

MANILA TRADING & SUPPLY CO., PLAINTIFF AND APPELLANT, VS. E. M. REYES, DEFENDANT AND APPELLEE.

G.R. No. 43263. October 31, 1935

Ponente: MALCOLM, J.

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MALCOLM, J.:

The only question presented is the validity of Act No. 4122, known as the Installment Sales Law, reading as follows:

"AN ACT TO AMEND THE CIVIL CODE BY INSERTING BETWEEN SECTIONS FOURTEEN HUNDRED AND FIFTY-FOUR AND FOURTEEN HUNDRED AND FIFTY-FIVE THEREOF A NEW SECTION, TO BE KNOWN AS SECTION FOURTEEN HUNDRED AND FIFTY-FOUR-A.

"Be it enacted by the Senate and House of Representatives of the Philippines in Legislature assembled and by the authority of the same:

"Section 1. The Civil Code is hereby amended by inserting between sections fourteen hundred and fifty-four and fourteen hundred and fifty-five thereof a new section, to be known as section fourteen, hundred and fifty-four-A, which shall read as follows

"Sec. 1454-A. In a contract for the sale of personal property payable in installments, failure to pay two or more installments shall confer upon the vendor the right to cancel the sale or foreclose the mortgage if one has been given on the property, without reimbursement to the purchaser of the installments already paid, if there be an agreement to this effect.

"However, if the vendor has chosen to foreclose the mortgage he shall have no further action against the purchaser for the recovery of any unpaid balance owing by the same, and any agreement to the contrary shall be null and void.

"The same rule shall apply to leases of personal property with option to purchase, when the lessor has chosen to deprive the lessee of the enjoyment of such personal property

"Sec. 2. This Act shall take effect on its approval.

"Approved, December 9, 1933."

There is no dispute as to the facts. They may be summarized as follows: On December 13, 1933—that is, subsequent to the enactment of Act No. 4122—E. M. Reyes executed in favor of the Manila Trading & Supply Co., a chattel mortgage on an automobile as security for the payment of the sum of P400, which Reyes agreed to pay in ten equal monthly installments. As found by the trial judge, Reyes failed to pay some of the installments due on his obligation. Thereupon the Manila Trading & Supply Co., proceeded to foreclose its chattel mortgage. The mortgaged property was sold at public auction by the sheriff of the City of Manila for the sum of P200. After applying this sum, with interest, costs, and liquidated damages to Reyes' indebtedness, the latter owed the company a balance of P275.47, with interest thereon at the rate of 12 per cent per annum from February 19, 1934.

When Reyes failed to pay the deficiency on the debt, the company instituted an action in the Court of First Instance of Manila for the recovery thereof. To plaintiff's complaint defendant filed an answer in which he pleaded as a defense that plaintiff, having chosen to foreclose its chattel mortgage, had no further action against defendant for the recovery of the unpaid balance owed by him to plaintiff, as provided by Act No. 4122. After trial the lower court sustained defendant's defense and rendered a judgment absolving him from the complaint, with costs.

From this judgment, the plaintiff has taken an appeal and here contends that the lower court erred in not declaring Act No. 4122 of the Philippine Legislature unconstitutional for the following reasons: (1) in that it embraces more than one subject, (2) in that it unduly restrains the liberty of a person to contract with respect to his property rights, (3) in that it is class legislation, and (4) in that it denies vendors and lessors of personal property the equal protection of the laws.

- Title of the Law.—Act No. 4122 is entitled, "An Act to amend the Civil Code by inserting between sections fourteen hundred and fifty-four and fourteen hundred and fifty-five thereof a new section, to be known as section fourteen hundred and fifty-four-A." It is argued that the Act amends the Civil Code and the Chattel Mortgage Law, Act No. 1508. As a consequence, it is alleged, that one of the subjects covered by the Act, the amendment of the Chattel Mortgage Law, is not expressed in the title thereof, in violation of section 3 of the Organic Act, the Act of Congress of August 29, 1916, which provides "that no bill which may be enacted into law shall embrace more than one subject, and that subject shall be expressed in the title of the bill."

We think that this is taking altogether too narrow and technical a view of the matter. Legislation should not be embarrassed by overly strict construction. The constitutional provision, while designed to remedy an evil, was not designed to require great particularity in stating the object of the law in its title. In reality, while Act No. 4122 deals with three subjects, sales of personal property on the installment plan, chattel mortgages, and leases of personal property with option to repurchase, all three are comprehended within the subject of installment payments. (*Macondray & Co. vs. R. de Santos* [1935], 61 Phil., 370.)

It would be well, however, to scrutinize this point a little more closely. The portion of the Civil Code which is amended is Book IV, Title IV having to do with contract of purchase and sale and Chapter I having to do with the nature and form of this contract. The Chattel Mortgage Law, in section 3, defines a chattel mortgage as a conditional sale of personal property as security for the payment of a debt or the performance of some other obligation specified therein. The close analogy between chattel mortgages as covered by Act No. 1508 and conditional sales as covered by the Civil Code gave this court considerable difficulty, but eventually it was determined that a chattel mortgage under Act No. 1508 is not of the same effect as a contract of purchase and sale with right of repurchase under the Civil Code. (*Manila Trading & Supply Co. vs. Tamaraw Plantation Co.* [1925], 47 Phil., 513, reconciling *Meyers vs. Thein* [1910], 15 Phil., 303; *Bachrach vs. Mantel* [1913], 25 Phil., 410, and *Bacjirach Motor Co. vs. Summers* [1921], 42 Phil., 3.) Likewise the close relationship between chattel mortgages and conditional sales in other jurisdictions is evidenced by the fact that a well-known text writer saw fit to choose this as the title for his work. (*Jones, Chattel Mortgages and Conditional Sales*, 1933 ed.)

It could be added, if necessary, that the general rule is adopted in this jurisdiction to the effect that a title which declares a statute to be an act to amend a specified code is sufficient and the precise nature of the amendatory act need not be further stated. (*People vs. Buenviaje* [1925], 47 Phil., 536.) On the supposition, therefore, which seems reasonable, that the purpose had in mind by the Legislature in enacting Act No. 4122 was to provide legislation concerning sales of personal property on the installment plan; this subject was sufficiently expressed by indicating that the law had to do with an amendment of the Civil Code in the portion thereof given up to contract of purchase and sale.

- Liberty of contract, class legislation, and equal protection of the laws.—The question of the validity of an act is solely one of constitutional power. Questions of expediency, of motive, or of results are irrelevant. Nevertheless it is not improper to inquire as to the occasion for the enactment of a law. The legislative purpose thus disclosed can then serve as a fit background for constitutional inquiry.

Judge Moran in first instance had the following to say relative to the reasons for the enactment of Act No. 4122:

"Act No. 4122 aims to correct a social and economic evil, the inordinate love for luxury of those who, without sufficient means, purchase personal effects, and the ruinous practice of some commercial houses of purchasing back the goods sold for a nominal price besides keeping a part of the price already paid and collecting the balance, with stipulated interest, costs, and attorney's fees. For instance, a company sells a truck for ₱5,500. The purchaser makes a down payment of ₱500, the balance to be paid in twentyfour equal installments of ₱250 each. Pursuant to the practice before the enactment of Act No. 4122, if the purchaser fails to pay the first two installments, the company takes possession of the truck and has it sold at public auction at which sale it purchases the truck for a nominal price, at most ₱500, without prejudice to its right to collect the balance of ₱5,500, plus interest, costs, and attorney's fees. As a consequence, the vendor does not only recover the goods sold, used hardly two months perhaps with only slight wear and tear, but also collects the entire stipulated purchase price, probably swelled up fifty per cent including interest, costs, and attorney's fees. This practice is worse than usurious in many instances. And although, of course, the purchaser must suffer the consequences of his imprudence and lack of foresight, the chastisement must not be to the extent of ruining him completely and, on the other hand, enriching the vendor in a manner which shocks the conscience. The object of the law is highly commendable. As to whether or not the means employed to do away with the evil above-mentioned are arbitrary will be presently set out."

In a case which reached this court, Mr. Justice Goddard, interpreting Act No. 4122, made the following observations:

"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.

"In other words, under this amendment, in all proceedings for the foreclosure of chattel mortgages, executed, on chattels which have been sold on the installment plan, the mortgagee is limited to the property included in the mortgage." (Bachrach Motor Co. vs. Millan [1935], 61 Phil., 409.)

Public policy having thus had in view the objects just outlined, we should next examine the law to determine if notwithstanding that policy, it violates any of the constitutional principles dealing with the three general subjects here to be considered.

In an effort to enlighten us, our attention has been directed to certain authorities, principally one coming from the State of Washington and another from the State of Oregon. For reasons which will soon appear, we do not think that either decision is controlling.

In 1897, an Act was passed in the State of Washington which, provided "that in all proceedings for the foreclosure of mortgages hereafter executed, or on judgments rendered upon the debt thereby secured, the mortgagee or

assignee shall be limited to the property included in the mortgage."

It was held by a divided court of three to two that the statute since limiting the right to enforce a debt secured by mortgage to the property mortgaged, whether realty or chattels, was an undue restraint upon the liberty of a citizen to contract with respect to his property rights. But as is readily apparent, the Washington law and the Philippine law are radically different in phraseology and in effect. (*Dennis vs. Moses* [1898], 40 L. R. A., 302.)

