

THIRD DIVISION

[G.R. No. 148173, December 10, 2004]

**SUPERCARS MANAGEMENT & DEVELOPMENT CORPORATION,
REPRESENTED BY ITS PRESIDENT BENIGNO CHAN, PETITIONER,
VS. THE LATE FILEMON FLORES, SUBSTITUTED BY HIS
SURVIVING SPOUSE, NORA C. FLORES,^[1] RESPONDENT.**

D E C I S I O N

SANDOVAL-GUTIERREZ, J.:

Before us is a petition for review on *certiorari* assailing the Decision^[2] dated November 29, 2000 and Resolution^[3] dated April 26, 2001, both issued by the Court of Appeals in CA-G.R. CV No. 40419, entitled "*Filemon Flores vs. Supercars Management & Development Corporation, Mamerto Catley, Pablito Marquez, and Rizal Commercial Banking Corporation.*"

In the second week of December 1988, Filemon Flores, respondent, purchased from Supercars Management and Development Corporation, petitioner, an Isuzu Carter Crew Cab for P212,000.00 payable monthly with a down payment equivalent to 30% of the price or P63,600.00. The balance was to be financed by the Rizal Commercial Banking Corporation (RCBC). The sale was coursed through Pablito Marquez, petitioner's salesman.

Upon delivery of the vehicle on December 27, 1988, respondent paid petitioner the 30% down payment, plus premium for the vehicle's comprehensive insurance policy amounting to P7,374.80. The RCBC financed the balance of the purchase price. Its payment was secured by a chattel mortgage of the same vehicle.

A day after the vehicle was delivered, respondent used it for his family's trip to Bauang, La Union. While traversing the national highway in Tarlac, Tarlac, the fan belt of the vehicle snapped. Then its brakes hardened after several stops and did not function properly; the heater plug did not also function; the engine could not start; and the fuel consumption increased.^[4]

Upon their return to Manila in the first week of January 1989, respondent complained to petitioner about the defects of the vehicle. Marquez then had the vehicle repaired and returned it to respondent that same day, assuring the latter that it was already in good condition.

But after driving the vehicle for a few days, the same defects resurfaced, prompting respondent to send petitioner a letter dated January 30, 1989 rescinding the contract of sale and returning the vehicle due to breach of warranty against hidden defects. A copy of the letter was furnished RCBC.

In response to respondent's letter, petitioner directed Marquez to have the vehicle fixed. Thereafter, he returned the vehicle to respondent with the assurance that it has no more defects. However, when respondent drove it for a few days, he found that the vehicle was still defective.

Hence, on February 7, 1989, respondent sent petitioner another letter restating that he is rescinding the contract of sale, a copy of which was furnished RCBC. On February 9, 1989, he returned the vehicle to petitioner. Later, Marquez and Mamerto Catley, petitioner's salesman, tried to convince respondent to accept the vehicle as it had been completely repaired. But respondent refused.

On March 1, 1989, respondent sent petitioner a letter demanding the refund of his down payment, plus the premium he paid for the vehicle's insurance.

Petitioner failed to comply with petitioner's demand. Consequently, respondent stopped paying the monthly amortization for the vehicle.

On March 21, 1989, RCBC sent respondent a letter demanding that he settle his past overdue accounts for February 15 and March 15, 1989. In reply, respondent, through a letter dated March 31, 1989, informed RCBC that he had rescinded the contract of sale and had returned the vehicle to petitioner. This prompted RCBC to file with the Office of the Clerk of Court and *Ex-Officio* Sheriff, Regional Trial Court, Quezon City, a *Petition for Extra-judicial Foreclosure of Chattel Mortgage*.

On June 2, 1989, a Notice of Sheriff's Sale of the vehicle was set.

On June 1, 1989, respondent filed with the same Office a *Manifestation/Motion* asking for the postponement of the scheduled auction sale until such time that petitioner and/or RCBC shall have reimbursed him of the amount he paid for the vehicle; and that should the auction sale be conducted, the proceeds thereof equivalent to the amount he spent be withheld and turned over to him.

The auction sale proceeded as scheduled. RCBC, being the highest bidder, purchased the vehicle. Subsequently, RCBC sold the vehicle to a third party.

On November 3, 1989, respondent filed with the Regional Trial Court (RTC), Branch 150, Makati City a complaint^[5] for rescission of contract with damages against petitioner, Marquez, Catley and RCBC, docketed as Civil Case No. 89-5566.

In their separate answers, petitioner, Marquez and Catley denied having committed any breach of warranty against hidden defects, claiming that the vehicle had only "minor and inconsequential defects" which "were promptly and satisfactorily repaired by petitioner Supercars pursuant to its warranty as the seller."^[6] For its part, RCBC claimed that it has no liability whatsoever against respondent because it merely enforced its right under the chattel mortgage law. All the defendants prayed for the dismissal of the complaint.

