505 Phil. 485

THIRD DIVISION

[G.R. NO. 160531. August 30, 2005]

L & L LAWRENCE FOOTWEAR, INC., SAE CHAE LEE AND JOHN DOE, PETITIONERS, VS. PCI LEASING AND FINANCE CORPORATION, RESPONDENT.

D E C I S I O N

PANGANIBAN, J.:

Under a financial leasing agreement, a finance company purchases, on behalf of or at the instance of the lessee, the equipment that the latter is interested to buy but has insufficient funds for. Simultaneous with the purchase, the finance company then leases the equipment to the lessee in consideration of the periodic payment of a fixed amount of rental. Recognized by this Court as fairly common transactions in the commercial world, such agreements have been accepted as genuine and legitimate.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, challenging the August 14, 2003 Decision[2] of the Court of Appeals (CA) in CA-GR CV No. 70603. The decretal portion of the assailed Decision reads:

> "**WHEREFORE**, premises considered, the *decision and order appealed from are hereby **AFFIRMED** in toto and the present appeal is hereby **DISMISSED** for utter lack of merit.*"

The Facts

The undisputed facts are narrated by petitioners as follows:

> "PCI Leasing and L & L Lawrence entered into several "**LOAN**" contracts

embodied in several Memoranda of Agreement and Disclosure Statements from 1994 up to 1997 involving various shoe making equipment. x x x.

"As a condition for the "loan" extended by PCI Leasing to L & L, the latter was also made to enter into several "LEASE CONTRACTS" embodied in numerous Lease Schedules whereby the imported shoe making equipment would be considered as the leased property. Pursuant to the agreement between the parties, L & L gave PCI Leasing a **THIRTY (30%) PERCENT GUARANTY DEPOSIT** for **ALL** the "leased contracts" between them in the total sum of **US$359,525.90**. Furthermore, PCI Leasing received from L & L a total of **US$1,164,380.42** as rental payments under the numerous Lease Schedules.

"Sae Chae Lee, the former President of L & L, was made to sign a x x x Continuing Guaranty of Lease Obligations dated 16 May 1994 securing the payment of the obligation of L & L under [a] **Lease Agreement dated 13 May 1994**.

"L & L, by reason of the economic crisis that hit the country coupled with the cancellation of the contracts with its buyers abroad and its labor problems, failed to meet its obligations on time. For this reason, L & L tried its best to negotiate with the PCI Leasing for a possible amicable settlement between the parties.

"In the course of the negotiation between the parties, PCI Leasing sent to L & L a letter dated 05 May 1998, stating that:

> 'Demand is hereby made on you to pay in full the outstanding balance in the amount of $826,003.27 plus penalty charges amounting to $6,329.05 on or before May 12, 1998 **or to surrender to us the various equipments** (please see attached lists) subject of Lease Schedule Nos.7760/7935/8081/8196/8312/8405/8451/8474/8593/8609/8663/9364/9432/9512/9704/9924/10041/10065/10067/10280/10441/10921…'

x x x x x x x x x

"On 16 December 1998, PCI Leasing filed a complaint for recovery of sum of

money and/or personal property with prayer for the issuance of a writ of replevin against L & L Lawrence Footwear, Inc., Sae Chae Lee and a certain John Doe with the Regional Trial Court of Quezon City.

"On 28 January 1999, the x x x [t]rial [c]ourt issued an Order x x x granting the prayer of PCI Leasing for the issuance of a Writ of Replevin.

"The subject 'leased properties' were turned over to PCI Leasing, x x x as shown by the Sheriff's Reports dated 01 October 1999 and 06 December 1999. x x x.

"On 16 February 2000, PCI Leasing filed a motion to declare L & L and Sae Chae Lee in default for failure to file their Answer.

"The x x x [t]rial [c]ourt, in its Order dated 28 February 2000, declared L & L and Sae Chae Lee in default and allowed PCI Leasing to present its evidence ex-parte.

"L & L and Sae Chae Lee x x x filed a Motion to Set Aside Order of Default dated 06 March 2000 x x x.

"The x x x [t]rial [c]ourt x x x denied the Motion to Set Aside Order of Default and ordered the ex-parte presentation of the evidence for PCI Leasing on 10 April 2000.

"On 10 April 2000, PCI Leasing presented ex-parte its evidence before a Commissioner. PCI Leasing presented as its lone witness Ms. Theresa Soriano, an Account Officer of the said corporation. x x x On the same hearing, the counsel of PCI Leasing orally offered the documentary exhibits.

