

Consolidated Plywood Industries, iNC. v. IFC Leasing and Acceptance Corporation
G.R. No. L-72593, 149 SCRA 448, April 30, 1987

1. Petitioner is a corporation engaged in the logging business which was in need for 2 additional tractors for its operation.
2. Industrial Products Marketing (seller-assignor) then offered to sell to petitioner-corporation 2 used Allis Crawler tractors.
3. Petitioner purchased said equipments in instalment basis UNDER A NINETY (90) DAY WARRANTY; thereafter, the seller assignor issued a sales invoice and the parties (petitioner and seller-assignor IPM) executed a deed of sale with chattel mortgage and PROMISSORY NOTE, which reads:
“For value received, I/ we jointly and severally PROMISE TO PAY TO THE INDUSTRIAL PRODUCTS MARKETING, the sum of 1,093,789.1 xxx xxx xxx”
4. Subsequently, the seller-assignor assigned its rights & interests in the mortgage in favour of respondent IFC Leasing through a deed of assignment.
5. barely 14 days after the delivery of the tractors, one of it broke down, nine days after which the second one broke down as well. Although, the seller-assignor sent mechanics for the repairs, the units were no longer serviceable.
6. Petitioner-corporation then asked the seller-assignor to pull out the units, have them reconditioned, and re-sell them, proceeds of said sales to be given to respondent IFC. However, petitioner-corporation did not received any response from IPM.
7. Respondent IFC leasing then filed a complaint for recovery of the principal sum of P1,093,789.71 against herein petitioner-corporation which was granted by the RTC and subsequently affirmed by the Intermediate Appellate Court.

Now, petitioner-corporation claims that the PROMISSORY NOTE is NOT a negotiable instrument as it is not payable to order or bearer. Which will have the effect of: (1) respondent IFC not being a holder in due course; (2) the transfer of rights between IPM and IFC being merely that of a mere assignment; (3) respondent being vulnerable to all of the available defences that the petitioner-corporation may raise as against the seller assignor IPM.

ISSUE: WON the PN between the petitioner-corporation and seller assignor IPM, which was subsequently assigned to the respondent IFC is a negotiable instrument.

RULING: NO. Par. (d), Section 1 of the NIL requires hat a promissory note “must be payable to order or bearer. An instrument to be considered negotiable MUST CONTAIN the so-called ‘WORDS OF NEGOTIABILITY’ - i.e. must be payable to ‘order’ or ‘bearer’. These words serve as an expression of consent that the instrument may be transferred. This consent is indispensable since a maker assumes greater risk under a negotiable instrument than under a non-negotiable one.

There are only two way by which an instrument may be made payable to order: There must be a specified person named in the instrument which means that the bill or note is to be paid to the person designated in the instrument OR to any person to whom he has

endorsed and delivered the same. WITHOUT THE WORDS 'TO ORDER' OR 'TO THE ORDER OF', THE INSTRUMENT IS PAYABLE ONLY TO THE PERSON DESIGNATED THEREIN AND IS THEREFORE NON-NEGOTIABLE. Any subsequent purchaser thereof will not enjoy the advantages of being a holder of a negotiable instrument, but will merely step into the shoes of the person designated in the instrument and will thus be open to all defences available against the latter.

In this case, it is patent that the subject promissory note is not a negotiable instrument. It follows that the respondent can never be a holder in due course but remains a mere assignee of the PN. Thus, the petitioner-corporation may raise against the respondent all defences available to it as against the seller assignor IPM (in this case the defence against IPM's breach of the 90-day warranty, liability of which extending to the corporation to whom it assigned its rights and interests unless the assignee is a holder in due course of the promissory note).

Thus: the subject PN is a non-negotiable instrument and the respondent IFC is not a holder in due course but a MERE ASSIGNEE, to whom the liability for the breach of warranty committed by the seller-assignor to the petitioner-corporation extends. Further (you may disregard), the petitioner-corporation merely exercised its power to rescind its agreement with the seller-assignor in view of the non compliance of IPM with what is incumbent upon him (warranty), sustaining the RTC and the appellate court's judgment will result to unjust enrichment on the part of the seller-assignor and respondent IFC at the expense of the petitioner-corporation.