

TALA REALTY SERVICES CORPORATION, PETITIONER, VS. BANCO FILIPINO SAVINGS AND MORTGAGE BANK, RESPONDENT.*G.R. No. 137533. November 22, 2002*

Ponente: PUNO, J.

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A four-page contract executed by the parties more than two decades ago spurred the present controversy. The records of the case total thousands of pages, but no amount and fashion of words can forever bury or hide the truth. Justice will be dispensed to both parties and each would pay the price for its deception.

This is a petition for review on certiorari to annul and set aside the Court of Appeals' December 18, 1998 decision and February 17, 1999 resolution affirming the decision of the Regional Trial Court of Malolos, Bulacan, Branch 78, which dismissed petitioner's action for ejectment.

Petitioner Tala Realty Services Corporation ("Tala") alleges that it is the absolute owner of nine parcels of land and their improvements located in Manila, Malabon, Marikina City, La Union, Lucena City, Iloilo City, Davao City, Pangasinan, and Bulacan by virtue of separate Deeds of Absolute Sale executed between Tala and the respondent Banco Filipino Savings and Mortgage Bank (the "Bank") on August 25, 1981. The Bulacan property is the subject matter of this case.[1]

On that same day, August 25, 1981, Tala and the Bank entered into separate lease contracts over the aforementioned nine properties. The contracts had the same form and terms, except for the description of the property and the amount of the monthly rentals. The contracts provided for twenty-year lease periods renewable for another twenty years at the option of the Bank. The monthly rental for the Bulacan property was P9,800.00.[2]

Later that same day, the parties revised these nine lease contracts. The terms of the lease were shortened to eleven years renewable for a period of nine years "at the option of the lessee under terms and conditions mutually agreeable to both parties." The monthly rental for the Bulacan property remained P9,800.00.[3]

Almost eleven years after the execution of the nine lease contracts, or on August 19, 1992, Tala's director, Elizabeth H. Palma, wrote to the Bank reminding the latter that the contracts were about to expire on August 31, 1992, and that the Bank had earlier signified its interest to renew the lease contracts. The letter also indicated that Tala was open to discuss the terms and conditions of the renewal of the lease "subject to the condition that the lease rate which may be mutually agreed upon shall retroact to September 1, 1992." Meantime, Tala would lease the properties to the Bank on a month-to-month basis until the agreement was finalized.[4]

On January 20, 1993, the Bank requested Tala to send its representative to the Bank's office to negotiate the renewal of the lease.[5] Tala's director, Elizabeth Palma, negotiated the renewal and submitted a proposal for increased rental. In its February 10, 1993 letter to the Bank, Tala reiterated the increased rental which was agreed upon in the previous negotiation. It also stated that Tala was charging the Bank goodwill money for the renewal of the lease to cover the substantial losses it incurred during the period of the lease and upon its expiration when Tala

was holding the lease sites for the Bank and turning down more profitable offers. The new monthly rental rate for the Bulacan property was P31,800.00.

On March 4, 1993, the Bank requested Tala to furnish it some documents regarding the lease of Tala's properties. For several months from the time of negotiation, the Bank failed to take action on Tala's proposed terms for the renewal of the lease contract, prompting Tala to write to the Bank on June 22, 1993; it billed the Bank the difference between the old monthly rental rate of P9,800.00 it had been paying for the past ten months and the increased rate of P31,800.00[6] which, according to Tala, was agreed upon by the parties during the negotiation.[7] Tala also informed the Bank in its June 22, 1993 letter that since it had been ten months since the expiration of the lease contracts in August 1992 and the Bank had not taken any definite action to renew the contracts despite being furnished copies of the same in December 1992, Tala declared itself free to "lease, dispose, sell and/or in any way alienate the bank branch sites subject of the lease agreement."[8]

The Bank responded on June 29, 1993, clarifying that it was the Bank which had the option to renew the lease and that it had communicated to Tala it was exercising its option to do so. However, Tala failed to furnish some documents relevant to the lease the Bank had earlier requested. The Bank needed the requested documents to help clear up (1) its sale of the leased properties to Tala and (2) the basis of its lease negotiations with the latter, but could not find the pertinent deeds of sale and lease contracts over some of the lease sites. On January 15, 1985, the Central Bank closed the Bank, placed it under receivership, and took possession of its records; but this Court in 1991 declared the closure null and void, and the records were returned. However, the Bank could not find in the returned records some deeds of sale, lease contracts, and transfer certificates of title regarding the properties Tala leased to it.[9]

