

BA FINANCE CORPORATION, PETITIONER, VS. HONORABLE COURT OF APPEALS, RUPERTO TORRES, ET AL., RESPONDENTS.

G.R. No. 105190. December 16, 1993

Ponente: VITUG, J.

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VITUG, J.:

The instant petition for certiorari seeks a review of the decision of the Court of Appeals in CA-G.R. NO. 23507-CV entitled, "BA Finance Corporation vs. Ruperto Torres, Jr., et al.," affirming that of the Regional Trial Court of Manila, Branch 53, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered dismissing plaintiff's complaint and ordering the plaintiff to pay to the defendant the said amount of P1,649.31 with interest thereon at the legal rate from the date of the filing of defendant's answer until the same is fully paid, attorney's fees in the amount of P5,000.00 plus the costs of suit.

SO ORDERED."^[1]

The facts, found by the trial court, not being in dispute, are hereunder quoted, viz:

"From the admissions in the pleadings of the parties, and the evidence, testimonial and documentary, adduced by them during the trial, it has been established that on June 20, 1977, the defendant entered into a purported contract of lease (Exh. A; Exh. 1) with the plaintiff, wherein the latter purportedly leased to the former one (1) unit motor vehicle; Make-Holden Premier; Type-4DR. Sedan; Model 1975; Motor No. 19S-1172902; Serial No. 8 H69YFF-200875P, for a purported monthly rental of P1,689.48, payable in advance on the 20th day of each month, commencing on June 20, 1987, without the necessity of any previous demand or notice; that rentals in arrears shall bear interest at the rate of 14% per annum; that upon the signing of said contract, the defendant gave the plaintiff a guaranty deposit of P20,800.00 to serve, among others, as security for the prompt and faithful performance of his obligation (par. 2 complaint; par. 2, Answer); that the defendant defaulted in complying with the terms and conditions of their agreement by failing to pay several monthly installments stipulated therein (par. 3, Complaint; par. 3, Answer); that because of such failure of the defendant to pay the said monthly installments, the plaintiff sent a letter of demand to the defendant, dated May 25, 1978, inviting his attention to his outstanding balance of P6,889.64 including interest thereon, as of May 25, 1978, with warning that plaintiff would be filing the complaint against him on May 30, 1978 if by that time his account still remains unpaid or the personal property involved is not returned to plaintiff in substantially the same condition as when he received it (Exh. C); that, subsequently, another similar letter of demand was sent to the defendant who received it on January 1, 1979, for payment of his outstanding balance of P34,415.09, including interest thereon as of January 2, 1979 (Exh. C-1); that, an earlier written letter of demand, dated April 3, 1978, was also sent to and received by, the latter, inviting his failure to pay his monthly installments for February and March, 1978, for which reason the plaintiff was canceling their contract, making a final demand for the payment of P3,448.02 representing arrears in installment payments plus interest, and the return of said automobile not later than April 5, 1978 (Exhs. D, D-1-a); that a similar letter of demand and notice of cancellation of the contract for defendant's failure to pay his monthly installments for December, 1978 and January, 1979, was also earlier served on, and received by defendant on February 28, 1978 (Exhs. D-1, D-1-b);

that defendant failed to pay various installments on the date the same were due and demandable, compelling the plaintiff to file this case against him.”[2]

On the basis of the above findings, the trial court ruled in favor of herein private respondent, prompting the petitioner to elevate the case to the Court or Appeals. The respondent appellate court, on 28 April 1992, affirmed the assailed decision of the trial court. Still feeling aggrieved, the petitioner brought the matter to us for review.

The transaction involved in the present case admittedly is one of a "financial lease" or "financial leasing," where a financing company would, in effect, initially purchase a mobile equipment and turn around to lease it to a client who gets, in addition, an option to purchase the property at the expiry of the lease period. A financial lease is a species of secured financing which is fairly new. It is considered a legitimate contract, and it has been accorded statutory and administrative recognition.”[3] Section 1, paragraph 1, of the Revised Rules and Regulations, implementing the provisions of the Financing Company Act, as amended (infra), adopted jointly by the Securities and Exchange Commission and the Monetary Board of the Central Bank of the Philippines (now the Central Monetary Authority), defines leasing, as follows:

"LEASING" shall refer to financial leasing which is a mode of extending credit through a non-cancelable contract under which the lessor purchases or acquires at the instance of the lesser heavy equipment, motor vehicles, industrial machinery, appliance, business and office machines, and other movable property in consideration of the periodic payment by the lessee of a fixed amount of money sufficient to amortize at least 70% of the purchase price or acquisition cost, including any incidental expenses and a margin of profit, over the lease period. The contract shall extend over an obligatory period during which the lesser has the right to hold and use the leased property and shall bear the cost of repairs, maintenance, insurance and preservation thereof but with no obligation or option on the part of the lessee to purchase the leased property at the end of the lease contract.”

