

### Title:

Nyco Sales Corporation v. BA Finance Corporation

### Facts:

1. **Background**: Nyco Sales Corporation (Nyco) is engaged in selling construction materials, led by President Rufino Yao, based in Davao City.
2. **Credit Accommodation Request**: In 1978, Santiago and Renato Fernandez, representing Sanshell Corporation, approached Rufino Yao for credit accommodation from Nyco.
3. **Discounting Process Initiation**: Nyco, through Yao, agreed to grant Sanshell discounting privileges it held with BA Finance Corporation.
4. **Transaction Execution**: On November 15, 1978, the Fernandezes endorsed Sanshell's post-dated BPI-Davao Branch Check No. 499648 (dated February 17, 1979, for P60,000.00) payable to Nyco, and Nyco endorsed this check over to BA Finance.
5. **Issuance and Transfer of Check**: BA Finance issued a check payable to Nyco, which was then endorsed to Sanshell for negotiation.
6. **Deed of Assignment**: A Deed of Assignment was executed between Nyco and BA Finance, with conformity from Sanshell, and included a Continuing Suretyship Agreement where the Fernandezes guaranteed the payment to BA Finance.
7. **Dishonor**: The BPI check was dishonored by the drawee bank; a substitute check from Security Bank and Trust Company (SBTC) was issued and also dishonored.
8. **Legal Action**: BA Finance initiated a lawsuit against Nyco and the Fernandezes for failure to settle the obligation. Nyco was declared in default initially.
9. **Setting Aside of Default**: Nyco's plea to set aside the default, file an answer, and implead Sanshell was granted, but the court ruled against Nyco, ordering it to pay BA Finance P60,000.00 plus interest and attorney's fees.
10. **Appeals**: Nyco appealed; the Intermediate Appellate Court modified the judgment, setting the interest to run from February 19, 1979, instead of February 1.
11. **Present Recourse**: Nyco challenged the appellate court's decision in the Supreme Court.

### Issues:

1. **Liability for Checks**: Whether Nyco, as the assignor, is liable to its assignee (BA Finance) for the dishonored checks.
2. **Notification of Dishonor**: Whether Nyco was discharged from liability due to BA Finance's failure to notify it about the dishonor of the checks.
3. **Novation**: Whether the substitution of the BPI check with the SBTC check amounted

to novation, thus discharging Nyco from liability.

4. **Unauthorized Acts**: Whether Nyco could disown its President's actions on grounds of lack of authority from the corporate board.

### ### Court's Decision:

1. **Liability for Checks**: Nyco was held liable. The assignment implied warranties under Article 1628 of the Civil Code, obliging Nyco to ensure the validity of the check. Both lower and appellate courts noted that Nyco is liable for the amount represented by the checks, and not for the checks themselves.

2. **Notification of Dishonor**: The Court found that Nyco was sufficiently informed about the dishonor through BA Finance's formal demand letter and consistent interactions related to the dishonor. Failure to formally notify does not absolve Nyco's liability.

3. **Novation**: The Court determined that there was no novation. The acceptance of a substitute check does not indicate replacement of the original obligation unless explicitly stated. The obligations were not incompatible, thus no novation occurred.

4. **Unauthorized Acts**: The Court dismissed Nyco's claim of unauthorized acts by Rufino Yao. The corporate by-laws empowered Yao to perform such transactions. Past transactions similarly executed without formal board authorization but honored placed Nyco under estoppel, preventing the denial of authority after benefitting from the transactions.

### ### Doctrine:

Article 1628, Civil Code - Assignor warrants the credit and debtor's solvency if stipulated.

Doctrine of Estoppel in Pais - Prevents denial of authority when prior conduct suggests consent, securing reliance and actions by third parties.

### ### Class Notes:

- **Assignment of Credit**: Transfer of right of the assignor to assignee with assignor's warranties.

- **Notice of Dishonor**: Essential but failure thereof does not necessarily discharge liability if broader obligations are breached.

- **Novation**: Requires explicit declaration and incompatibility between old and new obligations.

- **Corporate Authority and Estoppel**: Corporate officers acting within apparent authority bind the corporation; actions suggestive of consent create estoppel if later denied.

### ### Historical Background:

Post-war Philippine economy, particularly the finance and credit industry, saw stringent

measures to ensure credit security and accountability. This case explores the nuanced aspects of credit assignment and the accountability of corporate officers, highlighting evolving corporate governance practices and legal expectations within the Philippine business landscape.