

## SECOND DIVISION

[ G.R. No. 139233, November 11, 2005 ]

**SPOUSES ALFREDO AND BRIGIDA ROSARIO, PETITIONERS, VS.  
PCI LEASING AND FINANCE, INC., RESPONDENT.**

### D E C I S I O N

**CALLEJO, SR., J.:**

Before us is a petition for review on *certiorari* <sup>[1]</sup> of the Decision <sup>[2]</sup> dated June 30, 1999, of the Court of Appeals (CA) in CA-G.R. SP No. 56081 affirming the decision of the Regional Trial Court (RTC) of Dagupan City, Branch 44, holding the spouses Alfredo and Brigida Rosario, jointly and severally, liable to PCI Leasing and Finance, Inc. (PCI Leasing) for the sum of P338,786.03, with interest, attorney's fees and costs.

The antecedent facts of the case are as follows:

On April 18, 1994, the spouses Rosario purchased an Isuzu Elf Pick-up Utility vehicle from CarMerchants, Inc. The transaction was covered by a Purchase Agreement whereby the spouses undertook to make a downpayment of P190,000.00 of the total purchase price of P380,000.00. The spouses then applied for a loan with PCI Leasing to pay for the balance of P190,000.00.

Upon the approval of their loan application, the spouses Rosario executed a Promissory Note <sup>[3]</sup> on May 6, 1994, in favor of PCI Leasing covering the amount of the loan plus P84,008.00 as finance charges, in the total amount of P274,008.00. The spouses undertook to pay the loan in monthly installments of P11,417.00, payable on the 29<sup>th</sup> day of each month starting on May 29, 1994 to April 29, 1996, at 22.10% annual interest. The spouses Rosario also agreed that, in case of default, the payment of the outstanding sum with interest shall immediately become due and payable. To secure the payment of the loan, they executed, on the same day, a Chattel Mortgage <sup>[4]</sup> in favor of PCI Leasing over the Isuzu Elf 4BD1. The motor vehicle was delivered to the spouses and it was registered in their names on May 16, 1994. <sup>[5]</sup>

Despite demands, <sup>[6]</sup> the spouses Rosario failed to pay the amortizations on their loan to PCI Leasing which, as of November 29, 1995, amounted to P338,786.03, inclusive of P20,000.00 attorney's fees. <sup>[7]</sup>

On January 25, 1995, PCI Leasing filed a Complaint <sup>[8]</sup> against the spouses Rosario in the RTC of Dagupan City for "Sum of Money with Damages with a Prayer for a Writ of Replevin." The case was docketed as CV-95-00408-D.

After PCI Leasing posted the necessary bond for the manual delivery of the motor

vehicle,<sup>[9]</sup> the RTC issued an Order<sup>[10]</sup> for the issuance of a writ of replevin. On April 21, 1995, the Sheriff<sup>[11]</sup> seized the motor vehicle. After five (5) days, without the court issuing an order discharging the writ, the Sheriff turned over the possession of the vehicle to PCI Leasing.<sup>[12]</sup>

In their Answer to the complaint, the spouses Rosario alleged that the chattel mortgage they executed in favor of PCI Leasing covering the motor vehicle was in effect a contract of sale of personal property, payable in installments to be governed by Article 1484<sup>[13]</sup> of the New Civil Code of the Philippines. They further alleged that since PCI Leasing opted to foreclose the chattel mortgage, it was estopped from collecting the balance of their account under the promissory note and chattel mortgage.<sup>[14]</sup> By way of counterclaim, the spouses Rosario claimed P100,000.00 as moral damages and P25,000.00 as attorney's fees, thus:

WHEREFORE, it is respectfully prayed that the Complaint be dismissed, the writ of replevin quashed or dissolved, and the motor vehicle referred to therein returned and restored to the possession of the defendants. It is further prayed that the plaintiff be made to pay the defendants the sum of P100,000.00 as moral damages and P25,000.00 as reimbursable attorney's fees. It is finally prayed that the defendants be granted such other measures of relief as this Honorable Court may deem just and equitable in the premises.<sup>[15]</sup>

PCI Leasing presented its evidence. When it was time for the spouses Rosario to present their own evidence, they failed to appear despite notice and were consequently declared in default.<sup>[16]</sup>

The trial court rendered judgment on September 12, 1996 in favor of PCI Leasing. The trial court declared that the spouses Rosario were only able to pay the monthly installments on their loan from May to November 1994, and that, as of November 29, 1995, their account was overdue by P338,786.03, inclusive of attorney's fees and liquidated damages. The trial court did not, however, resolve the issue of whether Article 1484 of the New Civil Code was applicable. The decretal portion of the decision reads:

WHEREFORE, judgment is rendered in favor of the plaintiff and against the defendants, sentencing the defendants to pay plaintiff the sum of P338,786.03 with interest as stipulated in the contract plus the sum of 22.10% of the total amounts due for and as attorney's fees, plus costs.

