

**STATE INVESTMENT HOUSE, INCORPORATED, PETITIONER, VS.  
COURT OF APPEALS, PHILIPPINE NATIONAL BANK AND SPOUSES  
FEDERICO L. FRANCO AND FELICISIMA R. FRANCO, RESPONDENTS.**

*G.R. No. 130365. July 14, 2000*

Ponente: KAPUNAN, J.

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**KAPUNAN, J.:**

Private respondent spouses Federico and Felicisima Franco bought four (4) units of M.A.N. Diesel Long Distance Touring Coaches from Delta Motor Corporation-M.A.N. Division (DMC). To secure payment therefor, the spouses executed in favor of DMC four (4) promissory notes,[1] each with a face value of P800,000.00, as well as four (4) chattel mortgages over said vehicles.

The promissory notes executed by the Franco spouses subsequently became the subject of conflicting claims by DMC's creditors, namely, the State Investment House, Inc. (SIHI), the Philippine National Bank (PNB), and the Union Bank of the Philippines (UBP). To determine to whom they should continue paying the amounts stated in the promissory notes, the spouses filed an action for interpleader in the Regional Trial Court of Manila.

**SIHI's claim**

SIHI alleged that in 1979 it granted a twenty-five million peso (P25,000,000) credit line to DMC. In consideration therefor, DMC bound itself to deliver and assign to SIHI all its contracts to sell, notes, accounts, checks, bills of exchange, and choses of actions evidencing actual sales of its merchandise to DMC's clients. The agreement between SIHI and DMC is embodied in a Continuing Deed of Assignment of Receivables[2] executed on December 23, 1981.

By March 24, 1992, DMC's availment of the credit line had amounted to P24,010,269.32. Of this sum, P12,846,939.36 was due and payable. The loan to DMC was subsequently restructured, resulting in a Memorandum of Agreement[3] whereby DMC agreed to sell P8,000,000 worth of its receivables to SIHI, the proceeds of which shall be used to pay the loans past due.

On September 13, 1983, DMC executed in favor of SIHI a Deed of Sale[4] of various accounts receivables amounting to P18,909,100, including the subject promissory notes.

SIHI later sent demand letters dated March 29, 1984[5] and June 27, 1984[6] informing the Franco spouses of the assignment and directing that they make payments to SIHI's office.

**PNB's claim**

PNB's claim over the promissory notes, on the other hand, is based on a letter of credit[7] granted by PNB to DMC to finance the importation of 325 units of M.A.N. CKD Diesel Bus Chassis. The imported units supposedly include the four (4) units sold by DMC to the Francos. After DMC took possession of the units, DMC and PNB entered into a Trust Receipt Agreement[8] whereby DMC agreed:

x x x to hold said merchandise in storage as property of said Bank, with the liability to sell the same for cash, for its account and to hand the proceeds thereof to the said Bank to be applied against its acceptance on account of the undersigned, and/or under the terms of the Letter of Credit noted below; and further agrees to hold said merchandise and the proceeds thereof in trust for the payment of said acceptance and of any other indebtedness of the undersigned to the said Bank.

A Credit Agreement[9] dated February 17, 1981 was also executed providing that:

xxx (a) The CLIENT shall open and maintain a Special Deposit Account (SDA) with the Bank; (b) All collections of the CLIENT on the sales of the units and other goods imported under the Letter of Credit as well as sales of the units subsequently imported out of the aforesaid collections shall be deposited to the SDA.

In a Deed of Assignment[10] dated February 27, 1981, PNB and DMC stipulated that:

Should the sums of money, credits, receivables or other properties assigned, be in the possession of, or due or to be due from a third party, then it is hereby agreed that the same shall be remitted by such third party direct to the ASSIGNEE to be disposed of in accordance with the terms and conditions thereof. The ASSIGNOR shall obtain the conformity of such third party to this condition.

PNB claimed that the subject promissory notes were covered by this Deed of Assignment, the notes representing the consideration for the sale of the units imported from the proceeds of the Letter of Credit.

In a Demand Letter[11] dated May 20, 1984, PNB informed the Francos of the assignment and enjoined payment to PNB.

UBP's claim

UBP, in turn, obtained a Writ of Garnishment as a result of a judgment against DMC. UBP asserted rights over the promissory notes by virtue of said writ.

