Title: Sps. Pedro and Florencia Violago vs. BA Finance Corporation and Avelino Violago

Facts:
In 1983, Avelino Violago, President of Violago Motor Sales Corporation (VMSC), offered a vehicle sale to his cousin, Pedro F. Violago, and Florencia Violago. The deal involved a down payment of PHP 60,500 paid by the spouses, with the balance financed by BA Finance. A promissory note for PHP 209,601 was signed, payable in 36 installments. Avelino handled the financing documentation and the Toyota Cressida was invoiced to the spouses. They signed a chattel mortgage over the vehicle in favor of VMSC, which was subsequently endorsed to BA Finance. The certificate of registration was issued for Pedro on August 8, 1983.

The car was never delivered, having been sold earlier to Esmeraldo Violago in 1982. Due to non-delivery, Pedro stopped payments. BA Finance filed a replevin suit for the car or payment equivalent on March 1, 1984. The RTC ordered delivery or payment, but the spouses were declared in default. The order was ultimately nullified by the CA on procedural grounds.

The spouses then filed an answer asserting non-delivery and a lack of due course holder status for BA Finance. They also filed a Third Party Complaint against Avelino, claiming fraud. The RTC ruled in favor of BA Finance but held Avelino liable for indemnification. The CA overturned this indemnification decision, stating that VMSC, an indispensable party, was not part of the Third Party Complaint.

Issues:
1. Is BA Finance a valid holder in due course of the promissory note?
2. Is the chattel mortgage valid despite fraud and the absence of delivery?
3. Should Avelino be held personally liable despite the corporate veil of VMSC?

Court's Decision:
1. **Holder in Due Course:**
– The Supreme Court found the promissory note to be a negotiable instrument under the Negotiable Instruments Law (NIL). BA Finance met the conditions under Sec. 52 of the NIL, making it a holder in due course, thus insulating it from defenses such as fraud and non-delivery.

2. **Validity of Chattel Mortgage:**
– Given BA Finance's holder in due course status, the chattel mortgage is considered valid.

The non-delivery defense was not sustainable against BA Finance due to their good faith acquisition.

3. **Piercing the Corporate Veil:**
– The Court pierced the corporate veil, finding Avelino personally liable due to his fraud in the sale of the vehicle even though he represented VMSC. His misuse of corporate structure justified holding him accountable for petitioners' losses.

Doctrine:
1. **Holder in Due Course:**
– A holder in due course under the NIL is protected against certain defenses that could be raised under non-negotiable instruments.

2. **Piercing the Corporate Veil:**
– The separate corporate personality can be disregarded in cases of fraud to impose personal liability on corporate officers.

Class Notes:
1. **Key Elements for Negotiable Instruments:**
– Must be in writing, signed, include an unconditional promise to pay a sum certain in money, payable on demand or at a fixed/determinable future time, and be payable to order or bearer (Sec 1, NIL).
– Protection given to holders in due course (Sec 52, NIL).

2. **Requirements for Valid Contracts (Article 1318, Civil Code):**
– Consent of the contracting parties, a certain subject matter, and cause of obligation.
– Contracts affected by fraud, duress, or misrepresentation may be voidable.

3. **Piercing Corporate Veil:**
– Applied when corporate fiction is used to defeat public convenience, justify wrong, or protect fraud.

Historical Background:
The case is set against the backdrop of the Philippine commercial context of the 1980s, where vehicle sales financed by credit companies were common. The decision emphasizes the integrity of commercial transactions and the limitations of using corporate structures to shield fraudulent actions.