SO ORDERED.<sup>[17]</sup>

The spouses Rosario appealed the decision to the CA and ascribed the following errors to the trial court:

I. THE LOWER COURT ERRED IN NOT HOLDING AND DECLARING THAT THE PLAINTIFF-APPELLEE WAS IN FACT THE ASSIGNEE OR ONE SUBROGATED TO THE RIGHTS AND OBLIGATIONS OF THE SELLER OF THE MOTOR VEHICLE, CARMERCHANTS, INC.;

II. THE LOWER COURT ERRED IN ADJUDGING THE DEFENDANTS-APPELLANTS LIABLE FOR THE UNPAID BALANCE UNDER THE

CHATTEL MORTGAGE AS WELL AS FOR DAMAGES, INTEREST AND  
ATTORNEY'S FEES.<sup>[18]</sup>

The spouses Rosario averred that, based on the evidence on record, CarMerchants, Inc. had assigned to PCI Leasing its right to collect the balance of the purchase price of the motor vehicle; hence, it was subrogated to the rights of CarMerchants, Inc., subject to the limitations and burdens provided for by law. The spouses Rosario maintained that, by securing a writ of replevin from the RTC, PCI Leasing had opted to foreclose the chattel mortgage under Article 1484 of the New Civil Code; thus, it was barred from suing for the unpaid balance of the purchase price of the vehicle.

On June 30, 1999, the CA rendered judgment dismissing the appeal, declaring that the spouses Rosario failed to prove their claim that PCI Leasing had agreed to be subrogated to the right of CarMerchants, Inc. to collect the unpaid balance of the purchase price of the motor vehicle. The appellate court also ruled that even if Article 1484 of the New Civil Code were to be applied, the chattel mortgage had not been foreclosed; hence, PCI Leasing was not precluded from collecting the balance of the appellants' account. It held that the remedy of the unpaid seller under Article 1484 of the New Civil Code is alternative and not cumulative.<sup>[19]</sup>

The spouses Rosario, now the petitioners, filed the instant petition, raising the following as errors committed by the CA:

(1) FOR NOT HOLDING THAT THE RESPONDENT WAS IN FACT AN ASSIGNEE AND SUBROGATED TO THE RIGHTS AND THE LIMITATIONS THEREOF OF CARMERCHANTS, INC., AS SELLER OF THE MOTOR VEHICLE BY INSTALLMENT;

(2) FOR NOT APPLYING THE PROVISIONS OF ART. 1484 OF THE CIVIL CODE AND THE DECISIONS OF THE SUPREME COURT RELEVANT THERETO IN RESOLVING THE APPEAL BEFORE IT;

(3) FOR AFFIRMING THE DECISION OF THE TRIAL COURT SENTENCING THE PETITIONERS TO PAY THE UNPAID INSTALLMENTS UNDER THE PROMISSORY NOTE AS WELL AS DAMAGES, INTERESTS AND EXCESSIVE ATTORNEY'S FEES DESPITE RESPONDENT'S REPOSSESSION OF THE MOTOR VEHICLE.

The petitioners' arguments are basically a rehash of what they submitted in their appeal before the appellate court. They aver that since respondent PCI Leasing was an assignee of CarMerchants, Inc., it was proscribed from collecting from them the balance of the purchase price of the vehicle after having taken possession of the chattel for purposes of foreclosure. They maintain that the respondent is not entitled to damages and attorney's fees.

The petition is partially granted.

The Court notes that the principal issues raised by the petitioners are factual: (1) whether the respondent, based on the evidence on record, is the assignee of the petitioners' account with CarMerchants, Inc. (as the vendor of the motor vehicle), and (2) whether the respondent is entitled to attorney's fees of 22.10% of the total