

Title: PCI Leasing and Finance, Inc. v. Trojan Metal Industries Inc., et al.

Facts:

In 1997, Trojan Metal Industries, Inc. (TMI) sought a loan from PCI Leasing and Finance, Inc. (PCILF). Instead, PCILF proposed to buy TMI's various equipment and then lease them back to TMI, which TMI agreed to due to financial constraints. The sale's total consideration was P2,865,070.00, and this was followed by a lease agreement where TMI, in turn, leased this equipment from PCILF. TMI issued postdated checks for 24 monthly installments for this lease.

Additional terms included a guaranty deposit from TMI of P1,030,350.00, serving as security, which would be forfeited if TMI returned the equipment before the lease ended. The Dizon spouses, TMI's top officials, also executed a Continuing Guaranty of Lease Obligations favoring PCILF. When TMI sought additional financing using the leased equipment as collateral, PCILF saw this as a breach of the lease agreement. Despite TMI's partial payments amounting to P1,717,091.00, its remaining obligations went unpaid following a demand letter from PCILF.

PCILF sued TMI, the Dizons, and an unidentified John Doe in the Quezon City RTC for recovery of sums and properties with a replevin prayer, leading to the sheriff seizing the leased equipment. PCILF then sold the equipment, collecting P1,025,000.00, a move contested by TMI, arguing the setup was a financial lease disguised as a loan secured by chattel mortgage.

Procedural Posture:

- RTC ruled in favor of PCILF, affirming the lease's validity and ordering the Dizons to pay the remaining rental obligation plus interests and costs.
- Court of Appeals reversed RTC's decision, classifying the transaction as a loan secured by chattel mortgage and ordering PCILF to refund TMI P1,166,826.52.
- PCILF sought review from the Supreme Court, marking the present petition.

Issues:

1. Whether the sale with lease agreement was a financial lease or a loan secured by chattel mortgage.
2. Whether PCILF should refund TMI the amount of P1,166,826.52.

Court's Decision:

The Supreme Court denied the petition, affirming with modification the Court of Appeals'

decision. It held that the agreement was not a financial lease but a loan secured by chattel mortgage. The SC modified the computation method for the amount due for refund to TMI, emphasizing proper calculation of interests on the principal loan minus payments made by TMI, and applying the sale proceeds of the leased equipment against this balance.

Doctrine:

- Financial Leasing vs. Loan Secured by Chattel Mortgage: Distinguished by whether the lessee already owns the equipment prior to leasing, indicating the nature of the transaction as a loan rather than a lease.
- Chattel Mortgage Law, Section 14: Establishes the mortgagor's right to excess sale proceeds after satisfying the principal obligation and costs.

Class Notes:

- Financial leasing involves acquiring an asset through the finance company, differing from a transaction where the lessee already owns the asset, signifying a loan.
- The legal principle surrounding sales with lease back agreements requires scrutiny to determine the underlying nature of the contract, emphasizing the parties' intentions over the agreement's form.
- Chattel Mortgage Law provisions apply crucially where disputes arise in purported leasing arrangements that resemble secured loans, with a focus on the distribution of sale proceeds following foreclosure.

Historical Background:

This case underscores the evolution and interpretation of financial leasing transactions in Philippine jurisprudence, especially distinguishing between genuine leases and loans disguised as leases. It clarifies the law's approach to financial arrangements aiming to circumvent the traditional loan structure, reflecting broader economic practices and concerns.