

THE BANK OF THE PHILIPPINE ISLANDS, PLAINTIFF AND APPELLANT, VS. OLUTANGA LUMBER COMPANY, DEFENDANT AND APPELLEE.

G.R. No. 22656. December 16, 1924

Ponente: JOHNSON, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-22656/>

JOHNSON, J.:

This appeal presents a question of law only. It is: May a creditor who has taken a chattel mortgage to secure the payment of a debt, maintain an action for a deficiency resulting from a foreclosure of the chattel mortgage? The facts in the present case are admitted. They are:

- (a) That on the 19th day of March, 1918, and on the 1st day of June, 1918, respectively, the plaintiff loaned to the defendant the sum of P85,000, the payment of which sum was secured by two chattel mortgages executed on said dates, respectively;
- (b) That both of said mortgages were foreclosed and the property mentioned in each was sold at public auction by the sheriff of the Province of Zamboanga;
- (c) That after the foreclosure of said mortgage there still remained, due and unpaid, of said indebtedness, the sum of P78,765.81; and
- (d) That the defendant having failed and refused to pay said deficiency, the present action was instituted in the Court of First Instance of the Province of Zamboanga on the 20th day of November, 1923.

The defendant demurred to the complaint, upon the ground that the facts stated were not sufficient to constitute a cause of action.

Upon the issue thus presented, the lower court, after a consideration of the facts, sustained the demurrer, denying the plaintiff the right to maintain its action. From that judgment the plaintiff appealed and in four different assignments of error presents the question indicated above.

The theory of the court *quo evidently* is, that a chattel mortgage is a conditional sale of the property, and, in case of a failure of the condition, to wit, to pay the debt, the sale becomes absolute and the creditor is obliged to resort to the mortgaged property for a payment of his debt, and the foreclosure of the mortgage is his sole recourse.

While it is true that section 3 of Act No. 1508 provides that "a chattel mortgage is a conditional sale," it further provides that it "is a conditional sale of personal property as security for the payment of a debt, or the performance of some other obligation specified therein." The lower court overlooked the fact that the chattels included in the chattel mortgage are only given as a security and not as a payment of the debt, in case of a failure of payment. (See *Bachrach Motor Co. vs. Summers*, 42 Phil., 3, for a very instructive opinion by Mr. Justice Street upon the theory and effect of a chattel mortgage.)

The theory of the lower court would lead to the absurd conclusion that if the chattels mentioned in the mortgage,

given as security, should sell for more than the amount of the indebtedness secured, that the creditor would be entitled to the full amount for which it might be sold, even though that amount was greatly in excess of the indebtedness. Such a result certainly was not contemplated by the Legislature when it adopted Act No. 1508. There seems to be no reason supporting that theory under the provision of the law. The value of chattels changes greatly from time to time, and sometimes very rapidly. If, for example, the chattels should greatly increase in value and a sale under that condition should result in largely overpaying the indebtedness, and if the creditor is not permitted to retain the excess, then the same token would require the debtor to pay the deficiency in case of a reduction in the price of the chattels between the date of the contract and a breach of the condition.

Mr. Justice Kent, in the 12th edition of his Commentaries, as well as other authors on the question of chattel mortgages, have said, that "in case of a sale under a foreclosure of a chattel mortgage, there is no question that the mortgagee or creditor may maintain an action for the deficiency, if any should occur." And the fact that Act No. 1508 permits a private sale, such sale is not, in fact, a satisfaction of the debt, to any greater extent than the value of the property at the time of the sale. The amount received at the time of the sale, of course, always requiring good faith and honesty in the sale, is only a payment pro tanto, and an action may be maintained for a deficiency in the debt.

In view of the foregoing facts and law, we find no escape from the conclusion that the judgment of the lower court upon the demurrer must be revoked, and the cause is hereby remanded to the court whence it came, with permission on the part of the defendant, within a period of five days from notice hereof, to answer the complaint and a failure so to do will be taken as a confession of judgment for the amount prayed for in the complaint. And, without any finding as to costs, it is so ordered.

Street, Malcolm, Villamor, Ostrand, Johns, and Romualdez, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.