

SERVICEWIDE SPECIALISTS, INCORPORATED, PETITIONER, VS. THE HON. COURT OF APPEALS, RICARDO TRINIDAD AND ELISA TRINIDAD, RESPONDENTS.

G.R. No. 110597. May 08, 1996

Ponente: ROMERO, J.

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ROMERO, J.:

Petitioner seeks review of the decision^[1] of the Court of Appeals affirming the decision of the Regional Trial Court of Manila which (1) dismissed the complaint for replevin and damages filed by petitioner before the Metropolitan Trial Court of Manila and (2) ordered petitioner to pay private respondents P10,000.00 as attorney's fees, P2,000.00 as litigation expenses plus costs of the suit.

The facts show that on August 1, 1983, private respondent spouses Ricardo and Elisa Trinidad purchased one unit Isuzu Gemini car, 1983 model, yellow in color, from Autoworld Sales Corporation. The price was P98,156.00 payable in 24 equal monthly installments of P4,089.00 every 15th of each month beginning September 1983 to August 15, 1985.

To secure payment thereof, the Trinidads executed on the same date a promissory note and a deed of chattel mortgage on the subject car in favor of Autoworld Sales Corporation.

Also on the same date, Autoworld assigned its interests on the promissory note and chattel mortgage to Filinvest Credit Corporation (Filinvest). These assignments were made with due notice to private respondents.

On April 15, 1984, private respondents delivered seventeen (17) checks to Filinvest Credit Corporation in full payment of the car. The checks were in the same amount of P3,969.00 each, sixteen of which were postdated to be applied for the remaining installments from April 15, 1984 to August 15, 1985. Proper receipts were issued by Filinvest Credit Corporation to private respondents and all documents regarding ownership of the car were released to them. Private respondents immediately used the car as a taxi, a fact known to the vendor.

On November 8, 1985, Filinvest assigned all its rights and interests on the promissory note and chattel mortgage in favor of petitioner.

On November 18, 1985, private respondent Ricardo Trinidad received a demand letter from petitioner dated November 8, 1985 stating that an assignment of credit had been made by Filinvest in its favor and that the Trinidads had not paid two successive installments on the car which had matured on July 15 and August 15, 1985. No mention was made in the letter that Filinvest had paid insurance premiums to Perla Compania de Seguros to insure the car against loss and damage corresponding to two years, i.e., from July 29, 1984 to July 29, 1985 and July 29, 1985 to July 29, 1986. Private respondents were also never informed by Filinvest that their installment payments on the car were converted to premium payments on the insurance.

After informing private respondents that they failed to pay the last two consecutive monthly installments, petitioner demanded that either they pay the whole remaining balance of P6,977.67, including accrued interest, or

return possession of the car to petitioner.

When private respondents refused to pay the amount demanded or to return the car, petitioner filed an action for replevin and damages with the Metropolitan Trial Court, Branch V, Manila. The sole issue resolved by the trial court was whether private respondents were liable for the payment of the insurance premiums effected by petitioner.

On July 24, 1990, a decision was rendered by the trial court in favor of petitioner, the dispositive portion of which states:

"WHEREFORE, judgment is hereby rendered in favor of the plaintiff ordering the defendants to pay plaintiff jointly and severally the sum of P6,977.67 plus interest thereon at the rate of 24% per annum from January 8, 1986 until fully paid. To pay the sum of P4,773.04 as attorney's fees.

SO ORDERED."[2]

Private respondents appealed to the Regional Trial Court of Manila, Branch 46. The RTC found that a renewal of insurance (caused by Filinvest on the mortgaged chattel) was issued twice by Perla Compania de Seguros, Inc. in the name of Ricardo Trinidad for private car loss and damage. On both occasions, no notice was made whatsoever to private respondents that Filinvest was applying the installment payments made by them for the car to the payment of the insurance premiums. Furthermore, no notice was made to private respondents that Filinvest had assigned the promissory note and chattel mortgage to petitioner.

The RTC held that petitioner had no cause of action against private respondents because the latter issued the checks with the understanding that they were to be applied to the payment in full of the car and that the same were all duly encashed by petitioner. No prior demand having been made on private respondents for the payment of the insurance premiums, the RTC held that the complaint was not a just suit and dismissed the complaint, awarding P10,000.00 for attorney's fees, P2,000.00 as expenses for litigation plus costs of the suit to private respondents.

Petitioner appealed to the Court of Appeals, which affirmed the decision of the Regional Trial Court.

Hence, this petition.

The central issue in this case is: whether or not petitioner should have applied the installment payments made by private respondents for the payment of the car to the payment of the insurance premiums without prior notice to private respondents.

