

SECOND DIVISION

[G.R. No. 194642, April 06, 2015]

NUNELON R. MARQUEZ, PETITIONER, VS. ELISAN CREDIT CORPORATION, RESPONDENTS.

DECISION

BRION, J.:

We resolve the present petition for review on *certiorari*^[1] assailing the May 17, 2010 decision^[2] and the November 25, 2010 resolution^[3] of the Court of Appeals (CA) in CA-G.R. SP No. 102144.^[4]

The Factual Antecedents

On December 16, 1991, Nunelon R. Marquez (*petitioner*) obtained a (*first loan*) from Elisan Credit Corporation (*respondent*) for fifty-three thousand pesos (Php 53,000.00) payable in one-hundred eighty (180) days.^[5]

The petitioner signed a promissory note which provided that it is payable in weekly installments and subject to twenty-six percent (26%) annual interest. In case of non-payment, the petitioner agreed to pay ten percent (10%) monthly penalty based on the total amount unpaid and another twenty-five percent (25%) of such amount for attorney's fees exclusive of costs, and judicial and extrajudicial expenses.^[6]

To further secure payment of the loan, the petitioner executed a chattel mortgage^[7] over a motor vehicle. The contract of chattel mortgage provided among others, that the motor vehicle shall stand as a security for the first loan and "all other obligations of every kind already incurred or *which may hereafter be incurred*."^[8]

Both the petitioner and respondent acknowledged the full payment of the first loan.^[9]

Subsequently, the petitioner obtained another loan (*second loan*) from the respondent for fifty-five thousand pesos (P55,000.00) evidenced by a promissory note^[10] and a cash voucher^[11] both dated June 15, 1992.

The promissory note covering the second loan contained *exactly the same* terms and conditions as the first promissory note.

When the second loan matured on December 15, 1992, the petitioner had *only* paid twenty-nine thousand nine hundred sixty pesos (P29,960.00), leaving an unpaid balance of twenty five thousand forty pesos (P25,040.00).^[12]

Due to liquidity problems, the petitioner asked the respondent if he could pay in daily installments (*daily payments*) until the second loan is paid. The respondent granted the petitioner's request. Thus, as of September 1994 or twenty-one (21) months *after* the second loan's maturity, the petitioner had already paid a total of fifty-six thousand four-hundred forty pesos (P56,440.00), an amount greater than the principal.^[13]

Despite the receipt of more than the amount of the principal, the respondent filed a complaint for judicial foreclosure of the chattel mortgage because the petitioner allegedly failed to settle the balance of the second loan despite demand.^[14]

The respondent further alleged that pursuant to the terms of the promissory note, the petitioner's failure to fully pay upon maturity triggered the imposition of the ten percent (10%) monthly penalty and twenty-five percent (25%) attorney's fees.

The respondent prayed that the petitioner be ordered to pay the balance of the second loan plus accrued penalties and interest.^[15]

Before the petitioner could file an answer, the respondent applied for the issuance of a writ of replevin. The MTC issued the writ and by virtue of which, the motor vehicle covered by the chattel mortgage was seized from the petitioner and delivered to the respondent.^[16]

Trial on the merits thereafter ensued.

The MTC Ruling^[17]

The MTC found for the petitioner and held that the second loan was fully extinguished as of September 1994.

It held that when an obligee accepts the performance or payment of an obligation, knowing its incompleteness or irregularity and without expressing any protest or objection, the obligation is deemed fully complied with.^[18] The MTC noted that the respondent accepted the daily payments made by the petitioner without protest. The second loan having been fully extinguished, the MTC ruled that respondent's claim for interests and penalties plus the alleged unpaid portion of the principal is without legal basis.

The MTC ordered:

1. "the plaintiff Elisan Credit Corporation to return/deliver the seized motor vehicle with Plate No. UV-TDF-193 to the possession of the defendant and in the event its delivery is no longer possible, to pay the defendant the amount of P30,000.00 corresponding to the value of the said vehicle;"
2. "the bonding company People's Trans-East Asia Insurance Corporation to pay the defendant the amounts of P20,000.00 and P5,000.00 representing the damages and attorney's fees under P.T.E.A.LC Bond No. JCL (13)-00984;"

3. "the plaintiff is likewise directed to surrender to the defendant the originals of the documents evidencing indebtedness in this case so as to prevent further use of the same in another proceeding."

The RTC Ruling^[19]

Except for the MTC's order directed to the bonding company, the RTC initially affirmed the ruling of the MTC.

Acting on the respondent's motion for reconsideration, the RTC reversed itself. Citing Article 1253 of the Civil Code, it held that "if the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered." It also sustained the contention of the respondent that the chattel mortgage was revived when the petitioner executed the promissory note covering the second loan.

The RTC ordered:

1. "the defendant to pay the plaintiff the following: a) P25,040.00, plus interest thereon at the rate of 26% per annum and penalties of 10% per month thereon from due date of the second promissory note until fully paid, b) 25% of the defendant's outstanding obligation as and for attorney's fees, c) costs of this suit;"
2. "the foreclosure of the chattel mortgage dated December 16, 1991 and the sale of the mortgaged property at a public auction, with the proceeds thereof to be applied as and in payment of the amounts awarded in a and b above."

