

**EUTROPIO ZAYAS, JR., PETITIONER, VS. LUNETA MOTOR COMPANY  
AND HONORABLE JUAN O. REYES, PRESIDING JUDGE OF THE COURT  
OF FIRST INSTANCE OF MANILA, BRANCH XXI, RESPONDENTS.***G.R. No. L-30583. October 23, 1982*

Ponente: GUTIERREZ, JR., J.

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Eutropio Zayas, Jr., filed this petition for review by certiorari to secure a reversal of the respondent court's orders which remanded Civil Case No. 74381 for further proceedings instead of affirming the city court's order of dismissal.

The petitioner Eutropio Zayas, Jr. purchased on installment basis a motor vehicle described as ONE (1) UNIT FORD THAMES FREIGHTER W/PUJ BODY with Engine No. 400E-127738 and Chassis No. 400E-127738 from Mr. Roque Escaño of the Escaño Enterprises in Cagayan de Oro City, dealer of respondent Luneta Motor Company, under the following terms and conditions:

Selling price----- P 7,500.00

Financing charge----- P 1,426.82

Total Selling Price ----- P 8,926.82

Payable on Delivery ----- P 1,006.82

Payable in 24 months

at 12% interest

per annum ----- P7,920.00

The motor vehicle was delivered to the petitioner who 1) paid the initial payment in the amount of P1,006.82; and 2) executed a promissory note in the amount of P7,920.00, the balance of the total selling price, in favor of respondent Luneta Motor Company. The promissory note stated the amounts and dates of payment of twenty-six installments covering the P7,920.00 debt. Simultaneously with the execution of the promissory note and to secure its payment, the petitioner executed a chattel mortgage on the subject motor vehicle in favor of the respondent. After paying a total amount of P3,148.00, the petitioner was unable to pay further monthly installments prompting the respondent Luneta Motor Company to extrajudicially foreclose the chattel mortgage (Annex "A" to Answer, Original Record, p. 10, supra). The motor vehicle was sold at public auction with the respondent Luneta Motor Company represented by Atty. Leandro B. Fernandez as the highest bidder in the amount of P5,000.00 (Annex "B" to Answer, Original Record, p. 11, supra). Since the payments made by petitioner Eutropio Zayas, Jr. plus the P5,000.00 realized from the foreclosure of the chattel mortgage could not cover the total amount of the promissory note executed by the petitioner in favor of the respondent Luneta Motor Company, the latter filed Civil Case No. 165263 with the City Court of Manila for the re-recovery of the balance of P1,551.74 plus interests.

Luneta Motor Company alleged in its complaint that defendant Eutropio Zayas, Jr. executed a promissory note in the amount of P7,920.00 in its favor; that out of the P7,920.00, Eutropio Zayas, Jr. had paid only P6,368.26 plus interest up to the date of the sale at public auction of the motor vehicle; that the balance of P1,551.74 plus interest of 12% thereon from that date had already become due and payable but despite repeated demands to pay the same, Eutropio Zayas, Jr., refused and failed to pay.

In his answer with affirmative defenses and counter-claim, Eutropio Zayas, Jr. admitted having executed the promissory note for the monthly payments, on a Ford Thames vehicle bearing Engine No. 400E-127738 which he purchased from the Lineta Motor Company but he denied his alleged outstanding liability of P1,551.74 plus interest thereon "x x x the said obligation if there was any, had already been discharged either by payment or by sale in public auction of the said motor vehicle as evidenced by a Notice of Sale marked as Annex "A" and Certificate of Sale marked as Annex "B"; (Answer, p. 7, Original Record). He alleged as affirmative defenses, among others: 1) that the plaintiff has no cause of action against him; and 2) that pursuant to Article 1484 of the New Civil Code and the case of Pacific Commercial Co. v. De La Rama, (72 Phil. 380) his obligation per the promissory note was extinguished by the sale at public auction of the motor vehicle, the subject of the chattel mortgage which was executed by him in favor of the plaintiff as security for the payment of said promissory note. (Answer, p. 8, Original Record)

In its Reply, Luneta Motor Company denied the applicability of Article 1484 of the Civil Code "x x x for the simple reason that the contract involved between the parties is not one for a sale on installment" (Reply, p. 13, Original Record).

After several postponements, the case was set for hearing. As a result of the non-appearance of the plaintiff and its counsel on the date set for hearing, defendant Zayas, Jr. moved to have the case dismissed for lack of interest on the part of the plaintiff. He also asked the court to allow him to discuss the merits of his affirmative defense as if a motion to dismiss had been filed. The issue raised and argued by the defendant was whether or not a deficiency amount after the motor vehicle, subject of the chattel mortgage, has been sold at public auction could still be recovered. Zayas cited the case of Ruperto Cruz v. Filipinas Investment (23 SCRA 791).

