

Title: Ruby L. Tsai vs. Hon. Court of Appeals, Ever Textile Mills, Inc. and Mamerto R. Villaluz; and Philippine Bank of Communications vs. Hon. Court of Appeals, Ever Textile Mills, Inc. and Mamerto R. Villaluz

Facts:

This consolidated case originates from Civil Case No. 89-48265 and revolves around the validity of a foreclosure sale and subsequent transactions involving certain machineries.

On November 26, 1975, Ever Textile Mills, Inc. (EVERTEX) secured a loan of P3,000,000.00 from Philippine Bank of Communications (PBCom), for which it executed a deed of Real and Chattel Mortgage over a lot under TCT No. 372097 and specific chattels as security. On April 23, 1979, EVERTEX secured a second loan with PBCom, for P3,356,000.00, secured by a chattel mortgage over personal properties similar to those listed in the first mortgage.

Following financial difficulties, EVERTEX filed for insolvency on November 19, 1982, which led to all its assets, including those mortgaged to PBCom, being taken under custody by the insolvency court. Despite this, PBCom initiated extrajudicial foreclosure proceedings under Act 3135 and Act 1506. Two public auctions were held with PBCom as the highest bidder, resulting in the issuance of Certificates of Sale on December 15 and 23, 1982. PBCom consolidated ownership of the lot and properties on March 7, 1984, leasing the premises to Ruby L. Tsai in 1986 and selling the factory and its contents to her in 1988, including the contested machineries.

EVERTEX filed a complaint against PBCom and Tsai for annulment of sale, reconveyance, and damages on March 16, 1989, contesting the inclusion of certain machineries not specified in the mortgage contracts or the Notice of Sale in the foreclosure and sale to Tsai. The RTC ruled in favor of EVERTEX, declaring the sale affecting specified personal properties void and ordering various damages payable by PBCom and Tsai to EVERTEX. The Court of Appeals affirmed this decision with some modifications.

The case reached the Supreme Court on petitions filed by both PBCom and Tsai, questioning several aspects of the Court of Appeals' decision.

Issues:

1. Whether the inclusion of the questioned properties in the foreclosed properties is proper.
2. Whether the sale of these properties to petitioner Ruby Tsai is valid.
3. Whether machinery considered immovable by nature can be treated as personal property (chattel) for the purpose of a chattel mortgage.

4. Whether petitioner Tsai is a purchaser in good faith and for value.
5. Whether the defense of indefeasibility of Torrens Title is applicable.
6. Whether the doctrines of prescription and laches apply in this case.
7. Whether the award of damages, including actual compensation, exemplary damages, and attorney's fees and expenses of litigation, is proper.

Court's Decision:

The Supreme Court denied the petitions. Affirming the Court of Appeals' findings, the Supreme Court held that:

1. The disputed machineries were not properly included in the foreclosure since they were not listed in the mortgage contracts nor in the Notice of Sale.
2. As PBCom's title was void, the subsequent sale to Tsai was also void under the principle of "nemo dat quod non habet."
3. Intention of parties must be considered, and in this case, the parties treated the machinery as chattels; thus, the Chattel Mortgage Law applies.
4. Tsai was not a purchaser in good faith as she had knowledge of EVERTEX's claim to the disputed machineries.
5. Tsai's defense of indefeasibility of Torrens Title does not extend to the sale of the properties situated on the land.
6. The doctrines of prescription and laches do not apply because EVERTEX took immediate action to assert their rights.
7. The award of damages was modified, with actual damages reduced and exemplary damages awarded for Tsai and PBCom's oppressive actions and bad faith.

Doctrine:

The Supreme Court held that chattel mortgages only cover the property described within them and not substituted property acquired later unless clearly intended otherwise. Moreover, a property deemed immovable by nature can be subject to a chattel mortgage if the parties have so agreed, reinforcing the principle of estoppel. Finally, the Court highlighted the importance of purchaser good faith, emphasizing that a buyer with notice of another's claim cannot be deemed a bona fide purchaser.

Class Notes:

- The principle of "nemo dat quod non habet" demonstrates that one cannot transfer better title than they possess.
- The Chattel Mortgage Law's scope is limited to specified properties; after-acquired properties are not included unless the mortgage contract explicitly provides for such

inclusion.

- Estoppel can apply when parties have agreed to treat an immovable property as chattel for securing a mortgage.
- Good faith in purchasing property requires not only paying a fair price but also the absence of notice regarding any claim or interest from others on the property.
- Defenses such as the immutability of the Torrens system, prescription, and laches must be established with evidence and cannot be assumed.

Historical Background:

The adjudication of this case coincides with a period of evolving Philippine jurisprudence regarding real and personal properties in the context of chattel mortgages. It reinforces the notion that contractual agreements and the parties' intentions can significantly influence the classification of property for legal purposes. The decision underscores the judiciary's responsibility to balance the technical characteristics of properties with the realities of commercial transactions and security interests.