

THIRD DIVISION

[G.R. NO. 159592, October 25, 2005]

**SPOUSES FERDINAND AGUILAR AND JOSEPHINE C. AGUILAR,
PETITIONERS, VS. CITYTRUST FINANCE CORPORATION,
RESPONDENT.**

G.R. NO. 159706

**WORLD CARS, INC., PETITIONER, VS. SPOUSES FERDINAND AND
JOSEPHINE C. AGUILAR, RESPONDENTS.**

D E C I S I O N

CARPIO MORALES, J.:

Sometime in May 1992, Josephine Aguilar (Josephine) canvassed, via telephone, prices of cars from different car dealers listed in the yellow pages of the Philippine Long Distance Telephone directory.

On May 23, 1992, World Cars, Inc. (World Cars) sent its representative Joselito Perez (Perez) and Vangie Tayag (Vangie) to the Aguilar residence in New Manila, Quezon City bringing with them calling cards, brochures and price list for different car models, among other things. The two representatives discussed with Josephine the advantages and disadvantages of the different models, their prices and terms of payment.^[1]

Josephine having decided to purchase a white 1992 Nissan California at the agreed price of P370,000.00, payable in 90 days, Perez and Vangie repaired to the Aguilar residence on May 30, 1992, bringing with them a white 1992 Nissan California bearing Motor No. GA16-099086 and Chassis No. WGLB12-D10269, and the documents bearing on the sale.

As Josephine and her husband Ferdinand Aguilar (the Aguilars) were being made to sign by the two representatives a promissory note, chattel mortgage, disclosures and other documents the dates of which were left blank and which showed that they would still be obliged to pay on installment in 12 months for the car even if checks in full payment thereof in 90 days were to be issued, the two replied that it was only for formality, for in case the checks were not cleared, the documents would take effect, otherwise they would be cancelled.^[2]

The Aguilars did sign the promissory note^[3] binding them to be jointly and severally liable to World Cars in the amount of P301,992.00, payable in 12 months, with a monthly amortization of P25,166.00 and a late payment charge of 5% per month on each unpaid installment from due date until fully paid.

By Josephine's claim, at the time she and her husband signed the promissory note,

its date, May 30, 1992, and the due date of the monthly amortization which was agreed to be every 3rd day of each month starting July 1992 were not reflected therein.^[4]

The Aguilars did execute too a chattel mortgage^[5] in favor of World Cars which embodied a deed of assignment^[6] in favor of Citytrust Finance Corporation (Citytrust).^[7] Again by Josephine's claim, the date May 30, 1992 appearing in the chattel mortgage cum deed of assignment was not yet filled up at the time she and her husband signed it.^[8]

After the Aguilars' signing of the documents, Perez asked Josephine to make the check payments payable to him, prompting her to call up Perez's boss, a certain Lily Paloma, to inquire whether Perez could collect payment to which Lily replied in the affirmative, the latter advising her to just secure a receipt.^[9]

Josephine thus issued four Far East Bank and Trust Company (FEBTC) checks, the details of which are indicated below:

Check No.	Payable to	Amount	Dated
112703 ^[10]	Joselito Perez	P148,000.00	May 30, 1992
112704 ^[11]	World Cars	P16,000.00	May 30, 1992
112705 ^[12]	Joselito Perez	P111,000.00	June 30, 1992
112706	Joselito Perez	P111,000.00	July 30, 1992

For Check Nos. 112703, 112705, and 112706 which were made payable to Perez in the total amount of P370,000.00, Perez issued Josephine World Cars Provisional Receipt No. 5965.^[13] Check No. 112704 which was made payable to World Cars represented payment of the premium on the car insurance, secured from Dominion Insurance which issued a policy in the name of Josephine.^[14]

Josephine was subsequently issued on June 2, 1992 Official Receipt No. 61117975^[15] by the Land Transportation Office covering the payment of the fees for the registration of the car.

