

Title: **\*\*Edgar Ledonio vs. Capitol Development Corporation, G.R. No. 149429\*\***

**## Facts:**

1. **\*\*Loan Transaction\*\***: Edgar Ledonio obtained two loans from Patrocinio Picache amounting to PHP 60,000.00, evidenced by promissory notes dated November 9 and 10, 1988, respectively.
2. **\*\*Assignment of Credit\*\***: On April 1, 1989, Ms. Picache assigned her credit rights over these loans to Capitol Development Corporation (“Capitol”) for PHP 60,000. Capitol demanded payment from Ledonio multiple times, but he failed or refused to pay.
3. **\*\*Complaint Filed\*\***: Capitol filed a Complaint for collection of the sum of money before the Regional Trial Court of Quezon City (RTC), which led to Civil Case No. Q-90-5247.
4. **\*\*Defense\*\***: In his defense, Ledonio argued that the promissory notes were signed under intimidation and fraud, asserting that there was no valid transaction with Ms. Picache or Capitol and the assignment was simulated to benefit Ms. Picache.
5. **\*\*RTC Decision\*\***: The RTC ruled in favor of Capitol finding the promissory notes valid, rejecting Ledonio’s claims of fraud and intimidation, and validating the Assignment of Credit despite Ledonio’s lack of consent. The RTC ordered Ledonio to pay the principal loan amounts, interest, penalties, attorney’s fees, and costs.
6. **\*\*Appeal\*\***: Ledonio appealed to the Court of Appeals (CA-G.R. CV No. 43604), but the Court of Appeals affirmed the RTC’s decision in toto, including the denial of a subsequent Motion for Reconsideration on July 16, 2001.
7. **\*\*Petition for Review on Certiorari\*\***: Ledonio elevated the case to the Supreme Court via a Petition for Review on Certiorari under Rule 45, challenging the decision of the Court of Appeals and raising issues concerning the need for his consent for the assignment and subrogation.

**## Issues:**

**\*\*1. Validity of Assignment of Credit:\*\***

- Does the assignment of credit between Ms. Picache and Capitol require the consent of debtor Ledonio to be enforceable?

**\*\*2. Consent Requirement for Subrogation:\*\***

- Does the assignment of credit constitute conventional subrogation, which would require

the consent of all parties including the debtor?

## ## Court's Decision:

### 1. **Validity of the Assignment of Credit**:

- **Finding of Facts**: The factual findings of the RTC and Court of Appeals, indicating valid loans and failure of payment by Ledonio, are affirmed. Factual findings of lower courts, when consistent and not based on speculation, are binding on the Supreme Court.
- **Legal Analysis**: Assignment of credit does not require the consent of the debtor. According to Article 1624 of the Civil Code, it suffices that the debtor is notified of the assignment to enforce it against him. Notice of the assignment was sufficient.

### 2. **Nature and Requirement for Subrogation**:

- **Definition and Distinction**:
- **Assignment of Credit**: It transfers just the credit and it does not require debtor's consent (Art. 1624).
- **Conventional Subrogation**: It requires the participation and consent of the debtor, and it essentially extinguishes the old obligation and creates a new one (Art. 1300, 1301).
- **Court's Ruling**: The transaction between Ms. Picache and Capitol was an assignment of credit, not conventional subrogation. The Supreme Court ruled that conventional subrogation via assignment is rare and the facts ruled out such an intention in this case.
- **Conclusion**: Since no conventional subrogation occurred, the necessity of the debtor's consent does not apply. The assignment is effective upon notice to the debtor.

## ## Doctrine:

- **Assignment of Credit**: Does not require debtor's consent for validity (Art. 1624, Civil Code). The debtor's knowledge of the assignment suffices to bind him to pay the assignee instead of the original creditor.
- **Conventional Subrogation**: Requires consent of the debtor, original creditor, and new creditor. Subrogation substitutes the new creditor in place of the old one, requiring mutual agreement (Art. 1300, 1301, Civil Code).

## ## Class Notes:

- **Assignment of Credit (Art. 1624)**: Legal act where creditor assigns credit to another person without debtor's consent. Debtor must be notified to be effective.
- **Conventional Subrogation (Art. 1300-1301)**: Replacing one creditor with another requiring agreement of all involved parties.
- **Debt Payment (Art. 1626)**: Payment made without knowledge of the assignment

(before being notified) discharges debtor from obligation.

Verbatim Citation for Study:

- **Article 1625**: “An assignment of credit, right or action shall produce no effect as against third persons, unless it appears in a public instrument, or the instrument is recorded in the Registry of Property in case the assignment involves real property.”

**Historical Background:**

- **Economic Context in Late 80s and Early 90s**: This period witnessed significant corporate reorganizations and credit transactions owing to evolving commercial practices.

- **Legal Context**: Transition from formalistic to more contextually driven interpretations in commercial law to accommodate contemporary transactions like credit assignments without cumbersome procedural requirements.

This case reiterates the evolving recognition in Philippine jurisprudence of streamlined processes for commercial transactions and assignments of credit, balancing the protection of debtor rights without unduly constraining creditor capabilities, ensuring fairness and flexibility in financial dealings.