In Oregon, in a decision of a later date, an Act abolishing deficiency judgments upon the foreclosure of mortgages to secure the unpaid balance of the purchase price of real property was unanimously sustained by the Supreme Court of that State. The importance of the subject matter in that jurisdiction was revealed by the fact that four separate opinions were prepared by the justices participating, in one of which Mr. Justice Johns, shortly thereafter to become a member of this court, concurred. However, it is but fair to state that one of the reasons prompting the court to uphold the law was the financial depression which had prevailed in that State. While in the Philippines the court can take judicial notice of the stringency of finances that presses upon the people, we have no reason to believe that this was the reason which motivated the enactment of Act No. 4122. (*Wright vs. Wimberley* [1919], 184 Pac, 740.)

While we are on the subject of the authorities, we may state that we have examined all of those obtainable, including some of recent date, but have not been enlightened very much because as just indicated, they concerned different states of facts and different laws. We gain the most help from the case of *Bronson vs. Kinzie* ([1843], 1 How., 311), decided by the Supreme Court of the United States. It had under consideration a law passed in the State of Illinois, which provided that the equitable estate of the mortgagor should not be extinguished for twelve months after sale on decree, and which prevented any sale of the mortgaged property unless two-third³ of the amount at which the property had been valued by appraisers should be bid therefor.

The court, by Mr. Chief Justice Taney, declared: "Mortgages made since the passage of these laws must undoubtedly be governed by them; for every State has the power to describe the legal and equitable obligations of a contract to be made and executed within its jurisdiction. It may exempt any property it thinks proper from sale, for the payment of a debt; and may impose such conditions and restrictions upon the creditor as its judgment and policy may dictate. And all future contracts would be subject to such provisions; and they would be obligatory upon the parties in the courts of the United States, as well as in those of the State."

As we understand it, parties have no vested right in particular remedies or modes of procedure, and the Legislature may change existing remedies or modes of procedure without impairing the obligation of contracts, provided an efficacious remedy remains for enforcement. But changes in the remedies available for the enforcement of a mortgage may not, even when public policy is invoked as an excuse, be pressed so far as to cut down the security of a mortgage without moderation or reason or in a spirit of oppression. (*Brotherhood of American Yeoman vs. Manz* [1922], 206 Pac, 403; *Os'hkosh Waterworks Co. vs. Oshkosh* [1903], 187 U. S., 437; *W. B. Worthen Co. vs. Kavanaugh* [1935], 79 U. S. Supreme Court Advance Opinions, 638.)

In the Philippines, the Chattel Mortgage Law did not expressly provide for a deficiency judgment upon the foreclosure of a mortgage. Indeed, it required decisions of this court to authorize such a procedure. (*Bank of the Philippine Islands vs. Olutanga Lumber Co.* [1924], 47 Phil., 20; *Manila Trading & Supply Co. vs. Tamaraw Plantation Co.*, supra.) But the practice became universal enough to acquire the force of direct legislative enactment regarding procedure. To a certain extent the Legislature has now disauthorized this practice, but has left a sufficient remedy remaining.

Three remedies are available to the vendor who has sold personal property on the installment plan. (1) He may elect to exact the fulfilment of the obligation. (*Bachrach Motor Co. vs. Millan*, supra.) (2) If the vendee shall have

failed to pay two or more installments, the vendor may cancel the sale. (3) If the vendee shall have failed to pay two or more installments, the vendor may foreclose the mortgage, if one has been given on the property. The basis of the first option is the Civil Code. The basis of the last two options is Act No. 4122, amendatory of the Civil Code. And the proviso to the right to foreclose is, that if the vendor has chosen this remedy, he shall have no further action against the purchaser for the recovery of any unpaid balance owing by the same. In other words, as we see it, the Act does no more than qualify the remedy.

Most constitutional issues are determined by the court'-1 approach to them. The proper approach in cases of this character should be to resolve all presumptions in favor of the validity of an act in the absence of a clear conflict between it and the constitution. All doubts should be resolved in its favor.

The controlling purpose of Act No. 4122 is revealed to be to close the door to abuses committed in connection with the foreclosure of chattel mortgages when sales were payable in installments. That public policy, obvious from the statute, was defined and established by legislative authority. It is for the courts to perpetuate it.

We are of the opinion that the Legislature may change judicial methods and remedies for the enforcement of contracts, as it has done by the enactment of Act No. 4122, without unduly interfering with the obligation of the contract, without sanctioning class legislation, and without a denial of the equal protection of the laws. We rule that Act No. 4122 is valid and enforceable. As a consequence, the errors assigned by the appellant are overruled, and the judgment affirmed, the costs of this instance to be taxed against the losing party.

Avanceña, C.J., Villa-Real, Abad Santos, Hull, Vickers, Goddard, Diaz, and Recto, JJ., concur.

Judgment affirmed.

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