From the time the lease contract over the Bulacan property expired in August 1992 until March 1994, the Bank continued to occupy the subject Bulacan property. It paid Tala monthly rentals at the old rate of P9,800.00 from September 1, 1992 until March 1994, but refused to pay the P22,000.00 difference between the old monthly rate and the new rate of P31,800.00. Beginning April 1994 until the filing of the instant case, however, the Bank did not pay any rent at all. Nor did it pay the goodwill money and deposit Tala required for the renewal of the lease.[10]

On April 14, 1994, Tala wrote to the Bank demanding payment of the latter's outstanding obligations of P1,102,440.00 over the Bulacan property, consisting of unpaid rental adjustment of P440,260.00, deposit of P127,200.00, and goodwill money of P500,000.00. Tala also informed the Bank that at the end of the month, the month-to-month lease would no longer be renewed, thus, it should vacate the premises by that time, otherwise, petitioner would resort to legal action.[11] Still, the Bank refused to pay its outstanding obligations, prompting Tala's lawyer to write to it on May 2, 1994 demanding the latter to vacate the premises and to pay its outstanding obligation within five days from receipt of the letter, otherwise a legal action would be filed against it.[12] The petitioner wrote similar letters for the nine other properties it leased to the Bank.[13]

As the Bank did not comply with Tala's demands, the latter filed complaints for ejectment and/or unlawful detainer in the courts where the nine properties are located. The complaint in the case at bar was filed in the Municipal Trial Court of Malolos on November 11, 1994.[14] Tala prayed therein that the Bank vacate the premises, and pay it P653,638.00 accrued rentals as of September 30, 1994 and rental of P42,325.00 a month with an annual 10% escalation from October 1994 until it vacates the premises, and to pay the costs.[15]

Parenthetically, on August 5, 1985, while the Bank was closed, placed under receivership and being liquidated by order of the Monetary Board, counsel for the Bank's liquidator wrote Tala regarding the lease contracts that have expired and others that would expire in 2001. It appeared from some lease contracts that the Bank had paid Tala

advance rentals/deposits amounting to P13,937,300.00 which were to cover rentals accruing from the eleventh to the twentieth year of the lease, i.e., from 1992 to 2001. Since the Bank was under liquidation at that time and had no more need for the leased premises for that ten-year period, the liquidator's counsel asked Tala to apply the advance deposit to the rentals of the properties totaling P423,550.00 a month for the period during which the Bank was closed and under receivership.[16]

In a letter dated October 7, 1987, Tala's lawyer replied to the counsel of the Bank's liquidator that the amended 11-year lease contracts of August 25, 1981 provided for the payment of security deposits and not advance rentals so that said payment could not be used to cover unpaid rentals during the period that the Bank was closed and under receivership and liquidation. According to Tala's lawyer, the only time that said security deposits may be applied to unpaid rents is when the rentals for the last year of the lease contracts were not paid, but the lease contracts were still due to expire in 1992.[17] The Bank, therefore, could not apply the security deposits to the payment of rentals and thus had to pay its accrued rentals. However, on February 21, 1990, the Bank's liquidator wrote Tala informing the latter that it had approved payment of accrued rents on Tala's properties leased by the Bank, less the security deposit of P13,937,300.00 that the Bank had earlier paid for all the properties it leased from Tala. The letter indicated that the total rent due on all the leased properties as of November 1989 was P19,169,625.00. Applying the security deposit of P13,937,300.00 to this amount, the net amount due Tala for unpaid rent as of November 1989 was P5,232,325.00. The representative of Tala, Elizabeth H. Palma, agreed to this net amount due for unpaid rent as of November 1989 and signed in the liquidator's letter to show conformity to said net amount.[18] Of the unpaid rent due as of November 1989, P509,600.00 was due with respect to the Bulacan property for the period covering August 1985 to November 1989.[19] Petitioner notes that since the Bank paid only P487,500.00 advance rental/security deposits on the Bulacan property, there was still a balance of P22,100.00 to be paid by the Bank.[20]

The Bank had a different story to tell.

