

FIRST DIVISION

[G.R. No. 103576, August 22, 1996]

**ACME SHOE, RUBBER & PLASTIC CORPORATION AND CHUA PAC,
PETITIONERS, VS. HON. COURT OF APPEALS, PRODUCERS BANK
OF THE PHILIPPINES AND REGIONAL SHERIFF OF CALOOCAN
CITY, RESPONDENTS.**

DECISION

VITUG, J.:

Would it be valid and effective to have a clause in a chattel mortgage that purports to likewise extend its coverage to obligations yet to be contracted or incurred? This question is the core issue in the instant petition for review on *certiorari*.

Petitioner Chua Pac, the president and general manager of co-petitioner "Acme Shoe, Rubber & Plastic Corporation," executed on 27 June 1978, for and in behalf of the company, a chattel mortgage in favor of private respondent Producers Bank of the Philippines. The mortgage stood by way of security for petitioner's corporate loan of three million pesos (P3,000,000.00). A provision in the chattel mortgage agreement was to this effect -

"(c) If the MORTGAGOR, his heirs, executors or administrators shall well and truly perform the full obligation or obligations above-stated according to the terms thereof, then this mortgage shall be null and void. x x x.

"In case the MORTGAGOR executes subsequent promissory note or notes either as a renewal of the former note, as an extension thereof, or as a new loan, or is given any other kind of accommodations such as overdrafts, letters of credit, acceptances and bills of exchange, releases of import shipments on Trust Receipts, etc., this mortgage shall also stand as security for the payment of the said promissory note or notes and/or accommodations without the necessity of executing a new contract and this mortgage shall have the same force and effect as if the said promissory note or notes and/or accommodations were existing on the date thereof. This mortgage shall also stand as security for said obligations and any and all other obligations of the MORTGAGOR to the MORTGAGEE of whatever kind and nature, whether such obligations have been contracted before, during or after the constitution of this mortgage."^[1]

In due time, the loan of P3,000,000.00 was paid by petitioner corporation. Subsequently, in 1981, it obtained from respondent bank additional financial accommodations totalling P2,700,000.00.^[2] These borrowings were on due date also fully paid.

On 10 and 11 January 1984, the bank yet again extended to petitioner corporation a loan of one million pesos (P1,000,000.00) covered by four promissory notes for P250,000.00 each. Due to financial constraints, the loan was not settled at maturity.

[3] Respondent bank thereupon applied for an extrajudicial foreclosure of the chattel mortgage, hereinbefore cited, with the Sheriff of Caloocan City, prompting petitioner corporation to forthwith file an action for injunction, with damages and a prayer for a writ of preliminary injunction, before the Regional Trial Court of Caloocan City (Civil Case No. C-12081). Ultimately, the court dismissed the complaint and ordered the foreclosure of the chattel mortgage. It held petitioner corporation bound by the stipulations, aforequoted, of the chattel mortgage.

Petitioner corporation appealed to the Court of Appeals^[4] which, on 14 August 1991, affirmed, "in all respects," the decision of the court *a quo*. The motion for reconsideration was denied on 24 January 1992.

The instant petition interposed by petitioner corporation was initially denied on 04 March 1992 by this Court for having been insufficient in form and substance. Private respondent filed a motion to dismiss the petition while petitioner corporation filed a compliance and an opposition to private respondent's motion to dismiss. The Court denied petitioner's first motion for reconsideration but granted a second motion for reconsideration, thereby reinstating the petition and requiring private respondent to comment thereon.^[5]

Except in criminal cases where the penalty of *reclusion perpetua* or death is imposed^[6] which the Court so reviews as a matter of course, an appeal from judgments of lower courts is not a matter of right but of sound judicial discretion. The circulars of the Court prescribing technical and other procedural requirements are meant to weed out unmeritorious petitions that can unnecessarily clog the docket and needlessly consume the time of the Court. These technical and procedural rules, however, are intended to help secure, not suppress, substantial justice. A deviation from the rigid enforcement of the rules may thus be allowed to attain the prime objective for, after all, the dispensation of justice is the core reason for the existence of courts. In this instance, once again, the Court is constrained to relax the rules in order to give way to and uphold the paramount and overriding interest of justice.

