

Title:

****Esguerra vs. G.A. Machineries, Inc.: A Case of Lawful Repossession and the Limits of Chattel Mortgage****

Facts:

The genesis of this case was the purchase of a Ford-Trader cargo truck by Hilario Lagmay and Bonifacio Masilungan from G.A. Machineries, Inc. (GAMI) on October 21, 1964. Montelibano Esguerra subsequently acquired rights to the truck, assuming the balance of P20,454.74. To secure the unpaid balance, Esguerra executed a promissory note and a chattel mortgage in favor of GAMI. After a payment default, a new agreement was formed on February 20, 1966, stipulating a new balance of P16,000.00 plus 1% interest per month, payable in monthly installments starting March 15, 1966. By May 18, Esguerra had managed to pay only P1,297.00 towards his obligation.

On June 3, 1966, agents of GAMI repossessed the truck due to the default. Esguerra initiated a complaint in the Court of First Instance of Cavite, seeking the truck's return and damages, disputing the lawful seizure under the claim that the agents misrepresented themselves as deputies and used force. GAMI contended that Esguerra consented to the truck's repossession under the condition he would recover possession upon settling his arrears. The trial court dismissed both the complaint and counterclaim, upholding GAMI's right under the chattel mortgage to repossess without needing court action. Esguerra's subsequent appeal saw the Court of Appeals partially siding with him, challenging the failure of GAMI to sell the truck at a public auction as per the terms of the chattel mortgage, but it did not demand the truck's return, leading to the twin petitions for review to the Supreme Court.

Issues:

1. Whether the provisions of the chattel mortgage allowing GAMI to repossess the truck in case of default are legal and lawful.
2. Whether the Court of Appeals erred in not mandating the return of the truck to Esguerra or its sale at a public auction following repossession.
3. The legality of GAMI's repossession without subsequent foreclosure or public auction under the chattel mortgage terms.

Court's Decision:

The Supreme Court affirmed the decision of the Court of Appeals but modified it by removing the award of exemplary damages. The Court held that while the repossession of

the truck by GAMI was not unlawful, due to Esguerra's default and consent, the failure to proceed with a public auction as stipulated in the chattel mortgage agreement constituted non-compliance with the mortgage's terms. The Court distinguished between possessing the mortgaged property and foreclosing the mortgage, stating that taking possession does not equate to foreclosure. Therefore, GAMI should have proceeded with foreclosure through a public auction. The Court also clarified that the remedies under Article 1484 of the Civil Code are alternative, not cumulative, indicating GAMI could not claim the truck as compensation for the unpaid debt (pactum commissorium), which is prohibited.

Doctrine:

1. **Pactum Commissorium Doctrine**: The automatic appropriation of a mortgaged item in payment of an outstanding loan upon default by the debtor is prohibited, rendering any agreement to this effect null and void.

Class Notes:

- **Chattel Mortgage**: A chattel mortgage must comply with the terms agreed upon, including procedures in case of default. Repossession does not equate to foreclosure of the mortgage. A public auction is required to liquidate the item to cover the debt.
- **Article 1484 of the Civil Code**: Offers alternative remedies to the vendor in sales of personal property by installment; these remedies are not cumulative, and the vendor must choose one.
- **Pactum Commissorium**: Automatically appropriating a mortgaged property as payment for the debt upon the debtor's default is forbidden under Philippine law.

Historical Background:

This case explores the legal boundaries and obligations of parties under a chattel mortgage agreement in the Philippines, particularly concerning repossession and foreclosure procedures. It highlights the protective measures in place to prevent the undue appropriation of property and ensures a fair process for debt recovery. The decision reinforces the importance of strictly adhering to the agreed contractual terms and the provisions of the Civil Code to safeguard the interests of both the debtor and creditor.