

## SPECIAL SIXTEENTH DIVISION

[ CV No. 70566, October 22, 2010 ]

**LORNA GONZALES AND SUSAN PAPA, PLAINTIFFS-APPELLANTS,  
VS. PENTA CAPITAL FINANCE CORPORATION, DEFENDANT-  
APPELLEE.**

### DECISION

## Court of Appeals

### The Case

On appeal by plaintiffs Lorna Gonzales ("**Gonzales**") and Susan Papa ("**Papa**") is the Decision<sup>[1]</sup> dated December 21, 1998 of the Regional Trial Court ("RTC") of Makati City,<sup>[2]</sup> in Civil Case No. 96-665 for Rescission and Damages entitled "Lorna Gonzales and Susan Papa, Plaintiffs, vs. Penta Capital Finance Corporation, Defendant", the dispositive portion of which reads:

"WHEREFORE, premises considered, judgment is hereby rendered denying plaintiffs' prayer in the Complaint, with double costs. On defendant's counterclaim, judgment is hereby rendered in favor of defendant and:

1. Against plaintiff Lorna Gonzales, ordering her to pay defendant the total amount of P321,978.16 plus interest at 12% per annum until the amount is paid in full, and P80.000.00 as attorney's fees; and
2. Against plaintiffs, to pay defendant, jointly, severally and solidarily, the sum of P50.000.00 as exemplary damages, plus double costs.

SO ORDERED.<sup>[3]</sup>

### The Facts

This is a Complaint for rescission of promissory notes, chattel mortgage and deed of assignment filed by plaintiffs-appellants Gonzales and Papa against defendant-appellee Penta Capital Finance Corporation ("Penta Capital"). The allegations in the Complaint, as culled from the assailed Decision, are as follows:

"The Complaint alleges, that: On April 16, 1994 and May 04, 1994 plaintiffs Gonzales and Papa purchased from Philippine Multicor ('PMI') a 1994 Kia Pride for P264.000.00 and a 1994 Daihatsu Charade for P305.000.00, respectively; PMI thereafter issued the respective Vehicle Invoice xxx and Vehicle Delivery Receipt xxx; **plaintiffs were made to sign as they did, promissory notes and chattel mortgage agreements with deeds of assignment, in blank**; before she received a copy of the promissory note and chattel mortgage agreement from defendant, **plaintiff Gonzales never knew that defendant was**

**the assignee** thereof; as to plaintiff Papa, she knew of such assignment only when she received a copy of the complaint-affidavit filed against her for violation of Batas Pambansa Blg. 22 ('BP 22') where a copy each, of the promissory note and mortgage agreement were attached; from these documents **plaintiffs discovered that the purchase price indicated in the promissory notes are different from the price appearing in the said Vehicle Invoices and Vehicle Delivery Receipts**; as required by PMI, plaintiffs issued postdated checks for one (1) year; plaintiffs have been in good faith in paying their monthly amortizations; on November 29, 1995, **because of financial reverses and their discovery of the material discrepancies in the purchase price of the vehicles purchased, plaintiffs wrote to defendant for the voluntary surrender of the vehicles xxx**; defendant refused to accept the vehicles and filed a criminal complaint against plaintiff Papa for violation of BP 22 xxx before the City Prosecutor of Makati, involving five (5) checks docketed as IS No. 96-1065; in spite of the fact that she had already paid part of the aforementioned postdated checks the amounts thereof; because of defendant's non-acceptance of the voluntary surrender 'as what has been verbally agreed upon and represented by defendant's representative,' and the malicious filing of the aforesaid criminal complaint, plaintiffs suffered acute anxiety, sleepless nights, social humiliation and other similar injuries for which defendant should pay plaintiffs P300,000.00 each, in moral damages; because of defendant's bad faith, it should be made to pay plaintiffs exemplary damage of P100,000.00 each; and because of defendant's unjustified acts, plaintiffs were compelled to engage the services of counsel for a fee of P50,000.00 and appearance of P2,500.00 per hearing. Plaintiff Papa likewise prayed for a writ of preliminary mandatory injunction for the return of the checks subject of the said criminal complaint for BP 22."<sup>[4]</sup> (emphasis Ours)

