

LILY SAN BUENAVENTURA AND JOHN DOE, PETITIONERS, VS. COURT OF APPEALS AND EVEREST TEXTILE CO., INC., RESPONDENTS.

G.R. No. L-43830. January 22, 1990

Ponente: FERNAN, C.J.

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FERNAN, C.J.:

This is an appeal from the decision[1] of the Court of Appeals in CA-G.R. No. 53423-R entitled "Everest Textile Co., Inc., plaintiff-appellant, versus Lily San Buenaventura, et al., defendants-appellees", reversing the decision of the then Court of First Instance of Rizal, Branch XXVI, Pasig, and ordering defendants-appellees to pay plaintiff-appellant the sum of \$2,614.42 or its equivalent in Philippine currency at the time of payment, as principal obligation, plus legal interest thereon per annum from date of the filing of the complaint until fully paid.[2]

The facts of the case as found by the appellate court are:

On several occasions, particularly on November 21, 1967, December 21, 1967 and January 3, 1968, petitioner Lily San Buenaventura purchased directly on credit textile materials and other allied goods from private respondent in the total amount of US\$14,612.20, which purchases were to be paid by petitioner within thirty (30) days from the date of sale.

On April 19, 1969 and in September of 1969, petitioners paid directly to private respondent the total amount of US\$7,500.00, thereby reducing their undisputed principal obligation of US\$14,612.20 to US\$7,112.20. Ten percent (10%) of the balance was added as collection charges, giving a total balance of US\$7,823.42; which petitioner Lily San Buenaventura, on February 19, 1970, acknowledged and promised to pay through the Syquia Law Offices under the following agreement, the terms and conditions being:

"That you are indebted to said client in the sum of \$7,823.42 which you have agreed to pay thru the SYQUIA LAW OFFICES in monthly installments of \$4,000.00 beginning on February 19, 1970 and every 19th day of each month thereafter until the full amount is paid;

"That for all purposes of the law, please consider this letter as an agreement and confirmation of the aforesaid obligation and its schedule of payment as above indicated."[3]

Thereafter, petitioners made several partial installment payments amounting to a total sum of P32,812.00 which according to private respondent, if computed at the floating market rate of the US dollar at the time of the said payment would only amount to \$5,209.00. Allegedly, this amount if deducted from the original balance of \$7,823.42 as reflected in the aforequoted letter agreement dated February 19, 1970 would leave an unpaid balance of \$2,614.42.

On the other hand, petitioners contend that the amount of \$7,823.42 had been fully paid through the Syquia Law Offices retained by private respondent for collection purposes since the agreement entered into by them with the

private respondent through said law office was for them to pay the remaining balance of the indebtedness in its peso equivalent at the rate of P4.00 to a dollar by installment and since they had already paid P32,812.00 through the said law offices, the obligation or liability to the private respondent had been extinguished or dissolved.

This difference in opinion led to the institution of Civil Case No. 16248 before the then CFI of Rizal, Branch XXVI, Pasig, by private respondent to recover from petitioners the alleged unpaid balance of \$2,614.42.

The trial court in its decision dated May 25, 1973 relying on the ruling in *Arrieta vs. National Rice and Corn Corporation*[4] held that "in line with the principle enunciated by the Supreme Court in the case previously adverted to, the Court will have no alternative but to utilize the date of the Letter Agreement as the pivotal factor in the resolution and determination of whether the Defendants have complied with their obligation created under and in pursuance of the Letter Agreement, Exhibit "B". Since the uncontroverted evidence on record shows that the rate of exchange obtaining on the date the Letter Agreement was entered into by the parties was 4 to 1, then it necessarily follows that the installment payments on the indebtedness should be credited in accordance with the said peso equivalent of the dollar on the said date." [5]

Before respondent appellate court, however, the decision of the trial court was reversed on the ground that the obligation to pay \$2,614.42 did not arise from the Letter Agreement, the amount being merely the outstanding balance of herein petitioners' obligation with herein private respondent contracted in 1967 and 1968. The appellate court further said that the ruling in *Arrieta vs. National Rice and Corn Corporation* applies only to obligations incurred prior to the enactment of Republic Act No. 529, but not to obligations incurred after its enactment. Republic Act No. 529, as amended, does not provide for the payment of an obligation incurred after the enactment of the Act. The logical conclusion, therefore, is that the rate of exchange should be that prevailing at the time of payment.[6]

Hence this petition for review raising the sole legal question of what rate of exchange of the U.S. Dollar to the Philippine Peso should be applied in converting petitioner's monetary obligation to private respondent in the amount of US\$2,614.42 to its equivalent value in Philippine Peso. Is it the rate of exchange prevailing at the time the obligation was incurred or that prevailing at the time of its payment?

