.
- Article 1473 of the Civil Code applies different rules based on the nature of the property (personal or real) and prescribes the hierarchy of rights considering registration and possession. Both require good faith.
- Relevant legal statute: "Art. 1473. If the same thing should have been sold to different vendees, the ownership shall be transferred..." (Civil Code of the Philippines).

Historical Background:

In the early 20th century, Philippine jurisprudence on property transactions wrestled with applying Spanish civil law principles inherited from the colonial period to the realities of commercial development. This case reflects the nuanced interpretation necessary to analyze property rights, considering local customs, such as the treatment of buildings as personal property for security transactions.