In 1979, the Bank undertook an expansion program, part of which was to purchase the present site of its head office at corner Paseo de Roxas and Dela Rosa Streets in Makati City. At that time, however, it had already reached the limit for real estate investment set by Sections 25(a) and 34 of Rep. Act No. 337 or the General Banking Act, as amended, viz:

“Sec. 25. Any commercial bank may purchase, hold and convey real estate for the following purposes:

(a) such as shall be necessary for its immediate accommodation in the transaction of its business: Provided, however, that the total investment in such real estate and improvements thereof, including bank equipment, shall not exceed fifty percent (50%) of net worth: Provided, further, That real estate used for the bank's purposes, owned by another corporation in which the bank owns equity, shall be considered as part of the bank's total investment in real estate.

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Sec. 34. Savings and mortgage banks may purchase, hold and convey real estate under the same conditions as those governing commercial banks as specified in Section 25 of this Act.”

To avoid exceeding the limit set by law as it pursued its expansion program, the Bank had to reduce its branch site holdings and merely lease, instead of own or buy, branch sites. The matter of reducing the Bank's existing branch site holdings and leasing them, and leasing new properties instead of buying them was taken up by Nancy Lim Ty, then senior vice president and director of the Bank, with Tomas Aguirre and other major stockholders.[21] The major stockholders agreed to form an allied corporation to which the Bank's existing branch sites could be unloaded and leased back from, and which would acquire new branch sites for the Bank that the latter would

lease. That allied corporation is the petitioner Tala. It was originally named Alta Realty Services Corporation, but its name was changed to Tala Realty Services Corporation upon registration with the Securities and Exchange Commission (SEC) as there was already an entity named Alta. Alta or Tala is an acronym formed by the first letters of the family names of four major stockholders of the Bank, namely Antonio Tiu, Tomas B. Aguirre, Nancy Lim Ty, and Pedro B. Aguirre. These four major stockholders contributed P250,000.00 each to put up a P1,000,000.00 capital for Tala. The names of the four, however, did not appear in Tala's incorporation papers, and instead the names of their nominees appeared therein.[22]

On August 18, 1981, the Bank's Board of Directors voted to authorize the negotiation for sale and conclusion of an agreement to sell eleven of their branch sites, including the subject Bulacan property which was to be sold for P975,000.00.[23] The sale was part of a "warehousing agreement"[24] between the Bank and Tala, viz:

"The Respondent (Bank) was to transfer or unload[25] a number of its existing branch sites to the Petitioner (Tala) and the latter was to simultaneously lease them back to the former. New branch sites which the Respondent will be disqualified from buying, by reason of the aforesaid limitations under existing banking laws and regulations, will be acquired for it by the Petitioner which will forthwith lease them to the Respondent. Any or all of these branch sites will be returned or reconveyed to the Respondent by the Petitioner at the former's demand or pleasure at the same transfer or acquisition cost." [26]

On August 25, 1981, in accordance with this "warehousing agreement," the Bank executed in favor of Tala eleven separate deeds of absolute sale, transferring to the latter eleven branch sites, including the subject Bulacan property.[27] On the same day, Tala executed in favor of the Bank eleven separate contracts of lease over the eleven properties, leasing the branch sites for a term of twenty years "renewable for another period of twenty (20) years, at the option of the LESSEE." [28] All eleven lease contracts were uniform except for the amounts of monthly rentals and advance rentals. All eleven contracts provided the Bank a "first preference to buy" [29] which was meant to express the above agreement between the Bank and Tala that "any or all of these branch sites will be returned or reconveyed to the Respondent by the Petitioner at the former's demand or pleasure at the same transfer or acquisition cost." This agreement to reconvey was not spelled out in the lease contracts because the Bank was apprehensive that it might provide basis for the Central Bank to question the sale and simultaneous lease back of the branch sites between the Bank and Tala, for being merely simulated, and thereby derail the Bank's expansion program. But the Bank was nevertheless confident that Tala would honor the agreement though not written "not only because among bankers, commitments, though not written, are as binding and are honored as written ones, but also because the Bank was dealing with an entity owned and backed up by four major stockholders of the Bank: three of whom, namely, Antonio Tiu, Nancy Lim Ty and Pedro Aguirre, were members of the Bank's Board of Directors at that time, with one of them, Nancy Lim Ty, also Senior Vice President at the same time; and the fourth, Tomas Aguirre, was the founder of the Bank who, in his Affidavit, confirmed the Agreement." [30] That the Bank intended to keep the leased properties can be gleaned from the fact that as of the filing of the instant case, more than ten years after their sale, their titles remain in the name of the Bank as shown by TCT No. RT-39662 (T-261735) and RT-39663 (T-261736) of the Registry of Deeds of the Province of Bulacan.[31]