Contracts of security are either personal or real. In contracts of personal security, such as a guaranty or a suretyship, the faithful performance of the obligation by the principal debtor is secured by the personal commitment of another (the guarantor or surety). In contracts of real security, such as a pledge, a mortgage or an antichresis, that fulfillment is secured by an *encumbrance of property* - in pledge, the placing of movable property in the possession of the creditor; in chattel mortgage, by the execution of the corresponding deed substantially in the form prescribed by law; in *real estate mortgage*, by the execution of a public instrument encumbering the real property covered thereby; and in *antichresis*, by a written instrument granting to the creditor the right to receive the fruits of an immovable property with the obligation to apply such fruits to the payment of interest, if owing, and thereafter to the principal of his credit - upon the essential condition that if the principal obligation becomes due and the debtor defaults, then the property encumbered can be alienated for the payment of the obligation,^[7] but that should the obligation be duly paid, then the contract is automatically extinguished proceeding from the

accessory character^[8] of the agreement. As the law so puts it, once the obligation is complied with, then the contract of security becomes, *ipso facto*, null and void.^[9]

While a pledge, real estate mortgage, or antichresis may exceptionally secure after-incurred obligations so long as these future debts are accurately described,^[10] a chattel mortgage, however, can only cover obligations existing at the time the mortgage is constituted. Although a *promise* expressed in a chattel mortgage to include debts that are yet to be contracted can be a binding commitment that can be compelled upon, the security itself, however, does not come into existence or arise until after a chattel mortgage agreement covering the newly contracted debt is executed either by concluding a fresh chattel mortgage or by amending the old contract conformably with the form prescribed by the Chattel Mortgage Law.^[11] Refusal on the part of the borrower to execute the agreement so as to cover the after-incurred obligation can constitute an act of default on the part of the borrower of the financing agreement whereon the promise is written but, of course, the remedy of foreclosure can only cover the debts extant at the time of constitution and during the life of the chattel mortgage sought to be foreclosed.

A chattel mortgage, as hereinbefore so intimated, must comply substantially with the form prescribed by the Chattel Mortgage Law itself. One of the requisites, under Section 5 thereof, is an affidavit of good faith. While it is not doubted that if such an affidavit is not appended to the agreement, the chattel mortgage would still be valid between the parties (not against third persons acting in good faith^[12]), the fact, however, that the statute has provided that the parties to the contract must execute an oath that -

"x x x (the) mortgage is made for the purpose of securing the obligation specified in the conditions thereof, and for no other purpose, and that the same is a just and valid obligation, and one not entered into for the purpose of fraud."^[13]

makes it obvious that the debt referred to in the law is a current, not an obligation that is yet merely contemplated. In the chattel mortgage here involved, the only obligation specified in the chattel mortgage contract was the P3,000,000.00 loan which petitioner corporation later fully paid. By virtue of Section 3 of the Chattel Mortgage Law, the payment of the obligation automatically rendered the chattel mortgage void or terminated. In *Belgian Catholic Missionaries, Inc., vs. Magallanes Press, Inc., et al.*,^[14] the Court said -

"x x x A mortgage that contains a stipulation in regard to future advances in the credit will take effect only from the date the same are made and not from the date of the mortgage."^[15]

The significance of the ruling to the instant problem would be that since the 1978 chattel mortgage had ceased to exist coincidentally with the full payment of the P3,000,000.00 loan,^[16] there no longer was any chattel mortgage that could cover the new loans that were concluded thereafter.

We find no merit in petitioner corporation's other prayer that the case should be remanded to the trial court for a specific finding on the amount of damages it has sustained "as a result of the unlawful action taken by respondent bank against it."