On April 13, 1992, the RTC rendered its Decision in favor of respondent and against the defendants, thus:

"WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendants, ordering the latter to jointly and severally pay

the plaintiff as follows:

1. the amount of P70,974.80 representing the 30% down payment and premium paid for one year comprehensive motor vehicle insurance plus interests at the rate of 14% per annum from date of filing of this complaint on October 30, 1989 until fully paid;
2. the sum of P50,000.00 as moral damages;
3. the sum of P25,000.00 as exemplary damages;
4. the sum of P20,000.00 as attorney's fees; and
5. the costs of suit.

SO ORDERED.”^[7]

Upon motion for reconsideration by RCBC, the RTC, in an Order dated December 21, 1992, modified its Decision by absolving RCBC from any liability and dismissing the complaint against it, thus:

x x x

“Going into the merits of defendant bank’s contention that it has valid and meritorious defense which should ultimately exculpate it from any liability, jointly and severally, with the other defendants, the Court, after a careful review of the evidence on hand, reconsiders its Decision insofar as the said bank is concerned. The valid exercise by the plaintiff of its right to rescind the contract of sale for the purchase of the motor vehicle in question does not apply to defendant bank. Said contract is effective only as against defendant Supercars Management and Development Corporation, which must principally suffer the consequence of its breach of the contract.

This Court likewise takes notice of the fact that since the motor vehicle was voluntarily surrendered by the plaintiff and that defendant bank merely exercised its right under the chattel mortgage law, no fault can be attributed to the latter. The fact that the plaintiff sent a letter to the Office of the City Sheriff of Quezon City, copy furnished the bank, seeking the postponement of the auction sale of the subject motor vehicle, will not and cannot be considered as a valid ground to hold said bank liable for only exercising its rights under the law. At most, the liability must really be imputed only against defendants Supercars Management and Development Corporation, Mamerto Catley and Pablito Marquez.

“WHEREFORE, considering the foregoing premises, the Decision of this Court dated April 13, 1992, insofar as it holds defendant Rizal Commercial Banking Corporation jointly and severally liable to the plaintiff, is hereby MODIFIED and the case against said bank DISMISSED. Similarly, the compulsory counterclaim against the plaintiff is likewise dismissed.

The dispositive portion of the same Decision insofar as the rest of the

defendants are concerned is hereby maintained and affirmed *in toto*.

SO ORDERED.”^[8]

From the above Decision and Order, petitioner, Marquez and Catley interposed an appeal to the Court of Appeals, docketed as CA-G.R. CV No. 40419. In a Decision dated November 29, 2000, the Appellate Court affirmed the RTC Decision with modification in the sense that the complaint against Marquez and Catley was dismissed, thus:

x x x

“It is with respect to appellants Catley and Marquez’ liability that we are minded to modify the (appealed) Decision. The two being mere employees (of appellant Supercars Management and Development Corporation), they cannot be held liable to refund the amount claimed by Flores. Nor can they be made liable for damages and attorney’s fees, there being no clear evidence that they had a hand in giving rise thereto.

WHEREFORE, the appealed Amended Decision is AFFIRMED, with the MODIFICATION that the complaint insofar as defendants-appellants Mamerto Catley and Pablito Marquez is hereby DISMISSED.

SO ORDERED.”^[9]

Petitioner filed a motion for reconsideration but denied in a Resolution dated April 26, 2001.^[10]

Hence, the instant petition.

Petitioner contends that respondent has “no right to rescind the contract of sale”^[11] because “the motor vehicle in question, as found by the RTC and the Court of Appeals, is already in the hands of a third party, one Mr. Lim – an innocent purchaser for value.”^[12] Thus, both courts erred in ordering petitioner to refund respondent of the amounts he paid for the vehicle.

The issue here is whether respondent has the right to rescind the contract of sale and to claim damages as a result thereof.

We rule for respondent.

Respondent’s complaint filed with the RTC seeks to recover from petitioner the money he paid for the vehicle due to the latter’s breach of his warranty against hidden defects under Articles 1547,^[13] 1561,^[14] and 1566^[15] of the Civil Code. The vehicle, after it was delivered to respondent, malfunctioned despite repeated repairs by petitioner. Obviously, the vehicle has hidden defects. A hidden defect is one which is unknown or could not have been known to the vendee.^[16]

The findings of both the RTC and Court of Appeals that petitioner committed a breach of warranty against hidden defects are fully supported by the records. The Appellate Court correctly ruled: