

FRANCISCO HERRERA, PLAINTIFF-APPELLANT, VS. PETROPHIL CORPORATION, DEFENDANT-APPELLEE.

G.R. No. L-48349. December 29, 1986

Ponente: CRUZ, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/f0a928203998/>

CRUZ, J.:

This is an appeal by the plaintiff-appellant from a decision rendered by the then Court of First Instance of Rizal on a pure question of law.[1]

The judgment appealed from was rendered on the pleadings, the parties having agreed during the pre-trial conference on the factual antecedents.

The facts are as follows:

On December 5, 1969, the plaintiff-appellant and ESSO Standard Eastern, Inc., (later substituted by Petrophil Corporation) entered into a "Lease Agreement" whereby the former leased to the latter a portion of his property for a period of twenty (20) years from said date, subject inter alia to the following conditions:

"3. Rental: The LESSEE shall pay the LESSOR a rental of P1.40 sqm. per month on 400 sqm. and are to be expropriated later on (sic) or P560 per month and P1.40 per sqm. per month on 1,693 sqm. or P2,370.21 per month or a total of P2,930.20 per month 2,093 sqm. more or less, payable yearly in advance within the 1st twenty days of each year; provided, a financial aid in the sum of P15,000 to clear the leased premises of existing improvements thereon is paid in this manner; P10,000 upon execution of this lease and P5,000 upon delivery of leased premises free and clear of improvements thereon within 30 days from the date of execution of this agreement. The portion on the side of the leased premises with an area of 365 sqm. more or less, will be occupied by LESSEE without rental during the lifetime of this lease. PROVIDED FINALLY, that the Lessor is paid 8 years advance rental based on P2,930.70 per month discounted at 12% interest per annum or a total net amount of P130,288.47 before registration of lease. Leased premises shall be delivered within 30 days after 1st partial payment of financial aid."[2]

On December 31, 1969, pursuant to the said contract, the defendant-appellee paid to the plaintiff-appellant advance rentals for the first eight years, subtracting therefrom the amount of P101,010.73, the amount it computed as constituting the interest or discount for the first eight years, in the total sum P180,288.47. On August 20, 1970, the defendant-appellee, explaining that there had been a mistake in computation, paid to the plaintiff-appellant the additional sum of P2,182.70, thereby reducing the deducted amount to only P98,828.03.[3]

On October 14, 1974, the plaintiff-appellant sued the defendant-appellee for the sum of P98,828.03, with interest, claiming this had been illegally deducted from him in violation of the Usury Law.[4] He also prayed for moral damages and attorney's fees. In its answer, the defendant-appellee admitted the factual allegations of the complaint but argued that the amount deducted was not usurious interest but a discount given to it for paying the rentals in advance for eight years.[5] Judgment on the pleadings was rendered for the defendant.[6]

Plaintiff-appellant now prays for a reversal of that judgment, insisting that the lower court erred in the

computation of the interest collected out of the rentals paid for the first eight years; that such interest was excessive and violative of the Usury Law; and that he had neither agreed to nor accepted the defendant-appellant's computation of the total amount to be deducted for the eight years advance rentals.[7]

The thrust of the plaintiff-appellant's position is set forth in paragraph 6 of his complaint, which read:

"6. The interest collected by defendant out of the rentals for the first eight years was excessive and beyond that allowable by law, because the total interest on the said amount is only P33,755.90 at P4,219.4880 per yearly rental; and considering that the interest should be computed excluding the first year rental because at the time the amount of P281,199.20 was paid it was already due under the lease contract hence no interest should be collected from the rental for the first year, the amount of P29,536.42 only as the total interest should have been deducted by defendant from the sum of P281,299.20."

The defendant maintains that the correct amount of the discount is P98,828.03 and that the same is not excessive and above that allowed by law.

As its title plainly indicates, the contract between the parties is one of lease and not of loan. It is clearly denominated a "LEASE AGREEMENT." Nowhere in the contract is there any showing that the parties intended a loan rather than a lease. The provision for the payment of rentals in advance cannot be construed as a repayment of a loan because there was no grant or forbearance of money as to constitute an indebtedness on the part of the lessor. On the contrary, the defendant-appellee was discharging its obligation in advance by paying the eight years rentals, and it was for this advance payment that it was getting a rebate or discount.

The provision for a discount is not unusual in lease contracts. As to its validity, it is settled that the parties may establish such stipulations, clauses, terms and condition as they may want to include; and as long as such agreements are not contrary to law, morals, good customs, public policy or public order, they shall have the force of law between them.[8]

There is no usury in this case because no money was given by the defendant-appellee to the plaintiff-appellant, nor did it allow him to use its money already in his possession.[9] There was neither loan nor forbearance but a mere discount which the plaintiff-appellant allowed the defendant-appellee to deduct from the total payments because they were being made in advance for eight years. The discount was in effect a reduction of the rentals which the lessor had the right to determine, and any reduction thereof, by any amount, would not contravene the Usury Law.

