

HENRY KOA AND VIRGINIA KOA, PETITIONERS, VS. THE HON. COURT OF APPEALS AND BA FINANCE CORPORATION, RESPONDENTS.

G.R. No. 84847. March 05, 1993

Ponente: MELO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-84847/>

MELO, J.:

The petition for review on certiorari before Us seeks to reverse and set aside the decision of the Court of Appeals dated July 29, 1988 in CA-G.R. CV No. 00721 (Bellosillo, Ordonez-Benitez (P), and Kalalo, JJ.; p. 70, Rollo), which affirmed in toto the decision of Branch 32 of the Regional Trial Court of the National Capital Judicial Region stationed at Manila (p. 35, Rollo).

The antecedent facts of the case as gleaned from the records are as follows:

On April 20, 1987, the spouses Henry L. Koa and Virginia Koa, now herein petitioners, obtained from People's Car, Inc. a credit of P26,422.20 covering the cost of one Volkswagen Trakbayan de Luxe secured by a promissory note executed by the spouses in favor of People's Car, Inc. The spouses obligated themselves to pay People's Car, Inc. the sum of P26,422.20 inclusive of 14% interest on each unpaid installment to be computed from date of maturity until fully paid, payable on monthly installments of P733.95 starting July 1, 1977 and on the first day of the next 35 months from August 1, 1977 until full payment thereof. It was further stipulated that a penalty charge of P10.00 for every month or fraction thereof shall be paid by the spouses in case an installment due remains unpaid. To secure faithful and prompt compliance of their obligations under the said promissory note, petitioners constituted a chattel mortgage on the aforementioned motor vehicle. Subsequently, on May 27, 1977, People's Car, Inc. assigned the promissory note, together with the chattel mortgage, to BA Finance Corporation. The Koa spouses paid a total of P14,679.00 plus P493.78 representing interests and surcharges to BA Finance Corporation, thereby leaving an unpaid balance of P12,236.98 plus 14% interest plus a penalty charge of P10.00 for every month or fraction thereof starting September 26, 1979 until the entire amount is fully paid.

Owing to the failure of petitioners to comply with the terms and conditions of the promissory note for more than 6 months, BA Finance Corporation filed a complaint for "Replevin with Damages" against the spouses before the court of origin. After submitting their Answer, a Third-Party Complaint against People's Car, Inc. was filed by the spouses.

Following trial on merits, the lower court rendered its decision, the decretal portion of which reads:

"ACCORDINGLY, judgment is hereby rendered in favor of the plaintiff and against defendants Henry L. Koa and Virginia Koa ordering them, jointly and severally, to pay plaintiff 1) P12,236.98 plus 12% interest and a penalty charge of P10.00 for every month or fraction thereof from September 26, 1979 until the whole amount is fully paid and 2) P1,000 as attorney's fees.

"The third-party complaint is DISMISSED.

"Without pronouncement as to costs.

"SO ORDERED." (Rollo, p. 39)

Dissatisfied with the decision, the spouses appealed to the Court of Appeals, which, as initially observed, affirmed in toto, the decision of the trial court. The motion for reconsideration filed by the spouses was to no avail, hence, the instant petition for review on certiorari on the basis of the ensuing paraphrased propositions that:

- a) the Court of Appeals erred in holding that BA Finance Corporation did not assume the obligation of warranty by the People's Car, Inc.;
- b) respondent court likewise erred in not holding that in surrendering possession of the car to the assignor, petitioners are absolved from paying the balance under the promissory note;
- c) respondent court erroneously concluded the absence of breach of warranty under the premises.

Anent the first ascription, this Court finds the contention of petitioners to be impressed with merit. It is basic under substantive law that when a seller or vendor assigns his credit to another person, the latter is deemed subrogated to the rights as well as to the obligations of the seller. In *BA Finance Corporation vs. Court of Appeals* (201 SCRA 157 [1991]). BA Finance Corporation was deemed subrogated to the rights and obligations of Supercars, Inc. when the latter assigned the promissory note, together with the chattel mortgage constituted on the motor vehicle in question, in favor of the former. Consequently, BA Finance Corporation was held bound by the terms and conditions of the chattel mortgage executed between the Cuady spouses and Supercars, Inc.

Accordingly, an assignee cannot acquire greater rights than those pertaining to the assignor (*Gonzales vs. Land Bank of the Phils.*, 183 SCRA 520 [1990]; *Zeyas vs. Luneta Motors*, 117 SCRA 726 [1982]; *Filinvest vs. Philippine Acetylene Company*, 111 SCRA 421 [1982]; *Industrial Finance Corporation vs. Ramirez*, 77 SCRA 152 [1977]; *Industrial Finance Corporation vs. Tobias*, 78 SCRA 28 [1977]).

Thus, in the case at bar, it is true that BA Finance Corporation, as the assignee of the mortgage lien, obtained the rights, title, and interests of the assignor (People's Car, Inc.) over the aforementioned motor vehicle and the promissory note, but the act of assignment, did not operate to erase liens or restrictions burdening the right assigned (*PNB vs. Gen. Acceptance and Finance Corp., et al.*, 161 SCRA 449 [1988]). The general rule is that an assignee of a non-negotiable chose in action acquires no greater right than what was possessed by his assignor and simply stands into the shoes of the latter (*Fidelita Mut. L. Ins. Co. vs. Clark*, 203 U.S. 64, 51 L. ed., 91 27 s. Ct. 19' *Judson vs. Corcoran*, 17 How (US) 612, 156 L. ed. 231). By virtue of the deed of assignment, the assignee is deemed subrogated to the rights and obligations of the assignor and is bound by exactly the same conditions as those which bound the assignor (see *Mercantile Ins. Co., Inc. vs. Felipe Ysmael, Jr. & Co., Inc.*, 169 SCRA 66; *BPI Credit Corporation vs. Court of Appeals*, 204 SCRA 601 [1991]).