Acting on the motion, the city court issued an Order:

"On Petition of counsel for the defendant for the dismissal of this case on the ground that the defendant is no longer liable for the deficiency judgment inasmuch as the chattel mortgage has been foreclosed, with the plaintiff as the highest bidder thereof, citing the case of Ruperto G. Cruz v. Filipinas Investment decided on May 27, 1968, G.R. No. L-24772 in connection with Article 1484 of the Civil Code, and find-ing the same well taken.

"Let this case be dismissed without pronouncement as to costs."

Luneta Motor Company filed an "Urgent Motion for Reconsideration" reiterating its stand that Article 1484 of the New Civil Code on sale of personal property by installment was not applicable and that the contract involving the parties was a mere case of an ordinary loan secured by chattel mortgage. According to the plaintiff, the defendant executed the promissory note and chattel mortgage to secure the plaintiff's interest for having financed the purchase of the motor vehicle by the defendant from the Escaño Enterprises of Cagayan de Oro City, an entity entirely different and distinct from the plaintiff corporation (p. 33, Original Record).

The court denied the motion for reconsideration for lack of merit.

Luneta Motor Company appealed the case to the Court of First Instance of Manila where it was docketed as Civil Case No. 74381.

After various incidents, the respondent court issued an order which, in part, reads:

"This is an appeal taken by plaintiff from the order of the City Court of Manila, dismissing its complaint on the ground that the defendant is no longer liable for the deficiency judgment inasmuch as the chattel mortgage has been foreclosed, with the plaintiff as the highest bidder thereof, in line with the ruling of the Supreme Court in the case of *Ruperto G. Cruz v. Filipinas Investment* (G.R. No. L-24772) in connection with Article 1484 of the Civil Code.

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"After going over the pleadings in this case, more particularly the complaint and the answer to the complaint filed with the City Court of Manila, this Court is of the impression that the case at bar may not be decided merely, as the City Court had done, on the question of law since the presentation of evidence is necessary to adjudicate the questions involved. 'WHEREFORE, this case is hereby remanded to the court of origin for further proceedings. (pp. 82-83, Original Record)"

Hence, this petition.

Petitioner Eutropio Zayas, Jr. now maintains:

"That Respondent Court of First Instance erred:

1. IN HOLDING THAT THE QUESTION OF LAW CANNOT BE DECIDED SINCE PRESENTATION OF EVIDENCE IS NECESSARY - REGARDING THE QUESTION OF RECOVERY OF THE DEFICIENCY AMOUNT IN A CHATTEL MORTGAGE AFTER SELLING IT IN A PUBLIC AUCTION;
2. IN ORDERING THE REMAND OF THE CASE TO THE CITY COURT FOR FURTHER PROCEEDINGS TAKEN BY THE RESPONDENT FROM THE CITY COURT TO THE COURT OF FIRST INSTANCE, BRANCH XXI, MANILA; and
3. IN NOT DISMISSING THE APPEAL TAKEN BY THE PRIVATE RESPONDENT FROM THE CITY COURT TO THE COURT OF FIRST INSTANCE."

The main defense of respondent Luneta Motor Company is that Escaño Enterprises, Cagayan de Oro City from which petitioner Eutropio Zayas, Jr. purchased the subject motor vehicle was a distinct and different entity; that the role of Luneta Motor Company in the said transaction was only to finance the purchase price of the motor vehicle; and that in order to protect its interest as regards the promissory note executed in its favor, a chattel mortgage covering the same motor vehicle was also executed by petitioner Eutropio Zayas, Jr. In short, respondent Luneta Motor Company maintains that the contract between the company and the petitioner was only an ordinary loan removed from the coverage of Article 1484 of the New Civil Code.

The respondent's arguments have no merit.