Ruling on these conflicting claims, the RTC held that SIHI's claims over the promissory notes were superior to those of PNB and UBP. The dispositive portion of the RTC's decision states:

WHEREFORE, judgment is hereby rendered as follows:

- (1) Granting this action for interpleader;
- (2) Declaring defendant-claimant State Investment House Inc. as the one with superior right over the obligation (unpaid as of March 29, 1984) of plaintiffs as covered by their promissory notes and chattel mortgages executed in favor of Delta Motors Corporation, M-A-N Division (Exhs. 7, 8, 9 and 10-SIHI);
- (3) Lifting and setting aside the Writ of Preliminary Injunction previously issued;
- (4) Dismissing and denying defendants Philippine National Bank's and Union Bank of the Philippines' claims;
- (5) After the finality of this Decision, defendant SIHI shall be allowed to cause the withdrawal of the deposit now totaling P634,090.24 to be applied to plaintiffs' said allegation;
- (6) Plaintiffs and SIHI shall resolve as early as possible the matter concerning the balance of the oft-stated accounts, and henceforth, plaintiffs shall discharge their remaining obligations (Exhs. 7, 8, 9 and 10-SIHI) by paying to SIHI.

There shall be pronouncement as to costs.

SO ORDERED.[12]

It does not appear that UBP questioned the decision of the RTC. PNB, for its part, appealed to the Court of

## Appeals.

In a Decision dated September 10, 1996, the Court of Appeals reversed the decision of the RTC and declared PNB's claims superior to those of SIHI. It held that under Section 9 of the Trust Receipts Law,[13] DMC was merely an entrustee of the products imported and, thus, obliged to turn over to its entruster, PNB, the proceeds of the sale of said products. The dispositive portion of said decision is reproduced hereunder:

WHEREFORE, foregoing considered, the appealed decision is hereby REVERSED and SET ASIDE. A new one is hereby rendered.

1. Declaring defendant-appellant PNB as the one having superior rights over the obligation of plaintiffs-appellees as covered by their promissory notes and chattel mortgages.
2. After finality of decision, defendant-claimant-appellant PNB shall be allowed to withdraw the proceeds of the sale deposited by the plaintiffs-spouses Federico L. Franco and Felicisima Franco with the trial court, to be applied to their and DMC-MAN's obligations.
3. Plaintiff-appellee shall discharge their remaining obligation by paying defendant-claimant-appellant PNB.
4. Dismissing and denying defendant-appellee SIHI's and defendant-appellant UBP's claims.
5. Lifting and setting aside the Writ of Preliminary injunction previously issued by the trial court.

No pronouncement as to cost.[14]

The Court of Appeals denied SIHI's motion for reconsideration.

Seeking a review of the adverse decision of the Court of Appeals, SIHI filed in this Court the present petition for certiorari under Rule 45 of the Rules of Court.

Petitioner SIHI alleges that the vehicles sold by DMC to the Francos were not covered by the trust receipts agreement between PNB and DMC. Assuming that said vehicles were the subject of said receipts, SIHI contends that its rights are superior to those of PNB since the former is a purchaser in good faith, having no notice or knowledge of PNB's interest over the notes. SIHI likewise imputes gross negligence in PNB's handling of DMC's accounts. The subject vehicles were supposedly released to DMC as early as 1980 and were sold to the Francos in 1981-1982. It was only in May 1984, however, when PNB asserted its claim over the promissory notes, long after DMC had assigned the notes to SIHI.

The petition is meritorious.

Section 7 of the Trust Receipts Law provides that the entruster shall be entitled to the proceeds from the sale of the goods released under a trust receipt to the entrustee to the extent of the amount owing to the entruster or as appears in the trust receipt.[15] The pivotal issue, therefore, is whether the goods released under the trust receipt include the vehicles purchased by the Franco spouses from DMC and for which the promissory notes were issued.

PNB contends that this issue is a question of fact. It submits that both the RTC and the Court of Appeals found that the vehicles are covered by the trust receipts agreement and such findings are conclusive upon this Court.[16]

We are not impressed.

It is true that the decision of the RTC states that PNB "financed Delta's importation of 325 units of M.A.N. CKD Diesel Bus Chassis... which includes the four (4) units which were sold to plaintiffs." [17] This statement, however, appears in the recital of the allegations of the parties, and not in the rationale of its decision.

The Court of Appeals, for its part, held that the "[e]vidence clearly showed that the vehicles sold to plaintiffs were

covered by a Trust Receipt Agreement executed between DMC-MAN and defendant appellant-PNB." [18] The appellate court, however, did not refer to any evidence that would justify its findings. As such, the present case constitutes an exception to the rule on the conclusiveness of findings of facts. [19]

In any case, this Court has the authority to review and reverse the factual findings of the lower courts if, as in this case, it finds that such findings do not conform to the evidence on record. [20]

The evidence for PNB fails to establish that the vehicles sold to the Francos were among those covered by the trust receipts. As petitioner points out, neither the trust receipts covering the units imported nor the corresponding bills of lading contain the chassis and engine numbers of the vehicles in question. [21]

PNB asseverates that "the records of the case... is replete with evidence to show that the subject vehicles are indeed covered by the trust receipts issued by DMC to PNB." [22] However, it has not pointed out which evidence specifically supports its claim. It does not even explain why the bills of lading for the imported units do not contain the chassis numbers and serial numbers of the subject vehicles.