"x x x [Petitioners] received a copy of the Decision dated 03 July 2000, the dispositive portion of which reads as follows:

> "WHEREFORE, premises considered, judgment is hereby rendered in favor of the [respondent] and against [petitioners] L & L LAWRENCE FOOTWEAR, INC. and SAE CHAE LEE as follows:
>
> "a) to pay [respondent] the amount of P32,909,836.61 representing the outstanding balance of the obligation as of March 3, 2000 including attorney's fees, legal expenses and other charges; and

> "b) affirming [respondent's] right to the possession of the replevined properties as well as its entitlement to the possession of other properties subject matter of the lease agreement.
>
> "SO ORDERED"

x x x x x x x x x

> "[After the denial of their Motion for Reconsideration,] L & L and Sae Chae Lee filed a Notice of Appeal.
>
> "The case was elevated to the Honorable Court of Appeals x x x."[3]

Ruling of the Court of Appeals

Sustaining the trial court, the CA found the monetary award to be fully supported and substantiated by the evidence presented. It noted that the award, consisting of accrued rentals and penalties as well as the possession of the properties that were subject of replevin, were all in accord with the provisions of the Lease Agreement freely entered into by the parties.

Hence, this Petition.[4]

Issues

Petitioners raise the following issues for our consideration:

> "1. Whether a plaintiff is **AUTOMATICALLY ENTITLED** to the relief prayed for in its Complaint, by reason of the declaration in default, **WITHOUT** regard to the evidence presented in support of its claim;
>
> "2. Whether a corporation can be held in **ESTOPPEL** by reason of the representation of its officer; and
>
> "3. Whether a surety can be held liable for an obligation that is **NOT SPECIFIED** in the surety agreement."[5]

The Court's Ruling

The Petition is unmeritorious.

First Issue:
No Automatic Relief

At the outset, the Court stresses that the present Petition for Review was filed under Rule 45 of the Rules of Court. Here, the Supreme Court's role is limited to reviewing errors of law allegedly committed by the appellate court. This Court has pointed out, time and time again, that it is not a trier of facts; and that, save for a few exceptional instances, its function is not to analyze or weigh all over again the factual findings of the lower courts.[6]

Although apparently couched in language meant to disguise them as questions of law, those raised by petitioners are, in reality, questions of fact.

A question of law must not involve an examination of the probative value of the evidence presented by the litigants. There is a question of law in a given case when a doubt or difference arises as to what the law is on a certain state of facts. There is a question of fact when the doubt or difference arises as to the truth or the falsity of alleged facts.[7] The test of whether the question is one of law or of fact is whether the issue being raised can be determined without reviewing the evidence, in which case it is a question of law; otherwise, it is a question of fact.[8]

Questions of fact are not entertained, inter alia, absent any showing that the factual findings complained of are totally devoid of support in the record or are glaringly erroneous.[9]

Having been declared in default, petitioners have waived not only their opportunity to contest the evidence presented by respondent, but also to present evidence in support of a valid defense. They, however, seek to extricate themselves by having this Court review the factual findings of the trial court.

Section 3 of Rule 9 of the Rules of Court provides thus:

> "Section 3. Default; declaration of. – If the defending party fails to answer within the time therefor, the court shall, upon motion of the claiming party with notice to the defending party, and proof of such failure, declare the defending party in default. Thereupon the court shall proceed to render judgment granting the

> claimant such relief as his pleading may warrant, unless the court in its discretion requires the claimant to submit evidence. Such reception of evidence may be delegated to the clerk of court."

It is undisputed that, upon the order of the trial court, respondent presented its evidence ex parte. Petitioners themselves pointed out that respondent had presented one witness — its account officer Theresa M. Soriano — and then formally offered its documentary evidence to support its claim. Hence, the contention that it was *automatically* granted the relief prayed for in its Complaint deserves scant consideration. Obviously, the trial court weighed the evidence presented and applied the relevant law in its judgment.

Second Issue:
No Estoppel

Petitioners emphasize that the account officer of PCI Leasing testified that respondent had admittedly deducted the proceeds of the sale of the leased properties from the outstanding obligations. They argue that, by its admission, respondent recognized that the properties were in fact owned by L & L Lawrence Corporation. In turn, this fact allegedly proves that the Contract between the parties was one of loan, not of lease.

This argument is patently without merit. No such inference can be made from the statements of the witness. On the contrary, her testimony reinforced the fact that the true intent of the parties was to enter into a contract known as a financial leasing agreement.