The CA Ruling^[20]

The CA affirmed the RTC's ruling with modification.

The CA observed that the disparity in the amount loaned and the amount paid by the petitioner supports the respondent's view that the daily payments were properly applied first for the payment of interests and not for the principal.

According to the CA, if the respondent truly condoned the payment of interests as claimed by the petitioner, the latter did not have to pay an amount in excess of the principal. The CA believed the petitioner knew his payments were first applied to the interests due.

The CA held that Article 1253 of the Civil Code is clear that if debt produces interest, payment of the principal shall not be deemed made until the interests have been covered. It ruled that even if the official receipts issued by the respondent did not mention that the payments were for the interests, the omission is irrelevant as it is deemed by law to be for the payment of interests first, if any, and then for the payment of the principal amount.

The CA, however, reduced the monthly penalty from ten percent (10%) to two percent (2%) pursuant to Article 1229 of the Civil Code which gives the courts the power to decrease the penalty when the principal obligation has been partly or

irregularly complied with by the debtor.

The dispositive portion of the CA decision provides:

"WHEREFORE, premises considered, the Petition is hereby **DENIED** for lack of merit. The Order dated 07 May 2007 of the Regional Trial Court, Branch 222, Quezon City is hereby **AFFIRMED** with **MODIFICATION** that the penalty charge should only be two (2%) per month until fully paid."

The CA denied the petitioner's Motion for Reconsideration dated May 17, 2010 on November 25, 2010 for failing to raise new matters. Hence, this present petition.

The Petition

The petitioner seeks the reversal of the CA's decision and resolution. He argues that he has fully paid his obligation. Thus, the respondent has no right to foreclose the chattel mortgage.

The petitioner insists that his daily payments should be deemed to have been credited against the principal, as the official receipts issued by the respondent were silent with respect to the payment of interest and penalties. He cites Article 1176 of the Civil Code which ordains that [t]he receipt of the principal by the creditor without reservation with respect to the interest, shall give rise to the presumption that the interest has been paid. The petitioner invokes Article 1235 of the Civil Code which states that "[w]hen the obligee accepts the performance of an obligation, knowing its incompleteness or irregularity, and without expressing any protest or objection, the obligation is deemed fully complied with."

The petitioner denies having stipulated upon and consented to the twenty-six per cent (26%) per annum interest charge, ten percent (10%) monthly penalty and twenty-five percent (25%) attorney's fees. According to the petitioner, he signed the promissory note in blank.

The petitioner likewise disclaims receiving any demand letter from the respondent for the alleged balance of the second loan after he had paid fifty-six thousand four-hundred forty pesos (Php56,440.00) as of September 1994, and further argues that the chattel mortgage could not cover the second loan as it was annulled and voided upon full payment of the first loan.

The Respondent's Case^[21]

The respondent claims that the daily payments were properly credited against the interest and not against the principal because the petitioner incurred delay in the full payment of the second loan.

It argues that pursuant to the terms and conditions of the promissory note, the interest and penalties became due and demandable when the petitioner failed to pay in full upon maturity. The respondent relies on Article 1253 of the Civil Code which provides that if the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered.

The respondent likewise maintains that the chattel mortgage could validly secure the second loan invoking its provision which provided that it covers "*obligations...which may hereafter be incurred.*"

Issues

The petitioner raises the following issues for our resolution:

- I. "WHETHER THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE DECISION OF THE REGIONAL TRIAL COURT ORDERING THE PETITIONER TO PAY THE RESPONDENT THE AMOUNT OF PHP24,040.00 PLUS INTEREST AND PENALTY FROM DUE DATE UNTIL FULLY PAID; AND
- II. "WHETHER THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE DECISION OF THE REGIONAL TRIAL COURT ORDERING THE FORECLOSURE AND SALE OF THE MORTGAGED PROPERTY."^[22]

In simpler terms, did the respondent act lawfully when it credited the daily payments against the interest instead of the principal? Could the chattel mortgage cover the second loan?

The Court's Ruling

We find the petition partly meritorious.

We rule that: (1) the respondent acted pursuant to law and jurisprudence when it credited the daily payments against the interest instead of the principal; and (2) the chattel mortgage could not cover the second loan.

Rebuttable presumptions; Article 1176 vis-a-vis Article 1253

There is a need to analyze and harmonize Article 1176 and Article 1253 of the Civil Code to determine whether the daily payments made after the second loan's maturity should be credited against the interest or against the principal.

Article 1176 provides that:

"The receipt of the principal by the creditor, without reservation with respect to the interest, shall give rise to the presumption that said interest has been paid.

xxx."

On the other hand, Article 1253 states:

"If the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered."

The above provisions appear to be contradictory but they in fact support, and are in conformity with, each other. Both provisions are also presumptions and, as such,