The Escaño Enterprises of Cagayan de Oro City was an agent of Luneta Motor Company. A very significant evidence which proves the nature of the relationship between Luneta Motor Company and Escaño Enterprises is Annex "A. of the petitioner's OPPOSITION TO URGENT MOTION FOR RECONSIDERATION. (Original Record, p. 36) Annex "A" is a certification from the cashier of Escaño Enterprises on the monthly installments paid by Mr. Eutropio Zayas, Jr. In the certification, the promissory note in favor of Luneta Motor Company was specifically mentioned. There was only one promissory note executed by Eutropio Zayas, Jr. in connection with the purchase of the motor vehicle. The promissory note mentioned in the certification refers to the promissory note executed by Eutropio Zayas, Jr. in favor of respondent Luneta Motor Company. Thus:

**"CERTIFICATION**

"This is to certify that Mr. EUTROPIO ZAYAS, JR. has paid from us the following, of his FORD THAMES BEARING Engine No. 400E-127738, promissory note dated October 6, 1966. Viz:

ESCAÑO O.R. NUMBER

DATE RECEIVED

AMOUNT

09998

October 5, 1966

P1,000.00

10064

October 20, 1966

242.00

10188

November 8, 1966

166.00

10355

December 12, 1966

400.00

LMC C.R. #40031

January 19, 1967

270.00

10536

February 1, 1967

60.00

10645

February 27, 1967

100.00

10704

March 13, 1967

100.00

10749

March 22, 1967

60.00

10132

March 30, 1967

100.00

10788

April 8, 1967

100.00

10795

April 11, 1967

100.00

10827

April 18, 1967

100.00

10934

May 10, 1967

100.00

10991

May 26, 1967

100.00

11105

June 19, 1967

150.00

P3,148.00

vvvvvvvvv

ESCAÑO ENTERPRISES

(SGD.) EMELITA H. BACULIO

Cashier"

Escaño Enterprises, a dealer of respondent Luneta Motor Company, was merely a collecting-agent as far as the

purchase of the subject motor vehicle was concerned. The principal and agent relationship is clear.

But even assuming that the "distinct and independent entity" theory of the private respondent is valid, the nature of the transaction as a sale of personal property on installment basis remains. When, therefore, Escaño Enterprises, assigned its rights vis-a-vis the sale to respondent Luneta Motor Company, the nature of the transaction involving Escaño Enterprises and Eutropio Zayas, Jr. did not change at all. As assignee, respondent Luneta Motor Company had no better rights than assignor Escaño Enterprises under the same transaction. The transaction would still be a sale of personal property in installments covered by Article 1484 of the New Civil Code. To rule otherwise would pave the way for subverting the policy underlying Article 1484 of the New Civil Code, on the foreclosure of chattel mortgages over personal property sold on installment basis.

"ART. 1484. In a contract of sale of personal property the price of which is payable in installments, the vendor may exercise any of the following remedies:

xxx xxx xxx

xxx xxx xxx

"(3) Foreclose the chattel mortgage on the thing sold, if one has been constituted, should the vendee's failure to pay cover two or more installments. In this case, he shall have no further action against the purchaser to recover any unpaid balance of the price. Any agreement to the contrary shall be void.

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"x x x the established rule is to the effect that the foreclosure and actual sale of a mortgaged chattel bars further recovery by the vendor of any balance on the purchaser's outstanding obligation not so satisfied by the sale. And the reason for this doctrine was aptly stated in the case of Bachrach Motor Co. vs. Millan, supra, thus:

"Undoubtedly the principal object of the above amendment was to remedy the abuses committed in connection with the foreclosure of chattel mortgages. This amendment prevents mortgagees from seizing the mortgaged property, buying it at foreclosure sale for a low price and then bringing suit against the mortgagor for a deficiency judgment. The almost invariable result of this procedure was that the mortgagor found himself minus the property and still owing practically the full amount of his original indebtedness. Under this amendment the vendor of personal property, the purchase price of which is payable in installments, has the right to cancel the sale or foreclose the mortgage if one has been given on the property. Whichever right the vendor elects he need not return to the purchaser the amount of the installments already paid, 'if there be an agreement to that effect'. Furthermore, if the vendor avails himself of the right to foreclose the mortgage this amendment prohibits him from bringing an action against the purchaser for the unpaid balance.'" (Cruz v. Filipinas Investment & Finance Corporation, 23 SCRA 791)

Our findings and conclusions are borne out by the records available to the respondent court. There was no necessity for the remand of records to the city court for the presentation of evidence on the issue raised in the case.

WHEREFORE, the instant petition is hereby granted. The orders remanding the case to the court of origin and denying the motion for reconsideration of the Court of First Instance of Manila, Branch XXI issued in Civil Case No. 74381 are annulled. Accordingly, the Court of First Instance of Manila, Branch XXI is directed to dis-miss the appeal in Civil Case No. 74381. The Order of the City Court of Manila dismissing the complaint in Civil Case No. 165263 is affirmed.

**SO ORDERED.**

Teehankee, (Chairman), Melencio-Herrera, Plana, Vasquez, and Relova, JJ., concur.

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