The pertinent provisions of Republic Act 5980, thus implemented, read:

“‘Financing companies,’ hereinafter called companies, are corporations, or partnerships, except those regulated by the Central Bank of the Philippines, the Insurance Commissioner and the Cooperatives Administration Office, which are primarily organized for the purpose of extending credit facilities to consumers and to industrial, commercial, or agricultural enterprises, either by discounting or factoring commercial papers or accounts receivables, or by buying and selling contracts, leases, chattel mortgages, or other evidences of indebtedness, or by leasing of motor vehicles, heavy equipment and industrial machinery, business and office machines and equipment, appliances and other movable property.”[4]

“‘Credit’ shall mean any loan, mortgage, deed of trust, advance, or discount; any conditional sales contract, any contract to sell, or sale or contract of sale of property or service, either for present or future delivery under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money, any purchase, or other acquisition of or any credit upon the security of, any obligation or claim arising out of the foregoing; and any transaction or series of transactions having a similar purpose or effect;”[5]

The foregoing provisions indicate no less than a mere financing scheme extended by a financing company to a client in acquiring a motor vehicle and allowing the latter to obtain the immediate possession and use thereof pending full payment of the financial accommodation that is given.

In the case at bench, the contract was executed over a motor vehicle, with the petitioner, as lessor, and the private respondent, as lessee. The term of the contract was for thirty six (36) months at a “monthly rental” of one thousand six hundred eighty nine pesos and forty centavos (P1,689.40), or for a total amount of P60,821,28. The contract also contained the following clause:

“5. GUARANTY DEPOSIT. Upon the signing of this Contract the LESSEE shall give to the LESSOR a guaranty deposit in the amount of twenty thousand eight hundred only Pesos (20,800.00) to serve as security for the prompt and faithful performance of the obligations of the LESSEE. The deposit shall be refunded to the LESSEE upon the satisfactory termination of the Contract and shall not be applied to the rentals that may be due during the entire period of this contract.”[6]

After the private respondent had paid the sum of P41,670.59, excluding the guaranty deposit of P20,800.00, he stopped further payments. Putting the two sums together, the financing company had in its hands the amount of P62,470.59 as against the total agreed "rentals" of P60,821.28 or an excess of P1,649.31.

The respondent appellate court considered it only just and equitable for the guaranty deposit made by the private respondent to be applied to his arrearages and thereafter to hold the contract terminated. Adopting the ratiocination of the court a quo, the appellate court said:

It appears, however, from the defendant's evidence that out of the beginning balance of P60,821.28 (see Exh. B; Exhs. 2, 2-a), he had already paid as of July 8, 1979, by way of installment payments, the total amount of P41,670.59, starting with the amount of P1, 689.48 which was paid upon the execution and signing of said contract on June 20, 1977 (Exh. 1; Exh.1); and subsequent payments in various amounts, as evidenced by several checks and/or receipts, to wit: Exh. 3-b for P1,664.48; Exh. 3-c for P1,664.48; Exhs. 3-d and 3-e for P1,689.48; Exh. 3-f for P1,700.00; Exhs. 3-g and 3-h for P1,200.00; Exhs. 3-j and 3-k for P1,500.00; Exh. 3-l for P7,120.00; Exh. 3-m for P1,400.00; Exh. 3-n for P3,000.00; Exh. 3-o and 3-p for P2,000.00; Exhs. 3-q and 3-r for P1,200.00; Exhs. 3-s and 3-t for P2,000.00; Exh. 3-u and 3-v for P2,500.00; Exhs. 3-w and 3-x for P5,000.00; Exh. 3-z for P1,500.00 and Exh. 3-aa for P1,500 (See also Exhibit 3-y); and the additional amounts of P1,689.40, admitted by the plaintiff to have been paid on October 3, 1977, and P1,653.27, admitted by the plaintiff to have been paid on December 15, 1977 (Exh. B; Exh. a); leaving a balance of P19,150.69. (See also the testimony of Ruperto P. Torres, Jr., July 19, 1983)