In its Answer,<sup>[5]</sup> defendant Penta Capital denied the material allegations in the complaint and made some admissions, which were stated in the Decision, viz.:

"xxx, (D)efendant filed its Answer admitting plaintiffs' purchase of said cars from PMI; the issuance of Vehicle Invoices and Delivery Receipts xxx; its refusal to accept the voluntary surrender of the cars; and the filing of a criminal complaint against plaintiff Papa; and denying the rest of the allegations. It further interposed its **counterclaim** against plaintiff Gonzales for her unpaid obligation under the contracts sought to be rescinded amounting to P150,159.53 plus penalty charges thereon at the rate of 4% per month from 11 July 1996, attorney's fees and costs of suit; for exemplary damages in the amount of P100,000.00 against both plaintiffs."<sup>[6]</sup> (emphasis Ours)

During the pre-trial conference on January 31, 1997,<sup>[7]</sup> the following facts were admitted:

"Plaintiffs' Admissions

1. Defendant is the assignee of Philippine Multicor Inc. from whom the plaintiffs purchased the two (2) vehicles;

2. two (2) promissory notes were transferred from Philippine Multicor Inc. to defendant physically;
3. because of the assignment of the chattels, the deeds of chattel mortgage were likewise assigned;
4. plaintiffs upon acquisition from Philippine Multicor Inc. gave downpayments to said corporation; and
5. the balance appearing in the invoices was proposed to be paid in installments xxx. The amount of P211,200.00 was the balance after the downpayment to be amortized for 48 months as to defendant Gonzales and the balance of P244,000.00 shall be amortized for 36 months for plaintiff Papa as 'vehicles receivables - amount to be financed';
6. the amounts in the promissory notes were payable in 36 months for plaintiff Papa and 48 months for plaintiff Gonzales.

#### Defendant's Sole Admission

1. Defendant filed cases of BP 22 against plaintiff Susan Papa."<sup>[8]</sup>

The parties agreed that the following issues be resolved:

#### "Plaintiff

1. Whether or not Philippine Multicor Inc. employed misrepresentation, deceit or fraud (dolo causante) against plaintiff in securing the contract;
2. whether or not the promissory notes, the chattel mortgages and the deeds of assignment can be rescinded in consequence of the fraud allegedly employed by Philippine Multicor Inc. against plaintiff;
3. whether or not defendant was in bad faith in refusing to cancel this contract, (the promissory notes, the chattel mortgages and the deeds of assignment)

#### Defendant's Issues:

1. Defendant is not under any legal obligation to accept voluntary surrender of the subject vehicles;
2. business reverses is not a ground to rescind a perfected and partially executed contract;
3. plaintiffs were in bad faith in filing the instant action against defendant;
4. plaintiff Gonzales is liable to defendant for the unpaid obligation under her promissory note and the counterclaim; and

5. plaintiff Papa acknowledged her obligation to defendant when she offered to collateralize her past due obligation by way of a real estate mortgage."<sup>[9]</sup>

Only plaintiff-appellant Papa testified for the plaintiffs. On the other hand, Arthur M. Regala, Ramiro Hermoso, and Atty. Ma. Loreto Navarro, the accountant, marketing manager and legal counsel, respectively, of Penta Capital testified as witnesses in its behalf.

### ***The Ruling of the Trial Court***

In arriving at the disputed decision, the RTC explained:

"From the totality of the evidence presented and the pleadings filed, the Court is convinced that plaintiffs were not deceived when they each entered into a car financing transaction with Philippine Multicor Inc. xxx, either as to the identity of the assignee of PMI, or as to the price of the cars purchased. Neither did PMI make any misrepresentation to plaintiffs that would constitute a ground for the rescission of the contracts now in the hands of defendant as PMI's assignee. Plaintiff clearly and **voluntarily contracted with PMI with full knowledge that their loan accounts inclusive of interest or finance charge, were payable over a period of time and that they would be assigned to defendant.** Before the cars were delivered to them, plaintiffs filled out, accomplished and signed defendant's Loan Application form xxx and agreed to be interviewed and investigated by defendant's credit and loan officers. As early as then, plaintiffs could not have mistaken their transaction with PMI for other than a financing transaction. Further, the **name of defendant was already indicated on the Vehicle Invoices xxx** where on the space provided for 'Term' appear '(48 mos.)' for plaintiff Gonzales and '(36)' for plaintiff Papa, preceded by 'Penta Capital Finance Corporation'. Plaintiffs (who are business partners), especially plaintiff Papa, could not have overlooked the import of such entry in the invoices considering that she **graduated with a banking and finance degree and she had been a businesswoman for the past fifteen (15) years** (TSN, 3 April 1997, p. 7). They are expected to know that because they paid only a portion of the purchase price to PMI, the balance would be the subject of a loan or car financing, for which reason promissory notes had to be signed, **not just for formality but as an essential documentary requirement of PMI.** The loan was to be secured by a mortgage on the cars purchased. Thus, plaintiffs likewise executed a deed of mortgage. In the case of plaintiff Gonzales, the promissory note xxx is in the amount of P362,640.00, equivalent to the sum of P211,200.00, the balance on the purchase price, and the interest or finance charge of P151,440.00 for the 48-month period. The same formula was applied to the account of plaintiff Papa.

Plaintiffs hinge their charge of fraud, deceit and misrepresentation on the **alleged discrepancy between the purchase price allegedly shown in the promissory note** as P362,640.00 for plaintiff Gonzales and P376,656.00 (sic) for plaintiff Papa, **and the amounts appearing in the Vehicle Invoices.** A cursory examination of the invoices, however,

show that said amounts are not the purchase price of the cars but the loan amount. Expectedly, they will be, as they are indeed different. As indicated on the dorsal side of the promissory note signed by plaintiff Gonzales xxx, the price of the car she purchased is P264,000.00, the same amount appearing in Vehicle Invoice No. 3379 xxx as the purchase price. As presented thereon, P362,640.00 is the sum of 'Vehicle Receivable/Amount to be Financed' or the purchase price (net of the downpayment) and the applicable finance charge. On cross-examination, plaintiff Papa admitted, that: As a **banking and finance graduate, she knew and understood that her transaction with PMI was one of financing; there will be a finance charge** on the balance of the purchase price, the total of which would be paid over a period of time; they issued twelve (12) postdated checks corresponding to the first 12 monthly installments; and, these checks were just in partial payment of the loan (TSN April 3, 1997, p. 103). Clearly, plaintiff **Papa was well aware of the nature of the transaction between her and PMI.** Business partners that they are, it is not unlikely that plaintiff Papa had relayed to plaintiff Gonzales what she understood of the transaction with PMI. 'Courts have no power to relieve parties from obligations voluntarily assumed simply because their contracts turned out to be disastrous deals and unwise investments.' (Sanchez vs. Court of Appeals, 270 SCRA 684 citing Villacorte vs. Mariano, 89 Phils. 341, 349 (1951).

Plaintiff Papa also testified that the fraud and misrepresentation consisted in [sic] PMI's **failure to make good its promise to inform them how much more, after the twelve (12) amortizations, they need to pay** as they intend to pay their account in full at that time. Assuming arguendo that there was such a promise and PMI reneged thereon, such did not **constitute breach, fraud or misrepresentation sufficient to warrant a rescission** of the contracts.

The High Court has ruled time and again that **rescission will not be allowed if the breach is not substantial or fundamental to the fulfillment of the obligation.** As borne out by [the] evidence, defendant had fulfilled its part of the obligation while plaintiffs had already availed of the benefits thereunder. Plaintiffs have availed of the term under the promissory note: they already commenced payment on the loan, however unimpressive their repayment record might be, as the loan ledgers xxx would show. Further, they have had possession and use of the cars purchased from PMI from mid-1994 until mid-1996, when they filed the instant case. This Court cannot but notice that the **instant case was filed after the criminal case was filed** against plaintiff Papa for violation of Batas Pambansa Blg. 22 and after a demand letter was sent by defendant's counsel to plaintiff Gonzales, coupled with defendant's refusal of plaintiffs' offer to voluntarily surrender the mortgaged cars. Suffice it to say at this point, defendant was not under any obligation to accept the voluntary surrender of said cars, not even on the ground of financial reverses especially when, after inspection by defendant's representative, it was found that the **cars have been converted to taxi, in violation of the contract.**

Other than plaintiff Papa's testimony, no other evidence was presented