

### Title:

La Tondeña, Inc. vs. Alto Surety & Insurance Co., Inc., et al.: A Priority Dispute Between Creditors

### Facts:

The case arises from conflicting claims between two creditors over the proceeds from the auction of properties mortgaged by Primitivo P. Ferrer. On April 21, 1949, Ferrer executed a second chattel mortgage on specific properties already under a first mortgage with Pedro Ruiz, all in favor of La Tondeña, Inc. to secure payment of certain amounts. These mortgages were duly registered. Subsequently, due to default, Ruiz sought foreclosure on August 18, 1949, leading to legal action where Ferrer arranged a redelivery bond through Alto Surety & Insurance Co. resulting in a court judgment requiring Ferrer to pay Ruiz. While the first case was pending, La Tondeña initiated its foreclosure proceedings, leading to a final judgment favoring La Tondeña but with a temporary release of the execution levy under certain conditions by Ferrer.

In parallel, Alto Surety pursued recovery for premiums and amounts paid on Ferrer's behalf, attaching the same mortgaged properties already encumbered by La Tondeña's mortgage. As Ferrer failed to fulfill his commitment to La Tondeña, the properties were again subject to foreclosure. However, due to the properties already being attached by Alto Surety, La Tondeña faced obstruction in conducting the foreclosure sale. This led to La Tondeña filing a complaint for damages against Alto Surety, the Associated Insurance Co., and the Provincial Sheriff of Pangasinan, which after trial, saw its claims dismissed on several legal grounds, prompting an appeal to the Supreme Court exclusively on points of law.

### Issues:

1. Whether the release of the execution levy by La Tondeña extinguished its mortgage lien over the subject properties.
2. Whether the arrangement between La Tondeña and Ferrer, offering an extension for debt payment, constituted a novation extinguishing the original foreclosure judgment.
3. Whether Alto Surety's payment of the first mortgage in favor of Ruiz resulted in its legal subrogation to the rights of the first mortgagee, giving it priority over La Tondeña's claim.

### Court's Decision:

The Supreme Court reversed the lower court's decision, addressing the issues as follows:

1. The Court clarified that La Tondeña's mortgage lien remained independent and was not extinguished by releasing the execution levy since the intent for foreclosure was clear and

not waived.

2. The grant of an extension for Ferrer to pay did not constitute a novation that extinguished the foreclosure judgment, as there was no express or clear intent (*animus novandi*) to nullify the original obligation.

3. Alto Surety's legal subrogation to the rights of the first mortgagee occurred only upon its payment of the first mortgage, not when it attached the properties. Since Alto Surety's payment occurred after the attachment, it did not grant them priority over La Tondeña's registered second mortgage.

### ### Doctrine:

This case underscores the doctrine that a mortgage lien based on registration persists independent of an execution levy and is not extinguished unless explicitly waived or novated. Additionally, it reiterates that an extension for payment does not constitute a novation unless there's a clear intent to extinguish the original obligation. Lastly, legal subrogation conferring priority requires actual payment towards the secured debt rather than the mere act of attaching the mortgaged property.

### ### Class Notes:

- **Mortgage Lien vs. Execution Levy**: A mortgage lien persists independently of an execution levy and is not extinguished by releasing the levy unless the mortgage is explicitly waived or novated.
- **Novation Requirements**: For an arrangement between a creditor and debtor to constitute a novation, there must be an express or implied intent to extinguish the original obligation.
- **Legal Subrogation**: Payment towards the discharge of a secured debt is required for legal subrogation to confer priority rights, distinguishing between the act of attachment and payment fulfillment.

### ### Historical Background:

This case provides insight into post-World War II commercial transactions in the Philippines, showcasing the complexities of securing and foreclosing mortgages amidst financial recovery efforts. It also reflects the evolving interpretation of legal concepts such as novation and subrogation in the context of creditor priority disputes, underlining the judiciary's role in balancing the interests of different parties within the framework of existing laws and securing rights based on proper registration and procedural adherence.