

****Title:**** Metropol Financing & Investment Corporation vs. Sambok Motors Company and Ng Sambok Sons Motors Co., Ltd.

****Facts:**** This case involves a dispute over the payment of a promissory note. On April 15, 1969, Dr. Javier Villaruel executed a promissory note in favor of Ng Sambok Sons Motors Co., Ltd. for the amount of P15,939.00, payable in twelve monthly installments with an interest rate of 1% per month. The note also stipulated that failure to pay any installment would make the entire remaining sum due immediately, with an additional 25% interest on the total amount due. Sambok Motors Company, referred to herein as Sambok, a sister company to Ng Sambok Sons Motors Co., Ltd., indorsed the note to Metropol Financing & Investment Corporation, including a “with recourse” indorsement, which waived demands, dishonor, protest, and presentment.

Dr. Villaruel defaulted on the installments, leading Metropol to demand payment, which Dr. Villaruel failed to fulfill. Metropol then sought payment from Sambok due to its indorsement. Following Sambok’s refusal to pay, Metropol filed a complaint for collection before the Court of First Instance of Iloilo, Branch I. During the lawsuit, Dr. Villaruel passed away, leading to the dismissal of claims against him. The trial court later granted a summary judgment in favor of Metropol, ordering Sambok to pay both the principal and additional interest amounts.

Dissatisfied, Sambok appealed, arguing that their status as a qualified indorser made them only secondarily liable.

****Issues:****

1. Whether the trial court erred in not dismissing the complaint against Sambok Motors Company by finding it as an assignor and a qualified indorsee of the subject promissory note.
2. Whether Sambok Motors Company, by adding the words “with recourse” in its indorsement, limited its liability only to the warranties specified under Section 65 of the Negotiable Instruments Law.

****Court’s Decision:****

The Supreme Court affirmed the lower court’s decision. It ruled that:

1. Sambok, by indorsing the note “with recourse” and waiving demands and notices, did not limit its liability but confirmed its obligation as a general indorser, thus becoming secondarily liable. The Court clarified that the “with recourse” indorsement does not make

Sambok a qualified indorser but a general indorser responsible after the primary party's default.

2. Following the dishonor of the note by non-payment, Sambok's status transitioned from secondarily liable to that of a principal debtor, thereby obviating the need for Metropol to proceed against the maker before suing the indorser.

****Doctrine:****

- A qualified indorsement transfers the title to the instrument but relieves the indorser from the general obligation to pay upon dishonor, not from the liability arising from the warranties on the instrument as specified in Section 65 of the Negotiable Instruments Law.
- An indorser who indorses a note "with recourse" without qualification assumes the obligations of a general indorser, which upon dishonor, transitions them from a secondary liability to that of a principal debtor.

****Class Notes:****

- "With recourse" indorsement signifies the indorser's agreement to pay if the primary obligor defaults, distinguishing it from a qualified indorsement.
- Upon dishonor by non-payment, a secondarily liable indorser becomes a principal debtor, eliminating the need for the holder to exhaust recourse against the maker.
- Section 65 of the Negotiable Instruments Law outlines the warranties assumed by an indorser to the holder of the instrument, including the genuineness of the instrument and the legal capacity of all prior parties.

****Historical Background:****

The ruling in this case emphasizes the legal interpretations and obligations surrounding indorsements on negotiable instruments within Philippine jurisprudence. It clarifies the liabilities of indorsers, especially in commercial transactions involving promissory notes, which are common financial instruments. The decision underscores the significance of the terms of indorsement and the conditions under which an indorser's liability is activated, delineating the responsibilities between primary and secondary obligors in the context of negotiated instruments.