

Title:

The Manila Banking Corporation vs. Anastacio Teodoro, Jr., and Grace Anna Teodoro

Facts:

The Manila Banking Corporation (the Bank) filed a civil case against Anastacio Teodoro, Jr., Grace Anna Teodoro, and Anastacio Teodoro, Sr. (collectively, the Defendants) to collect on unpaid balances from three promissory notes executed in the Bank's favor. Despite repeated demands, the Teodoros failed to fulfill their obligations, leading to the litigation of Civil Case No. 78178 at the Court of First Instance of Manila, Branch XVII. Anastacio Teodoro, Sr.'s death during the proceedings resulted in his dismissal from the case, directing the focus on the junior Teodoros.

On April 25, 1966, per Promissory Note No. 11487, the Defendants, collectively with Teodoro Sr., promised P10,420.00 payable in 120 days with a 12% annual interest. By September 30, 1969, their debt had escalated to P15,137.11 due to accrued interest and service charges. On May 3 and June 20, 1966, Teodoro Jr. and Sr. further executed Promissory Notes Nos. 11515 and 11699 for P8,000.00 and P1,000.00, respectively, under similar terms. A partial payment was made on the May 3 promissory note, leaving an unpaid balance of P8,934.74 by the same date in 1969.

In a related transaction on January 24, 1964, Teodoro Jr. executed a Deed of Assignment of Receivables to the Bank involving receivables from the Emergency Employment Administration amounting to P44,635.00, intended as collateral for loans and credit accommodations extended by the Bank.

The Defendants argued that the Deed of Assignment fulfilled their payment obligations and that the Bank should directly collect from the Philippine Fisheries Commission, which succeeded the Emergency Employment Administration and was allegedly responsible for non-payment due to contract fulfillment failure.

Upon procedural reviews and an appeal filed by the Defendants challenging the trial court's decision favoring the Bank, the case was eventually elevated to the Supreme Court after the Court of Appeals recognized it involved pure legal questions.

Issues:

1. Whether the Deed of Assignment effectively settled the indebtedness under the promissory notes.
2. Whether the Bank was obligated to exhaust all legal remedies against the Philippine

Fisheries Commission before proceeding against the Defendants.

Court's Decision:

The Supreme Court dismissed the appeal, affirming the trial court's decision in favor of the Bank. It held that:

1. The Deed of Assignment was not a payment mechanism for the obligations articulated in the promissory notes. It was intended as collateral security for current and future loans, not as a settlement of existing debts.
2. The Defendants remained primarily liable to the Bank, and the assignment of receivables did not relieve them of this liability. Moreover, the Bank was not required to exhaust legal remedies against the Philippine Fisheries Commission before pursuing the Defendants.

Doctrine:

This case affirms that an assignment of receivables executed as a security for loans does not extinguish the debtors' obligations under separate promissory notes unless explicitly stated. Additionally, a creditor is not obliged to exhaust all legal remedies against a third party before collecting from the principal debtors.

Class Notes:

- **Assignment of Credit**: Transfer of ownership of a credit from the assignor to the assignee. Character and effects depend on the agreement's nature (sale, donation, guaranty, etc.).
- **Promissory Notes**: Written promises to pay specified amounts under agreed terms. Non-payment can lead to legal action for collection.
- **Legal Doctrine on Debt Collection**: Creditors may directly pursue principal debtors without needing to exhaust remedies against third parties unless specified otherwise.

Historical Background:

This case highlights the intricacies of financial transactions, collateral security, and the responsibilities of debtors under Philippine law. It emphasizes the presumption in favor of pledge or mortgage where there's doubt about a transaction's nature as security for debt, demonstrating the legal system's approach to protecting creditors' rights while balancing debtors' obligations.