PNB further asserts that assuming its evidence does not expressly and definitely identify the subject properties the properties were nevertheless substantially described in PNB's documents, particularly the Deed of Assignment dated February 27, 1981. [23]

We find no such substantial description in said Deed of Assignment. On the contrary, the Deed of Assignment begs the question. The Deed states that a lien was thereby constituted

from the sale on installments of units assembled from CKD's to be imported from the proceeds of the letter of credit accommodation granted by the ASSIGNEE to the ASSIGNOR as well as those imported from subsequent collection from the proceeds of the sale thereof. [24]

But just what is the specific description of the units imported by the assignor DMC? Does the Deed of Assignment include the subject vehicles? The Deed of Assignment does not say.

PNB adds that the Deed of Assignment could not have expressly and definitely mentioned the promissory notes since said deed, executed on February 27, 1981, predates the notes, which were dated July 18, 1981, September 23, 1981, February 12, 1982, and March 23, 1982, respectively. [25] This is beside the point, however, for it is not the identity of the promissory that is at issue but that of the units so imported.

Verily, PNB has failed to prove its claim by a preponderance of evidence, the weakness of its evidence betrayed by the weakness of its arguments. SIHI, for its part, has successfully discharged its burden. It is undisputed that the subject notes were covered by the Deed of Sale of receivables executed by DMC in petitioner's favor. Accordingly, SIHI is entitled to the promissory notes in question.

WHEREFORE, the petition is hereby given DUE COURSE and the Decision of the Court of Appeals is REVERSED. The Decision of the Regional Trial Court is REINSTATED.

### **SO ORDERED.**

Davide, Jr., C.J., (Chairman), Puno, Pardo, and Ynares-Santiago, JJ., concur.

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[1] Exhibits "7" to "10" (SIHI)

[2] Exhibit "4" (SIHI)

[3] Exhibit "5" (SIHI)

- [4] Exhibit "6" (SIHI)
- [5] Exhibit "11" (SIHI)
- [6] Exhibit "12" (SIHI)
- [7] Exhibit "1" (PNB)
- [8] Exhibits "4 to 11-D" (PNB)
- [9] Exhibit "6" (SIHI)
- [10] Exhibit "13" (PNB)
- [11] Exhibit "E."
- [12] Rollo, p. 82.
- [13] Presidential Decree No. 115.
- [14] Rollo, p. 42.
- [15] Section 7 states in full:

SEC. 7. Rights of the entruster. -- The entruster shall be entitled to the proceeds from the sale of the goods, documents or instruments released under a trust receipt to the trustee to the extent of the amount owing to the entruster or as appears in the trust receipt, or to the return of the goods, documents or instruments in case of non-sale, and to the enforcement of all other rights conferred on him in the trust receipt provided such are not contrary to the provisions of this Decree.

The entruster may cancel the trust and take possession of the goods, documents or instruments subject of the trust or of the proceeds realized therefrom at any time upon default or failure of the trustee to comply with any of the terms and conditions of the trust receipt or any other agreement between the entruster and the trustee, and the entruster in possession of the goods, documents or instruments may, on or after default, give notice to the trustee of the intention to sell, and may, not less than five days after serving or sending of such notice, sell the goods, documents or instruments at public or private sale, and the entruster may, at a public sale, become a purchaser. The proceeds of any such sale, whether public or private, shall be applied (a) to the payment of the expenses thereof; (b) to the payment of the expenses of re-taking, keeping and storing the goods, documents or instruments; (c) to the satisfaction of the trustee's indebtedness to the entruster. The trustee shall receive any surplus but shall be liable to the entruster for any deficiency. Notice of sale shall be deemed sufficiently given if in writing, and either personally served on the trustee or sent by post-paid ordinary mail to the trustee's last known business address.

- [16] Rollo, pp. 136-137.
- [17] *Id.*, at 78. Italics ours.
- [18] *Id.*, at 38.
- [19] See *Cang vs. Court of Appeals*, 296 SCRA 128 (1998)
- [20] *Ibid.*
- [21] Rollo, pp. 12, 146-154.
- [22] *Id.*, at 137.

[23] Rollo, pp. 138-139.

[24] See Note 10.

[25] Rollo, pp. 138-139.

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