

Title:

Levy Hermanos, Inc. vs. Lazaro Blas Gervacio: A Case on the Recovery of Unpaid Balance Following the Foreclosure of Mortgaged Property

Facts:

Levy Hermanos, Inc. (plaintiff) initiated a legal complaint in the Court of First Instance of Manila on February 24, 1938. The case revolved around a transaction that occurred on March 15, 1937, wherein Levy Hermanos sold a Packard car to Lazaro Blas Gervacio (defendant). Following the initial payment, the defendant proceeded to execute a promissory note for the remaining balance of P2,400, due on or before June 15, 1937, with an interest of 12 percent per annum. To secure the payment, the defendant mortgaged the car back to the plaintiff. Gervacio failed to settle the promissory note at its maturity, leading the plaintiff to foreclose the mortgage on the car. The car was eventually sold at a public auction, with the plaintiff emerging as the highest bidder at P800. Consequently, the plaintiff sought to collect the remaining balance of P1,600 and corresponding interest. The defendant admitted the complaint's allegations, after which the case was submitted for judicial decision. The lower court utilized the provisions of Act No. 4122, incorporated as Article 1454-A of the Civil Code in its judgment, ultimately ruling in favor of the defendant. The plaintiff then appealed the decision.

Issues:

1. Whether the contract between Levy Hermanos, Inc. and Lazaro Blas Gervacio falls under the purview of Act No. 4122, as outlined in Article 1454-A of the Civil Code.
2. Whether the plaintiff is entitled to recover the unpaid balance following the foreclosure of the mortgaged property.

Court's Decision:

The Philippine Supreme Court reversed the decision of the lower court.

- On the first issue, the Court clarified that Act No. 4122 is specifically designed for contracts of sale of personal property payable in installments and where there is a failure to pay two or more installments. The contract in question was determined not to be a sale payable in installments, but a straight-term sale where the balance, after an initial payment, was to be settled in full at a predetermined date. Consequently, the transaction did not meet the criteria for the application of Act No. 4122, exempting the mortgagee from the restrictions on recovering the unpaid balance post-foreclosure.

- On the second issue, given that the sale was not on installments but rather a straight-term agreement, the Court ruled that the plaintiff is entitled to recover the outstanding balance

of P1,600 with the stipulated interest rate.

Doctrine:

The Supreme Court elucidated the doctrine that the provision of Act No. 4122, as encapsulated in Article 1454-A of the Civil Code, strictly applies to contracts for the sale of personal property payable in installments. The non-applicability of this provision to straight-term sales means that vendors in straight-term sales retain the right to reclaim the unpaid balance even after foreclosing the mortgage, without contradiction to the said legal provision.

Class Notes:

- **Act No. 4122/Article 1454-A Application:** Applies only to contracts for the sale of personal property payable in installments where there is a failure to pay two or more installments.
- **Mortgage Foreclosure:** Foreclosure of a mortgage given to secure payment does not automatically negate the vendor's right to claim the unpaid balance in transactions not covered by Act No. 4122.
- **Contract Classification:** Understanding the difference between installment sales and straight-term sales is crucial, as the former falls under the specific restrictions of Act No. 4122.
- **Legal Interpretation:** The literal interpretation of statutes—where the law does not distinguish, courts should not distinguish.

Historical Background:

The case provides insight into the legal protections offered to purchasers and vendors in the context of the early 20th century Philippines. Act No. 4122, referred to in this case, reflects the legislator's intent to balance the interests of both parties in installment sales, a common commercial practice at the time. The judgment in this case underscores the importance of contractual terms and the limitations of legal protections available to parties in straight-term sales, highlighting the evolving nature of commercial law in the Philippines.