The provision in the Chattel Mortgage subject of the controversy states:

"The said MORTGAGOR covenants and agrees that he will cause the property/ies herein above mortgaged to be insured against loss or damage by accident, theft and fire for a period of one year from date thereof and every year thereafter until the mortgage obligation is fully paid with an insurance company, or companies acceptable to the MORTGAGEE in an amount not less than the outstanding balance of the mortgage obligation; that he will make all loss, if any, under such policy or policies, payable to the MORTGAGEE or its assigns as its interest may appear and forthwith deliver such policy or policies to the MORTGAGEE, the said MORTGAGOR further covenants and agrees that in default of his effecting or renewing such insurance and delivering the policies so endorsed to the MORTGAGEE within five (5) days after the execution of this mortgage or the expiry date of the insurance the MORTGAGEE, may, at his option, but without any obligation to do so effect such insurance or obtain such renewal for the account of the MORTGAGOR and that any money so disbursed by the MORTGAGEE shall be added to the principal indebtedness hereby secured and shall become due and payable at the time for the payment of the immediately coming or following installment to be due under the note aforesaid after the date of such insurance renewal and shall bear interest at the same

rate as the principal indebtedness."^[3] (*Italics supplied*)

Petitioner contends that the matter about the notice is deemed waived by private respondents because the car should be fully covered at all times. Petitioner claims that if, as stated in the Chattel Mortgage, private respondents failed to renew the insurance, petitioner is entitled to renew the same for the account of private respondents without any notice to them.

The petition is unmeritorious.

While it is true that the Chattel Mortgage does not say that notice to the mortgagor of the renewal of the insurance premium by the mortgagee is necessary, at the same time, there is no provision that authorizes petitioner to apply the payments made to it for the payment of the chattel to the payment of the said premiums. From the records of the case, it is clear that private respondents had fully paid for the car. This fact was never rebutted by petitioner; it was the insurance premiums pertaining to the two-year period from July 29, 1984 to July 29, 1986 that petitioner claims were not paid.

Both the Regional Trial Court and the Court of Appeals found that before the mortgagee (petitioner) may effect the renewal of insurance, two conditions must be met: (1) Default by the mortgagor (private respondents) in effecting renewal of the insurance and (2) failure to deliver the policy with endorsement to petitioner.

The Court notes an additional element of the provisions regarding the renewal of the insurance; specifically, that petitioner was under no obligation to effect the same. In other words, petitioner as mortgagee was not duty-bound to renew the insurance in the event that private respondents failed to do so; it was merely optional on its part.

The question now arises whether private respondents were in default for failing to have the car covered by insurance for the period in question. Private respondents claim that the car was duly covered and the Court finds no evidence on record showing this assertion to be false. Petitioner has averred, however, that the insurance taken by private respondents was only for third-party liability and not the comprehensive insurance required.

If petitioner was aware that the insurance coverage was inadequate, why did it not inform private respondent about it? After all, since petitioner was under no obligation to effect renewal thereof, it is but logical that it should relay to private respondents any defect of the insurance coverage before itself assuming the same.

Furthermore, even if the car were not covered with the proper insurance, there is nothing in the provisions of the Chattel Mortgage that authorizes petitioner to apply previous payments for the car to the insurance. What is stated is: "x x x that any money so disbursed by the mortgagee shall be added to the principal indebtedness hereby secured x x x" (*Italics supplied*). Clear is it that petitioner is not obligated to convert any of the installments made by private respondents for the car to the payment for the renewal of the insurance. Should it decide to do so, it has to send notice to private respondents who had already paid in full the principal indebtedness in question.

When petitioner wrote private respondents the November 8, 1985 demand letter regarding non-payment of the installments, no mention was made of unpaid insurance premiums. Thus, private respondents were quite justified in ignoring the same since, to the best of their knowledge, they had already paid for the car in full.

Finally, while we agree with the appellate court that the complaint against private respondent should be dismissed, we find that the award of P10,000.00 as attorney's fees to them to be erroneous.

Article 2208 of the Civil Code allows attorney's fees to be awarded by a court when its claimant is compelled to litigate with third persons or to incur expenses to protect his interest by reason of an unjustified act or omission on the part of the party from whom it is sought. To be sure, private respondents were forced to litigate to protect their rights but as we have previously held: "where no sufficient showing of bad faith would be reflected in a party's

persistence in a case other than an erroneous conviction of the righteousness of his cause, attorney's fee shall not be recovered as cost."^[4]

Attorney's fees cannot be awarded to a party simply because the judgment was favorable to it, for that amounts to imposing a premium on the right to redress grievances in Court.^[5]

When it has not been sufficiently established that the complaint was filed to harass the other party or when an action was filed in the sincere belief that the cause was meritorious, an award of attorney's fees is not proper.^[6]

The Court, therefore, deletes the award of P10,000.00 to private respondents as attorney's fees.

WHEREFORE, the decision of the Court of Appeals is hereby AFFIRMED with the modification that the award of P10,000.00 as attorney's fees is hereby DELETED.

SO ORDERED.

Regalado (Chairman), Puno, Mendoza, and Torres, Jr., JJ., concur.

[1] CA - G.R. SP No. 26441, Segundino G. Chua, J., ponente, Serafin V.C. Guingona and Ricardo P. Galvez, JJ., concurring; Rollo, p. 38.

[2] Rollo, p. 48.

[3] Rollo, pp. 51-52.

[4] Gonzales v. National Housing Corporation, et al., 94 SCRA 786 (1979).

[5] Eastern Shipping Lines, Inc. v. Margarine Verkaufs-Union, 93 SCRA 257 (1979); Buan v. Camaganacan, 16 SCRA 321 (1966).

[6] People's Financing Corp. v. CA, 192 SCRA 34 (1990).

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