As Tala had only P1,000,000.00 paid-up capital as of August 25, 1981, while the combined selling price of the Bank's branch sites being unloaded to it was nearly P30,000,000.00, the Bank and Tala devised a way for Tala to pay the selling price through loans and the Bank's payment of advance rentals. The eleven lease contracts provided for payment of substantial advance rentals for the eleventh to the twentieth year of the 20-year contracts of lease. These advance rentals in the eleven lease contracts were applied to the purchase price stipulated in the eleven deeds of absolute sale. The balance of the purchase price was paid through loans obtained by Tala, through the intercession of the Bank, from Pacific Bank and Metrobank with the branch sites as collaterals. The monthly

rental rates for the lease of the eleven properties were pegged at an amount that would allow Tala to meet the amortizations for said loans and retain 3% of the rentals as compensation for its services.[32] On December 18, 1981, the Bank paid Tala advance rental in the amount of P487,500.00 and monthly rentals of P39,200.00 for the period covering September 1981 to December 1981 at P9,800.00 per month over the Bulacan property, less withholding tax of P26,335.00, or a total of P500,365.00.[33]

On January 25, 1985, the Central Bank closed the Bank, placed it under receivership, and took over all of its assets, books and records to the exclusion of the Bank's board of directors and management. The latter questioned the closure in several cases, among which was *Banco Filipino Savings and Mortgage Bank v. Monetary Board, Central Bank of the Philippines*. [34] In this case decided on December 11, 1991, the Court ruled that the Central Bank's closure of the Bank was null and void for having been effected arbitrarily and with grave abuse of discretion.[35] As this decision became final and executory on February 4, 1992, the Bank on February 6, 1992 demanded from the Central Bank the immediate return of its assets, records and books of account.[36] After about two months, the Central Bank complied with the Bank's demand, but returned the records in trickles.

In mid-1992, when the Bank was still in the process of recovering its assets, records, and books of account from the Central Bank, it received notice from Tala that the Bank's lease over a number of its branches, including the subject Bulacan property, was expiring in August 1992. Tala urged the Bank to negotiate with it for the renewal of the lease. As the Central Bank had not completed the turn-over of the Bank's records, the Bank asked Tala to furnish it with copies of the lease contracts which were about to expire. Tala took a while to furnish copies of said contracts and when it did, it furnished the Bank with lease contracts executed on August 25, 1981 which provided for an eleven-year lease term renewable for another nine years.[37] The Bank could not simply ignore Tala's demand to negotiate the renewal of the lease and thus met with Tala's representatives. At the same time, however, the Bank pressed the Central Bank to return the contracts of lease over its branch sites since its officers recalled that the lease contracts were executed as part of an agreement to unload its branch sites to Tala and that the contracts provided not for eleven-year, but twenty-year lease terms. Subsequently, the Central Bank returned the lease contracts over the branch sites, and just as the Bank's officers recalled, said contracts showed a lease term of twenty years, renewable for another twenty years at the option of the Bank. Nowhere in the records could be found a lease contract for eleven years due to expire in August 1992 and renewable for nine years, similar to those Tala furnished the Bank.

The Bank investigated the matter and based on its findings, its board of directors directed the management to demand from Tala the return or reconveyance of its branch sites in accordance with their 1981 "warehousing agreement." The Bank posits that this agreement is one of implied trust where Tala as trustee or holder of the legal title over the leased properties had the duty to reconvey the properties to the Bank which was both the trustor and beneficiary. The Bank further claims that it is entitled to possession of the subject Bulacan property as an incident of its ownership of the property. In a letter from the Bank to Tala dated April 12, 1994, the Bank demanded the return of the subject property.[38]

In early 1994, the Bank's minority stockholders also filed a derivative suit with the Securities and Exchange Commission (SEC) against Tala's stockholders, officers and directors[39] seeking principally to nullify the unloading or "warehousing agreement" between the Bank and Tala and the return or reconveyance to the Bank of all the branch sites it had unloaded to Tala, including the subject Bulacan property. Tala moved to dismiss the suit on the ground of lack of jurisdiction over the nature and subject matter of the action. The SEC denied its motion.[40] The Bank posits that it was the April 12, 1994 letter and the derivative suit filed with the SEC that precipitated the filing of the instant case in the Municipal Trial Court of Malolos, Bulacan (MTC of Malolos), as well as eight other ejectment cases involving the other "warehoused" properties.

