

Title: Filipinas Investment & Finance Corporation vs. Julian R. Vitug, Jr. and Supreme Sales & Development Corporation

Facts:

1. Julian R. Vitug, Jr. purchased a car from Supreme Sales & Development Corporation for a price of P14,605.00, secured by a promissory note payable in monthly installments, and further secured by a chattel mortgage over the car.
2. Supreme Sales & Development Corporation endorsed the promissory note and assigned the chattel mortgage to Filipinas Investment & Finance Corporation on a with-recourse basis, meaning the assignee (Filipinas Investment) had the right of recourse against the assignor (Supreme Sales) if Vitug defaulted.
3. Vitug defaulted on the installments due on January 6, February 6, March 6, and April 6, 1965, making the entire obligation due and demandable.
4. Filipinas Investment obtained possession of the car through a writ of replevin, which Vitug voluntarily surrendered, and sold it at a public auction. The auction proceeds were insufficient, leaving a deficiency of P8,349.35 plus interest.
5. Filipinas Investment sought to recover this deficiency from Supreme Sales, invoking the with-recourse clause in the assignment.
6. Supreme Sales moved to dismiss the amended complaint, citing Article 1484 of the Civil Code (Recto Law), which restricts the creditor's remedies upon foreclosure of a chattel mortgage to the proceeds of the foreclosure, disallowing any further action for deficiency.

Issues:

1. Whether Article 1484 of the Civil Code bars Filipinas Investment from claiming the deficiency from Supreme Sales.
2. Whether the with-recourse clause in the assignment of the promissory note and chattel mortgage is valid and enforceable against Supreme Sales.

Court's Decision:

1. **Issue 1: Applicability of Article 1484** - The Court held that Article 1484, known as the Recto Law, pertains to the protection of buyers from unscrupulous sellers in installment sales. This law prevents sellers from recovering any balance remaining after a foreclosure auction. However, this limitation is for the protection of the buyer, not for transactions between finance entities and sales corporations involving discounted promissory notes.

- **Resolution:** Article 1484 does not bar the claim because Supreme Sales, as the assignor, agreed to a with-recourse basis assignment, thereby accepting potential liability

for the deficiency.

2. **Issue 2: Validity of the with-recourse Assignment Clause** - The Court recognized that the assignment agreement between Filipinas Investment and Supreme Sales included a clear stipulation for recourse in case of the buyer's default, independent of the limitations of Article 1484.

- **Resolution**: The Supreme Court found that such assignments are standard commercial practices (discount transactions) and do not violate the public policy embodied in the Recto Law, thereby making the with-recourse clause valid.

Doctrine:

1. Article 1484 of the Civil Code is enacted to protect installment buyers from multiple recoveries by sellers but does not extend to commercial transactions between assignees and assignors of promissory notes.

2. In transactions involving assignment of promissory notes with a right of recourse, the assignor can be held liable for any deficiency if explicitly stipulated, regardless of Article 1484 restrictions.

Class Notes:

1. **Key Elements of Assignment and Recourse**:

- Promissory Note: A written promise to pay a specified amount under specific terms.

- Chattel Mortgage: A mortgage securing personal property.

- Assignment: Transfer of rights or property to another entity.

- With-Recourse Basis: The assignee can claim any deficiency from the assignor if the promissory note isn't fully satisfied by the debtor.

2. **Relevant Statutes**:

- Article 1484, Civil Code of the Philippines: Protects buyers against unscrupulous sellers but limits recovery to foreclosure proceeds; prevents deficiency recovery.

- Specific Assignment Agreement: Can include terms beyond statutory protections if explicitly stated and not contrary to public policy.

Historical Background:

The case provides context post-enactment of the Revised Civil Code (1950), particularly interpreting the expanded protection of buyers under the Recto Law (Article 1484). The decision expands on the legislative intent of consumer protection laws, reaffirming commercial practices in financial markets, ensuring balance between creditor's rights and

consumer protection principles.