

Title: Philippine Refining Co., Inc. vs. Francisco Jarque, Jose Corominas, and Aboitiz & Co.

Citation: 61 Phil. 229 (1935)

Facts:

1. The Philippine Refining Co., Inc. (plaintiff/appellant) and Francisco Jarque (defendant) executed three mortgages on two motor vessels, Pandan and Zaragoza, on various dates. These were recorded as “chattel mortgages” in the registry of transfers and encumbrances of vessels at the port of Cebu.
2. The first two mortgages lacked an affidavit of good faith, while the third mortgage, which included an affidavit, was not registered at the customs house until May 17, 1932 — within 30 days before insolvency proceedings commenced against Jarque.
3. A fourth mortgage on the Zaragoza was executed by Jarque and Ramon Aboitiz, and recorded in the chattel mortgage registry of the register of deeds on May 12, 1932 — also within the 30-day pre-insolvency period.
4. On June 2, 1932, insolvency proceedings against Francisco Jarque began with a petition filed at the Court of First Instance of Cebu, which subsequently granted the petition and appointed Jose Corominas as the assignee of Jarque’s estate.
5. Judge Jose M. Hontiveros of the Court of First Instance declined the request to foreclose the mortgages filed by Philippine Refining Co., but instead sustained the defense of the mortgages being fatally defective due to lack of proper affidavits and timely registration.

Procedural Posture:

1. Philippine Refining Co. filed to foreclose the mortgages when Jarque became insolvent.
2. The trial judge ruled the mortgages invalid and refused foreclosure, leading Philippine Refining Co. to appeal to the Supreme Court of the Philippines.

Issues:

1. Whether the mortgages on the vessels constituted valid chattel mortgages under the Chattel Mortgage Law.
2. Whether the absence of an affidavit of good faith in two of the mortgages and delayed registration of the third mortgage rendered them unenforceable against creditors.

3. Whether the established doctrines and statutory requirements for chattel mortgages applied to the vessels despite being personal property.

Court's Decision:

1. **Validity of Chattel Mortgages:** The Supreme Court ruled that vessels are considered personal property not only under the Civil Code (Article 585 of the Code of Commerce) but also under common law.

2. **Lack of Affidavit and Timely Registration:** The court held that the necessary affidavit of good faith is a crucial component of a valid chattel mortgage under Section 5 of the Chattel Mortgage Law. The absence of this affidavit invalidated the first two mortgages. Similarly, the delayed registration of the third mortgage, which occurred within the 30-day pre-insolvency period, invalidated it against third parties.

3. **Application of Established Doctrines:** The court affirmed that existing legal standards and doctrines regarding chattel mortgages are applicable to vessels, aligning with precedents such as *McMicking vs. Banco Espanol-Filipino* and *Arroyo vs. Yu de Sane*.

Doctrine:

1. A mortgage on a vessel is treated like a chattel mortgage, requiring an affidavit of good faith and proper registration to be enforceable against creditors and subsequent encumbrancers.

2. Vessels, though unique, are classified under personal property and thus are subject to chattel mortgage laws.

Class Notes:

- **Chattel Mortgages:** Defined under Act No. 1508, requiring an affidavit of good faith and registration.

- **Personal Property Classification:** Vessels are personal property under Article 585 of the Code of Commerce and are treated similarly in chattel mortgage laws.

- **Affidavit of Good Faith:** Necessary for the enforceability of chattel mortgages against third parties.

- **Registration Timing:** Mortgages must be recorded correctly and timely to be valid against the claims of third parties.

Historical Background:

The case reflects the colonial Philippines' legal complexities, drawing on both civil and

common law principles, emphasizing the importance of adherence to statutory requirements in commercial and insolvency laws. The decision underscores the Philippines' efforts to standardize commercial practices through established precedents and statutory interpretations in a period of economic uncertainty marked by global and local financial instabilities.