After weighing the evidence adduced by both parties, the MTC of Malolos ruled in favor of the Bank, viz:

“Well-settled is the rule that the main issue in an action for an unlawful detainer is determination of who between the rival claimants has better right of possession to property (*Dolido vs. CA*, 17 SCRA 400). From the evidence on record the herein defendant has a better right of possession over the subject property on the basis of a Contract of Lease dated August 25, 1981 (Exh. ‘5’) wherein it states, among other things, that the term of the lease is for twenty (20) years. Hence, the said lease will commence from August 25, 1981 and will end on August 5, 2001 (sic).

It cannot be said that the defendant failed to comply with the terms and conditions of the said Contract of Lease (Exh. ‘5’), particularly the alleged non-payment of rentals thereof considering the provision of paragraph 3 of the said Contract of Lease. The defendant herein has paid to the plaintiff on December 18, 1981 (Exhibit ‘13’) the sum of FOUR HUNDRED EIGHTY-SEVEN THOUSAND FIVE HUNDRED PESOS (P487,500.00) as advance rentals, to be applied to the rentals due from the eleventh (11[th]) through the twentieth (20[th]) years of the lease or from 1992 through the year 2001.

The alleged amended Contract of Lease executed by Banco Filipino and TALA Realty dated August 26, 1981 (sic), marked as Annex ‘A’ in the complaint wherein the term of the lease has been fixed ‘for a period of eleven (11) years, renewable for another period of nine (9) years at the option of the LESSEE under terms and conditions mutually agreeable to the parties’ cannot be given credence at all considering that the original of the same were (sic) not submitted before the Honorable Court. The best evidence to prove the existence of a certain document, the contents of which is the subject of inquiry, is the original of the same. . .

Although this court has no authority or jurisdiction to pronounce that the contract of lease (Exh. ‘A’ for the plaintiff) is either genuine, simulated or fictitious, but (sic) this court cannot hesitate to believe that the said Contract of Lease, with a period of eleven years, is spurious or fictitious. Even Mr. Teodoro O. Arcenas, Jr. who made (sic) to appear in the said Contract of Lease having signed the (sic) same for and on behalf of the defendant bank, in his capacity as executive Vice-President thereof denies having signed the same. . .

Needless to say that (sic) even the Clerk of Court of the Regional Trial Court of Manila certified that the notarized Contract (sic) of Lease allegedly notarized by Rolando C. Salonga, a notary public for and in the City of Manila, on August 26, 1981 was never reported to that office by the said notary public as required by the notarial law. (Exh. ‘15’ of the Position Paper for the Defendant)

This court cannot (sic) inclined to believe that for (sic) a corporation, as in the instant case Banco Filipino, to execute two (2) Contract (sic) of Lease almost on the same date involving the same property. (sic) If the Contract of Lease for eleven (11) years was really executed by the same party (sic) and almost at the same time, a provision would have been inserted to state that the previous Contract of Lease for twenty (20) years, executed one day prior to the execution of the Contract of Lease with a period of 11 years, is rescinded or amended, (sic) as the case may be. But in (sic) the alleged subsequent Contract of Lease provides nothing about it. Besides only (sic) Contract of Lease with a period of twenty years was submitted to the Central Bank.

Even on the assumption that these two (2) Contract (sic) of Lease (Exh. ‘5’ for the defendant and Exh. ‘A’ for the plaintiff) are valid and effective as this Court has likewise no jurisdiction to declare either or both contract, as well as null and void, rescinded or amended, (sic) the defendant has clearly proven by the preponderance of evidence that it (defendant) has a better right to possess the subject property considering the validity of the said Contract of Lease (Exhibit ‘5’ for the defendant) stands valid and effective.