In such an agreement, "a finance company purchases on behalf of or at the instance of the lessee the equipment which the latter is interested to buy but has insufficient funds for the purpose. The finance company therefore leases the equipment to the lessee in consideration of the periodic payment by the lessee of a fixed amount of "rental.'"[10] Recognized by this Court as being fairly common transactions in the commercial world, agreements such as these have been accepted as genuine and legitimate.[11] In *Cebu Contractors Consortium v. CA*,[12] the Court elucidated on the nature of a financial leasing agreement as follows:

> "A financing lease may be seen to be a contract sui generis, possessing some but not necessarily all the elements of an ordinary or civil law lease. Thus, legal title to the equipment leased is lodged in the financial lessor. The financial lessee is entitled to the possession and use of the leased equipment. At the same time, the

> financial lessee is obligated to make periodic payments denominated as lease rentals, which enable the financial lessor to recover the purchase price of the equipment which had been paid to the supplier thereof."[13]

Third Issue:
Surety Valid

Petitioner Sae Chae Lee seeks to extricate himself from his obligation as surety for petitioner company. He insists that the Continuing Guaranty of Lease Obligation that he signed made reference to a Lease Agreement dated May 13, 1994, while the Agreement in question was notarized on May 27, 1994.

The contention is untenable. Neither the existence and the due execution of the Continuing Guaranty presented by respondent, nor the allegation that petitioners had entered into a subsequent Lease Agreement with PCI Leasing and Finance Corporation, was ever contested. As the CA found, no Lease Agreement between the parties had been actually executed on May 13, 1994; hence, the Continuing Guaranty could only have referred to the very same Agreement that was notarized on May 27, 1994.

There is nothing vague about the terms of the Continuing Guaranty. Petitioner Sae Chae Lee agreed to be solidarily liable for the obligations incurred by petitioner company under the Lease Agreement it had entered into with respondent. Likewise, the terms and conditions of the Lease Agreement are clear and leave no doubt upon the intention of the parties.

Obligations arising from a contract have the force of law between the parties.[14] Not being contrary to law, morals, good customs, public order or public policy, the parties to the contract are bound by its terms and conditions.

WHEREFORE, the Petition is hereby ***DENIED*** and the assailed Decision ***AFFIRMED***. Costs against petitioners.

SO ORDERED.

Sandoval-Gutierrez, Corona, Carpio Morales, and *Garcia, JJ.*, concur.

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[1] Rollo, pp. 3-27.

[2] Id., pp. 31-37. Ninth Division. Penned by Justice B. A. Adefuin-de la Cruz (Division chair) and concurred in by Justices Bienvenido L. Reyes and Arsenio J. Magpale (members).

[3] Petitioners' Memorandum, pp. 5-9; rollo, pp. 106-110.

[4] The case was deemed submitted for decision on June 4, 2004, upon receipt by this Court of respondent's Memorandum signed by Attys. Peter M. Bantilan and Armin Noel B. Villamonte. Petitioners' Memorandum, signed by Atty. Edgar Allan C. Estrebillo, was received by the Court on June 3, 2004.

[5] Petitioners' Memorandum, p. 10; rollo, p. 111.

[6] *Barcenas v. Spouses Tomas*, GR No. 150321, March 31, 2005; *Ceballos v. Intestate Estate of Emigdio Mercado*, 430 SCRA 323, 331, May 28, 2004 (citing *Borromeo v. Sun*, 375 Phil. 595, October 22, 1999; *Go Ong v. CA*, 154 SCRA 270, September 24, 1987).

[7] *Barcenas v. Spouses Tomas*, supra; *Naguiat v. CA*, 412 SCRA 591, 596, October 3, 2003.

[8] *Philippine Telegraph & Telephone Corporation v. CA*, 412 SCRA 263, 272, September 29, 2003 (citing *Goyena v. Ledesma-Gustillo*, 395 SCRA 117, January 14, 2003.)

[9] *Conahap v. Heirs of Regaña*, GR No. 152021, May 17, 2005; *Yang v. CA*, 409 SCRA 159, 167, August 15, 2003.

[10] *Cebu Contractors Consortium v. CA*, 407 SCRA 154, 161, July 22, 2003, per Azcuna, *J.*

[11] *BA Finance v. CA*, 228 SCRA 530, 533, December 16, 1993; *Beltran v. PAIC Finance Corporation*, 209 SCRA 105, 116, May 19, 1992.

[12] Supra.

[13] Id., p. 159 (citing *Beltran v. PAIC Finance Corporation*, supra.)

[14] Article 1159 of the Civil Code.

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