The difference between a discount and a loan or forbearance is that the former does not have to be repaid. The loan or forbearance is subject to repayment and is therefore governed by the laws on usury.[10]

To constitute usury, "there must be loan or forbearance; the loan must be of money or something circulating as money; it must be repayable absolutely and in all events; and something must be exacted for the use of the money in excess of and in addition to interest allowed by law."[11]

It has been held that the elements of usury are (1) a loan, express or implied; (2) an understanding between the parties that the money lent shall or may be returned; (3) that for such loan a greater rate or interest that is allowed by law shall be paid, or agreed to be paid, as the case may be; and (4) a corrupt intent to take more than the legal rate for the use of money loaned. Unless these four things concur in every transaction, it is safe to affirm that no case of usury can be declared.[12]

Concerning the computation of the deductible discount, the trial court declared:

"As above-quoted, the 'Lease Agreement' expressly provides that the lessee (defendant) shall pay the lessor (plaintiff) eight (8) years in advance rentals based on P2,930.20 per month discounted at 12% interest per

annum. Thus, the total rental for one-year period is P35,162.40 (P2,930.20 multiplied by 12 months) and that the interest therefrom is P4,219.4880 (P35,162.40 multiplied by 12%). So, therefore, the total interest for the first eight (8) years should be only P33,755.90 (P4,129.4880 multiplied by eight (8) years and not P98,828.03 as the defendant claimed it to be."

"The afore-quoted manner of computation made by plaintiff is patently erroneous. It is most seriously misleading. He just computed the annual discount to be at P4,129.4880 and then simply multiplied it by eight (8) years. He did not take into consideration the naked fact that the rentals due on the eighth year were paid in advance by seven (7) years, the rentals due on the seventh year were paid in advance by six (6) years, those due on the sixth year by five (5) years, those due on the fifth year by four (4) years, those due on the fourth year by three (3) years, those due on the third year by two (2) years, and those due on the second year by one (1) year, so much so that the total number of years by which the annual rental of P4,129.4880 was paid in advance is twenty-eight (28), resulting in a total amount of P118,145.44 (P4,129.48 multiplied by 28 years) as the discount. However, defendant was most fair to plaintiff. It did not simply multiply the annual rental discount by 28 years. It computed the total discount with the principal diminishing month to month as shown by Annex 'A' of its memorandum. This is why the total discount amount to only P8,828.03.

"The allegation of plaintiff that defendant made the computation in a compounded manner is erroneous. Also after making its own computations and after examining closely defendant's Annex 'A' of its memorandum, the court finds that defendant did not charge 12% discount on the rentals due for the first year so much so that the computation conforms with the provision of the Lease Agreement to the effect that the rentals shall be 'payable yearly in advance within the 1st 20 days of each year.' "

We do not agree. The above computation appears to be too much technical mumbo-jumbo and could not have been the intention of the parties to the transaction. Had it been so, then it should have been clearly stipulated in the contract. Contracts should be interpreted according to their literal meaning and should not be interpreted beyond their obvious intentment.[13]

The plaintiff-appellant simply understood that for every year of advance payment there would be a deduction of 12% and this amount would be the same for each of the eight years. There is no showing that the intricate computation applied by the trial court was explained to him by the defendant-appellee or that he knowingly accepted it.

The lower court, following the defendant-appellee's formula, declared that the plaintiff-appellant had actually agreed to a 12% reduction for advance rentals for all of twenty eight years. That is absurd. It is not normal for a person to agree to a reduction corresponding to twenty eight years advance rentals when all he is receiving in advance rentals is for only eight years.

The deduction shall be for only eight years because that was plainly what the parties intended at the time they signed the lease agreement. "Simplistic" it may be, as the Solicitor General describes it, but that is how the lessor understood the arrangement. In fact, the Court will reject his subsequent modification that the interest should be limited to only seven years because the first year rental was not being paid in advance. The agreement was for a uniform deduction for the advance rentals for each of the eight years, and neither of the parties can deviate from it now.

On the annual rental of P35,168.40, the deducted 12% discount was P4,220.21; and for eight years, the total rental was P281,347.20 from which was deducted the total discount of P33,761.68, leaving a difference of P247,585.52. Subtracting from this amount, the sum of P182,471.17 already paid will leave a balance of P65,114.35 still due the plaintiff-appellant.

The above computation is based on the more reasonable interpretation of the contract as a whole rather on the

single stipulation invoked by the respondent for the flat reduction of P130,288.47.

WHEREFORE, the decision of the trial court is hereby modified, and the defendant-appellee Petrophil Corporation is ordered to pay plaintiff-appellant the amount of Sixty Five Thousand One Hundred Fourteen Pesos and Thirty-Five Centavos (P65,114.35), with interest at the legal rate until fully paid, plus Ten Thousand Pesos (P10,000.00) as attorney's fees. Costs against the defendant-appellee.

SO ORDERED.

Yap, (Chairman), Narvasa, Melencio-Herrera, and Feliciano, JJ., concur.

[1] Rollo, p. 28.

[2] Rec. on Appeal, pp. 14-15.

[3] Rollo, p. 28.

[4] Record on Appeal, pp. 1-6.

[5] Ibid., pp. 22-26.

[6] Id., pp. 72-81.

[7] Brief for the Appellant, pp. 8-21.

[8] Articles 1159, 1306, Civil Code.

[9] Art. 1953, Civil Code; Monte de Piedad vs. Javier, et al., 36 O.G. 2176; Tolentino vs. Gonzales, 50 Phil. 560.

[10] Tolentino v. Gonzales Sy Chian, 50 Phil. 558.

[11] Manufacturers Finance Trust vs. Stone, 251 I11. App. 414.

[12] Jenkins v. Dugger, C.C., A. Tenn., p. 96 F. 2nd 727, 729, 119 A.L.R. 1488.

[13] Article 1370, Civil Code.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.