In mid-June of 1992, Perez and Vangie went back to the Aguilar residence requesting that Check No. 112705 dated June 30, 1992 payable to Perez in the amount of P111,000.00 be cancelled and that two checks in the total amount of P111,000.00 be issued in replacement thereof, one in the amount of P4,150.00 to be made payable to Sunny Motors, which appears to be a sales outlet of World Cars, for processing fee of the documents, and the other in the amount of P106,850.00 to be again made payable to Perez. Josephine obliged and accordingly issued Check No. 112724^[16] in the amount of P4,150.00 payable to Sunny Motors, and Check No. 112725^[17] in the amount of P106,850.00 payable to Perez.

Check Nos. 112703,^[18] 112724^[19] and 112725^[20] were in the meantime cleared.^[21]

No official receipt for the checks having been issued to Josephine, she warned Perez that if she did not get any by the end of July 1992, she would request for stop payment of the last check she issued in his name, Check No. 112706^[22] dated July 30, 1992 in the amount of P111,000.00. Perez failed to deliver any receipt to Josephine, drawing her to advise, by telefax, FEBTC Del Monte, Quezon City Branch a letter^[23] dated July 30, 1992 to stop the payment of Check No. 112706.

The clearing of Check No. 112706 having been stopped on Josephine's advice, Perez repaired to the Aguilar residence, asking the reason therefor. On being informed by Josephine of the reason, Perez explained that receipts were in Bulacan where the main office of World Cars is, and he had no time to go there owing to its distance. Perez then advised Josephine that if she did not issue another check to replace Check No. 112706, the 12-month installment term of payment under the documents she and her husband signed would take effect.^[24]

Not wanting to be bound by the 12-month installment term, Josephine issued Check No. 112767^[25] dated August 4, 1992 in the amount of P111,000.00 payable to Perez who issued her Sunny Motor Sales Provisional Receipt No. 5028.^[26]

Check No. 112767 was also later cleared.^[27]

In September 1992, Josephine received a letter^[28] dated August 20, 1992 from Ana Marie Caber (Ana Marie), Account Specialist of Citytrust, advising her that as of August 20, 1992, her overdue account with it in connection with the purchase of the car had amounted to "P1,045.39" inclusive of past due charges.

Josephine at once informed Ana Marie that she had fully paid the car to which Ana Marie replied that "maybe not all of the papers have been processed yet," hence, she advised Josephine not to worry about it.^[29]

In December 1992, Josephine received another letter^[30] dated December 9, 1992 from Citytrust advising her that her account had been, as of December 9, 1992, overdue in the amount of P110,706.60 inclusive of unpaid installments for the months of August, September, October, November and December 1992 plus accumulated penalty charges; and that if she failed to arrange for another payment scheme, her account would be referred to its legal counsel for collection.

Josephine again called Ana Marie inquiring what was going on and the latter replied that no payment for the car had been received. Josephine also called up World Cars and spoke to its Vice-President, a certain Domondon, who informed her that based on company records, the last payment had not been received.^[31]

The spouses Aguilar thus filed a complaint^[32] for "annulment of chattel mortgage plus damages" against Citytrust and World Cars before the Regional Trial Court (RTC) of Quezon City.

In its Answer with Counterclaims and Crossclaim against World Cars,^[33] Citytrust disclaimed knowledge of the alleged prior arrangement and the alleged subsequent payments made by the Aguilars to World Cars. And it claimed that it accepted the

endorsement and assignment of the promissory note and chattel mortgage in good faith, relying on the terms and conditions thereof; and that assuming that the Aguilar's claim were true, World Cars appeared to have violated the terms and conditions of the Receivables Financing Agreement (RFA) it executed with it, the pertinent portions of which read:^[34]