Section 1 of Republic Act No. 529, "An Act to Assure Uniform Value to Philippine Coin and Currency", reads:

"SECTION 1. Every provision contained in, or made with, respect to, any domestic obligation, to wit, any obligation contracted in the Philippines which provision purports to give the obligee the right to require payment in gold or in a particular kind of coin or currency other than Philippine currency or in an amount of money of the Philippines measured thereby, be as it is hereby declared against public policy, and null, void and of no effect, and no such provision shall be contained in or made with respect to, any obligation hereafter incurred. The above prohibition shall not apply to (a) transactions where the funds involved are the proceeds of loans or investments made directly or indirectly, through bona fide intermediaries or agents, by foreign governments, their agencies and instrumentalities, and international financial and banking institutions so long as the funds are identifiable, as having emanated from the sources enumerated above; (b) transactions affecting high priority economic projects for agricultural, industrial and power development as may be determined by the National Economic Council which are financed by or through foreign funds; (c) foreign exchange transactions entered into between banks or between banks and individuals or juridical persons; (d) import-export and other international banking, financial investment and industrial transactions. With the exception of the cases enumerated in items (a), (b), (c) and (d) in the foregoing provision, in which cases the terms of the parties' agreement shall apply, every other domestic obligation heretofore or hereafter incurred, whether or not any such provision as to payment is contained therein or made with respect thereto, shall be discharged upon payment in any coin or currency which at the time of payment is legal tender for public and private debts: Provided, That if the obligation was incurred prior to enactment of this Act and required

payment in a particular kind of coin or currency other than Philippine currency, it shall be discharged in Philippine currency measured at the prevailing rates of exchange at the time the obligation was incurred, except in case of a loan made in a foreign currency stipulated to be payable in the same currency in which case the rate of exchange prevailing at the time of the stipulated date of payment shall prevail. All coin and currency, including Central Bank notes, heretofore and hereafter issued and declared by the Government of the Philippines, shall be legal tender for all debts, public and private."

It is to be noted under the foregoing provision that while an agreement to pay an obligation in a currency other than Philippine currency is null and void as contrary to public policy, what the law specifically prohibits is payment in currency other than legal tender but does not defeat a creditor's claim for payment. A contrary rule would allow a person to profit or enrich himself inequitably at another's expense.[7]

With regard to obligations incurred prior to the effectivity of Republic Act No. 529 requiring payment in a particular kind of coin or currency other than Philippine currency, it is specifically provided that the same shall be discharged in Philippine currency measured at the prevailing rate of exchange at the time the obligation was incurred[8] except in case of a loan made in a foreign currency stipulated to be payable in the same currency in which case the rate of exchange prevailing at the stipulated date of payment shall prevail.

In the case before Us, petitioners' obligation was incurred after the enactment of Republic Act No. 529, as amended. As held in *Kalalo vs. Luz* (supra) and as correctly relied upon by respondent appellate court, the rate of exchange should be that prevailing at the time of payment.[9]

WHEREFORE, the decision appealed from is hereby affirmed. This decision is immediately executory. Costs against petitioners.

SO ORDERED.

Gutierrez, Jr., Feliciano, Bidin, and Cortes, JJ., concur.

[1] Penned by Reyes, L. B., J., and concurred in by de Castro, P.P. and Ericta, V. G., JJ.

[2] Rollo, pp. 42-50.

[3] Rollo, p. 43.

[4] 10 SCRA 88.

[5] CFI Decision, Record on Appeal, p. 32.

[6] *Kalalo vs. Luz*, 34 SCRA 337.

[7] *Ponce vs. Court of Appeals*, 90 SCRA 533.

[8] *Philippine National Bank vs. Zulueta*, 101 Phil. 1071; *Eastboard Navigation Ltd. v. J. Ysmael & Co.*, 102 Phil 1.

[9] *Zagala vs. Jimenez*, 152 SCRA 147 citing *Phoenix Assurance Company vs Macondray & Co., Inc.*, 64 SCRA 15.

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