

### Title:

### Sonny Lo vs. KJS ECO-Formwork System Phil., Inc.: A Case on Assignment of Credit

### Facts:

The petitioner, Sonny L. Lo, a building contractor operating under San's Enterprises, ordered scaffolding equipment from KJS ECO-Formwork System Phil., Inc., the respondent, with an agreement value of P540,425.80 on February 22, 1990. Lo paid a downpayment of P150,000.00, with the balance payable in ten monthly installments. Lo settled the first two installments but subsequently faced financial difficulties, preventing him from completing the payment. To address this, Lo executed a Deed of Assignment on October 11, 1990, assigning his receivables worth P335,462.14 from Jomero Realty Corporation to the respondent as settlement for the outstanding balance.

Despite the Deed of Assignment, Jomero Realty Corporation refused to honor it, claiming Lo also owed them. Consequently, the respondent sought payment directly from Lo, who contended that his obligation had been extinguished by the Deed of Assignment. The dispute led to the respondent filing an action for recovery of a sum of money against Lo at the Regional Trial Court (RTC) of Makati, Branch 147, which was docketed as Civil Case No. 91-074.

### Procedural Posture:

After litigation, the RTC dismissed the respondent's complaint, ruling that the Deed of Assignment extinguished Lo's obligation. Dissatisfied, the respondent appealed to the Court of Appeals, which reversed the RTC's decision, mandating Lo to settle the debt with interest and attorney's fees. Lo further appealed to the Supreme Court.

### Issues:

1. Whether the Court of Appeals erred in declaring the Deed of Assignment void for lack of object based on hearsay.
2. Whether the Deed of Assignment did not extinguish Lo's obligation due to his failure to comply with his warranty.
3. Whether the Court of Appeals erred in reversing the RTC's decision, especially in ordering payment of interests and attorney's fees.

### Court's Decision:

The Supreme Court affirmed the Court of Appeals' decision, holding that the Deed of Assignment did not extinguish Lo's obligation as the credit purportedly assigned did not

exist due to compensation. However, the Supreme Court modified the decision by deleting the award of attorney's fees for lack of evidentiary support.

### ### Doctrine:

The decision emphasized the principle of assignment of credit, particularly the responsibilities of the assignor concerning the existence and legality of the credit at the time of assignment. It clarified that in dation in payment, specific requisites must be met for the obligation to be validly extinguished.

### ### Class Notes:

- **Assignment of Credit**: A legal transfer of a creditor's claim against the debtor to another party, allowing the assignee to pursue the claim.
- **Dation in Payment (Dación en Pago)**: A method of extinguishing an obligation whereby a debtor offers something to the creditor, who accepts it as an alternative to the payment of money owed.
- **Key Provisions**:
  - Civil Code, Article 1628: Responsibilities of the vendor or assignor in an assignment of credit.
  - Civil Code, Articles 1231 and 1278: Principles on how obligations are extinguished and the concept of compensation.

### ### Historical Background:

The case highlights the complexities of dealing with debts and assignments in business transactions, emphasizing the importance of clear agreements and the legal obligations of involved parties. It underscores the doctrine of assignment of credit against the backdrop of the Philippine legal framework governing contracts and obligations.