1. [World Cars] hereby agrees and covenants to discount with [Citytrust] subject to the terms and conditions hereinafter stipulated, installment papers evidencing actual sales made by [World Cars] of brand new automobiles, trucks, household appliances and other durable goods acceptable to [Citytrust]. Wheresoever used herein, the term "installment paper" shall refer to any document or documents evidencing sale of personalty on the installment plan including "Conditional Sale Contracts, Deed of Chattel Mortgages, Trust Receipts, Contracts of Lease and other evidences of indebtedness or choses in action, signed by the customers evidencing the unpaid obligations duly negotiated and/or assigned in favor of [Citytrust] by virtue of a Deed of Assignment duly notarized;

2. Discounting of the installment papers by virtues hereof shall be on without-recourse and offer-and-acceptance basis, and that if [Citytrust] finds the same acceptable, it shall purchase and pay [World Cars] the balance due and outstanding on the respective installment papers so purchased after deducting the financing and other charges. Discounting and purchase of installment papers shall be at the sole option and discretion of [Citytrust];

X X X

5. As further warranties, [World Cars] hereby agrees and shall be bound by the following:

a. **World Cars guarantees to [Citytrust] its successors, and assigns, that it has full right and legal authority to make the assignment or discounting; that the installment papers so discounted by virtue of this agreement, are subsisting, valid, enforceable and in all respects what they purport to be; that the papers contain the entire agreement between the customers and [World Cars];** that said papers are not subject to any defense, offset or counterclaim; that the personalty covered by said papers have been delivered to and accepted by the customers in full compliance with the orders and specifications of the latter; that the required downpayment has been paid in full by the customer and that the balances appearing in said documents are net and accurate and there are no contra-accounts, set-offs, or counterclaims whatsoever against said amounts; **that the payment thereof is not contingent or conditioned on the fulfillment of any contract, condition or warranty, past or future, express or implied; that it has absolute and good title to such contracts and the personalties covered thereby and the right to sell and transfer the same in favor of [Citytrust];** and that said contracts and personalties have not been previously sold, discounted,

assigned or pledged to any other party nor will [World Cars] sell, assign, discount or pledge the same hereafter;

x x x

6. In the event that it shall at any time appear that an installment paper which [Citytrust] purchased from [World Cars] do not conform to the warranties under this Agreement or to the qualifications given in paragraph 5, [Citytrust] shall reassign, and [World Cars] repurchase, the installment paper(s) and the latter shall pay [Citytrust] the unpaid balance of the account less any unearned service charges within ten (10) days from [World Car's] receipt of notice of reassignment. Said notice will contain a statement of the amount payable by [World Cars] as aforesaid. No tender or presentation of the paper reassigned shall be necessary.

x x x (Emphasis and underscoring supplied)

Citytrust prayed in its Crossclaim against World Cars that "in the remote event that the complaint is not dismissed . . . [World Cars] be ordered to pay all and whatever unpaid obligation due to [it] arising from [the] promissory note . . ."[35]

In its Answer with Counterclaim,^[36] World Cars claimed that, among other things, it received only the check in the amount of P148,000.00 (Check No. 112703 payable to Perez) as downpayment for the car; and that the Aguilar's defaulted in the payment of their monthly amortizations to Citytrust, and it should not be held accountable for the personal and unilateral obligations of the Aguilar's to Citytrust.

At the pre-trial conference, only the counsels for the Aguilar's and Citytrust appeared. World Cars was thus declared as in default.

As defined in the Pre-trial Order^[37] dated November 11, 1994, the issues of the case were:

1. Whether or not [the Aguilar's] have duly paid the purchase price of the car, and if so, whether or not [they] can still be held liable to pay under the promissory note and the chattel mortgage.
2. Whether or not [Citytrust and World Cars] are liable to [the Aguilar's] for damages and if so, how much.
3. Whether or not [the Aguilar's] have fully paid the balance installment price of the [car] which was purchased from [World Cars].
4. Whether or not [the Aguilar's] are entitled to the damages prayed for in the complaint.
5. Whether or not [Citytrust] is entitled to the cross-claim prayed for against [World Cars].