Furthermore, Article 1495 of the Civil Code is very explicit that "the vendor is bound to transfer the ownership of and deliver, as well as warrant the thing which is the object of the sale." This clearly shows the responsibilities of the vendor towards the vendee. Since an assignee merely steps into the shoes, so to speak, of an assignor, the assignee shall likewise shoulder all the obligations of a vendor-assignor, including the vendor's warranty. Warranty is a collateral undertaking. Thus, in a sale of personal property it is an express or implied statement of something which a party undertakes and shall be a part of a contract and, though part of the contract, collateral to the express object of it (*Mc Cullough vs. Aenlle and Company*, 3 Phil. 298 [1904]). As a collateral undertaking, it follows where the principal obligation goes.

However, the real issue in the instant petition is, whether or not there was a breach of warranty on the part of People's Car, Inc. and consequently on the part of BA Finance Corporation when the motor vehicle in question

was returned to People's Car, Inc. due to alleged "factory defect".

It is the contention of petitioners that on February 11, 1978, they received a letter from the People's Car, Inc. informing them that the latter agrees to change the vehicle in question with a new one since the spouses turned over and surrendered the said vehicle to the latter as it was a lemon car and had to be replaced under its warranty (p. 108, Rollo). In support of this contention, petitioners quote the letter, (Exh. "1"), to wit:

"This is in reference to your request for a replacement of your TKB Jeepney with Engine No. AU001034 and Chasis No. 2040001011, covered by Sales Invoice No. 35753, dated April 20, 1977.

"Please be informed that we are agreeable to the replacement of the above described unit with another TKB of the same model, however, if it will be another model, the trade-in value of your TKB Jeepney will only be P20,000.00 and the price difference shall be paid in cash. This offer will expire in 15 days from date of this letter."

On the other hand, private respondent BA Finance Corporation argues that the vehicle in question was turned over and surrendered to the People's Car, Inc. and that private respondent was not a participant in the talks or negotiations for the replacement of the vehicle between petitioners and People's Car, Inc. Apparently, the above transaction was more of an offer for trade-in with an expiry date of fifteen (15) days from the date of the letter, than a transaction to honor warranty. Petitioners failed to state in their letter to People's Car, Inc. that they are returning the vehicle because of factory defects that should be covered under the Warranty. Verily, in response to the third-party complaint filed by herein petitioners against People's Car, Inc., We can deduce that the assignor denied that the car was returned because of any factory defect:

"2. It admits in part par. 3 insofar as it offered to replace the motor vehicle bought by the third-party complaint, but denies that the offer by this answering party was made due to factory defects, for the reason that the offer was made because of this party's desire to promote goodwill with its customers." (Answer to the Third-Party Complaint, p. 31, Rollo.)

Thus, the Court of Appeals observed that the so-called warranty is non-existent in the case at bar, to wit:

"In the above quoted letter, we find no reference to the alleged warranty. Instead, it was just an offer for a possible trade-in agreement. This observation is buttressed by the letter dated February 15, 1978 (Exh. "3") sent by defendant-appellant to People's Car, Inc. which reads:

'Please be informed that I have taken your kind offer today by introducing to you Mr. Jesus Camaro who is interested in buying the new TKB Jeepney intended for any replacement. He has already applied for financing to pay on installments through Mr. Mario Santiago...

'However, should all obligations of Mr. Camaro for financing be declined then as replacement of my above-mentioned TKB Jeepney, I will get from your good office one Candy Apple Red VW 104 Brasilia 4 door sedan with rubber moulding, wood panelling, quartz clock, blower air inlet, and finally carpeted. (underscoring supplied)'

The two exhibits (Exhs. 1 and 3) taken together merely elicited the fact that the People's Car, Inc. was only making an offer. This transaction can in no way affect the outstanding obligation of defendants-appellants with plaintiff-appellee." (p. 73, Rollo)

In so far as petitioners' so-called pecuniary accountability in favor of private respondent is concerned, We are of the opinion and thus hereby hold that petitioners should be exonerated from paying the balance and legal interest arising from the promissory note because of the legal proscription against unjust enrichment (Article 2142, New Civil Code). In the case at bar, it is an admitted fact that the vehicle was surrendered to People's Car, Inc. even before the action for replevin was filed. Certainly, to require petitioners to effect full payment in the manner

arrived at below after they turned over the vehicle to People's Car, Inc. which did not fulfill its avowed promise to provide a replacement therefor, is wholly incongruous, nay, inequitable. Verily, and judging from the tenor of Exhibit "1" (supra, at page 7, Decision), People's Car, Inc. opted to retain permanent possession of the vehicle after the offer to replace the same expired signifying that it was cancelling the sale, and was accepting possession of the car which is a bar against exaction of the balance of the purchase price (Nonato vs. Intermediate Appellate Court, 140 SCRA 255 [1985]). Hence, if People's Car, Inc., as assignor is barred from demanding payment of the unpaid balance then, a fortiori, BA Finance as assignee, is likewise precluded from recovering against petitioners.

Concerning the award of attorney's fees, this, too, must be disallowed for want of factual and legal premise in the text of the decisions rendered by the court of origin and the appellate court as well (Central Azucarera de Bais vs. Court of Appeals, 188 SCRA 328; 340 [1990]).

WHEREFORE, the petition is hereby GRANTED. The Decision of respondent court dated July 29, 1988, including the Resolution dated September 8, 1988, are hereby SET ASIDE and another one entered DISMISSING the complaint for replevin.

SO ORDERED.

Feliciano, (Acting Chairman), Bidin, Davide, Jr., and Romero, 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.