It further appears that at the time of the execution of the contract on June 20, 1977, the defendant also delivered to the plaintiff a guaranty deposit of P20,800.00 "to serve as security for the prompt and faithful performance of the obligations of the LESSEE. The deposit shall be refunded to the LESSEE upon a satisfactory termination of the Contract and shall not be applied to the rentals that may be due during the entire period of the Contract. The LESSOR's determination of the LESSEE's liability or liabilities to be charged against said deposit upon the expiration of the period of this Contract shall be final and conclusive for all legal intents and purposes. So far, the plaintiff has not proven during the trial "the LESSEE's liability or liabilities to be charged against said deposit" which did not even bear any interest. In fact, plaintiff's sole witness Pedro M. Fabien, Jr., was not even sure of the meaning and scope of the term "guaranty deposit" (Testimony on cross-examination, June 16, 1983). In view thereof, the guaranty deposit of P20,800.00 made by the defendant should and must be credited in his favor, in the interest of fairness, justice and equity. The plaintiff should not be allowed to unduly enrich itself at the expense of the defendant. (See also Article 19 and 22, New Civil Code). This is even more compelling in this case where although the transaction, on its face, appear ostensibly, to be a contract of lease, it is actually a financing agreement, with the plaintiff financing the purchase of defendant's automobile from the Automart Corporation. The Court is constrained, in the interest of truth and justice, to go into this aspect of the transaction between the plaintiff and the defendant in view of the delivery receipt, dated November 4, 1975, presented in evidence by the plaintiff in support of its complaint as its Exhibit "E", the probative value of which has been submitted for the court's determination, together with all the facts and circumstances existing in this case, and which the court must consider in deciding the case, if it is to decide the case according to all the facts. For justice can only be truly administered if it is based on the truth. It is the Court's perception that the plaintiff purchased the automobile involved herein for the sum of P54,000.00 from the Automart Corporation which delivered the same to him on November 4, 1975 (Exh. E). On June 20, 1977, the plaintiff and the defendant signed the purported contract of lease, using the printed financing form of the plaintiff, but which transaction, according to the existing facts and circumstances, was, actually, a financing

scheme, with the plaintiff as the financier, advancing the payment of defendant's automobile, whereby the defendant on his part, agreed to pay to the plaintiff a monthly installment of P1,689.48, the same to commence "from the date of delivery of the Equipment to the LESSEE" up to the 36th month from said delivery, which delivery of said car by the plaintiff to the defendant, purportedly took place on June 20, 1977, for purposes of the financing scheme or agreement, even as it appears from plaintiff's Exhibit "E" that the automobile involved herein was actually already delivered by Automart Corporation to the defendant who acknowledged receipt thereof way back on November 4, 1975.

Considering that out of the said beginning balance of P60,821.28, the defendant had already paid to the plaintiff, in installments, the total amount of P41,670.59 as of July 8, 1979, which amount, if added to the aforementioned guaranty deposit of P20,800.00 made by the defendant at the inception of the contract on June 20, 1977, would make a total payment of P62,470.59, it would appear that there is even an overpayment of P1,649.31 made by the defendant, which the plaintiff should refund to him."^[7]

Considering the factual findings of both the court a quo, and the appellate court, the only logical conclusion is that the private respondent did opt, as he has claimed, to acquire the motor vehicle, justifying then the application of the guarantee deposit to the balance still due and obligating the petitioner to recognize it as an exercise of the option by the private respondent. The result would thereby entitle said respondent to the ownership and possession of the vehicle as the buyer thereof. We, therefore, see no reversible error in the ultimate judgment of the appellate court.

The award, however, of attorney's fees in favor of herein private respondent has no legal basis. The record shows that petitioner sent several demands upon the private respondent to pay the rentals in arrears but the latter did not even bother to reply thereto, compelling the petitioner to file the complaint against the private respondent. Clearly, the action was filed in good faith and gives no reason for an award of attorney's fees.

WHEREFORE, the decision appealed from is AFFIRMED WITH MODIFICATION by deleting therefrom the award for attorney's fees. No costs.

SO ORDERED.

Feliciano, (Chairman), Bidin, Romero, and Melo, JJ., concur.

[1] ????? ?????; Rollo, p. 37.

[2] ????? ????? ?????, Rollo, pp. 33-34)

[3] Beltran vs. PAIC Financing Corp., 209 SCRA 116.

[4] Republic Act No. 5980, as amended by President Decree Nos. 1454 and 1793. (Underscoring supplied).

[5] Ibid. (Underscoring supplied).

[6] Rollo, p. 74.

[7] Decision, pp. 2-5; Rollo, pp. 34-37.

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