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In the verified complaint in the present case, plaintiff admits that there is a pending case before the Securities and Exchange Commission (SEC), SEC Case No. 04-94-4750, a derivative suit filed by some stockholders of the defendant bank, for and on its behalf, against the herein plaintiff and other parties, and that said case ‘seek,

among others, the reconveyance of certain properties including the subject matter hereof and prays for the ancillary remedy of restraining any rental collection.’ (Paragraph 3 of the Complaint)

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Clearly, therefore, that which the plaintiff seeks in this case in (sic) the ejectment of the defendant bank from the premises in question and the collection of goodwill, deposit and adjusted rentals are the very acts sought to be restrained in SEC Case No. 04-94-4750. . .

This Court believes that the instant case is an example of forum shopping considering that the essential facts and circumstances pending in the Securities and Exchange Commission are practically the same facts and circumstances pending before this Court.

On this score alone the instant complaint should be dismissed.”[41]

The Regional Trial Court of Malolos, Bulacan, Branch 78 (“RTC of Malolos”) dismissed petitioner’s appeal of the decision of the MTC of Malolos for lack of merit, viz:

“The core of the controversy involved in this case revolves around the issue of which of the two (2) contracts of lease, involving the same premises, should be upheld. One lease contract, providing for a rent period of twenty (20) years and the other, providing for an eleven-year period. Defendant claims that the latter contract is spurious. Plaintiff-appellant, on the other hand, contends that the 11-year contract was validly executed superseding the 20-year lease agreement.

Sustaining the defendant’s claim would make valid its continued stay on the questioned premises and would leave the plaintiff without any cause to evict the defendant. On the other hand, to uphold the plaintiff’s 11-year lease contract would give the plaintiff-appellant every right to eject the defendant.

Declaring one contract spurious which resultantly declares the other valid is not within the jurisdiction of the Municipal Trial Court. An action to declare one of the said contracts valid is an action which is incapable of pecuniary estimation and is therefore cognizable by the Regional Trial Courts. Furthermore, such issue is not proper in an ejectment suit. It must be properly decided in a separate action filed for that purpose and threshed out before the proper forum. Absent such finding, ejectment suit against the defendant bank would be premature.

As to the other issues raised, this Court believes, and so holds, that discussion of the same would be futile in view of the above expositions.”[42]

On appeal to the Court of Appeals, the decision of the RTC of Malolos was affirmed, viz:

“The issue in an ejectment case is the right to physical possession of the premises or possession de facto (Del Rosario v. Court of Appeals, 241 SCRA 519). Respondent’s assertion of a different contractual relations (sic) with petitioner and its introduction into evidence of a different contract of lease having a 20-year term, which contract was indeed the first instrument executed by the parties, as admitted by petitioner, put into issue the real nature of the contract between the parties, and further bring into fore a second issue: which of the two lease contracts embodies the real agreement between the parties. As correctly stated by the Regional Trial Court, this would necessitate a determination of the validity of one contract and conversely, a pronouncement as to the invalidity of the other.

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There can be no determination by the Municipal Trial Court of whether petitioner had the right to eject respondent from the premises until the real nature of its transactional relations with respondent is first settled and also until the question of which contract is binding upon the parties is finally resolved. Since the determination of the contractual relations between the parties and the issue of validity of contracts are beyond

the jurisdiction of the Municipal Trial Court to adjudicate or pass upon, and the summary action for ejectment which is a mere quieting process could not proceed until the aforesaid issues have been resolved, the Municipal Trial Court did not err in dismissing the complaint. Similarly, the Regional Trial Court did not commit a reversible error in holding that the Municipal Trial Court had no jurisdiction over the issues of the case and that the complaint for ejectment was premature. Indeed, petitioner should have filed, instead, a plenary action before the proper Regional Trial Court for quieting of title and recovery of possession, in which proceeding the real contract between it and respondent and their respective rights and obligations thereunder could be fully ventilated and determined.

With regard to the second assignment of error, since the ejectment suit was premature, there was no reason or need for the court a quo to pass upon the question of whether sufficient grounds existed to eject respondent from the leased premises.”[43]

Hence, this petition for review with the following assignment of errors:

“I.

THE COURT OF APPEALS ERRED IN AFFIRMING THAT THE MUNICIPAL TRIAL COURT OF MALOLOS, BULACAN HAS NO JURISDICTION OVER THE INSTANT COMPLAINT FOR EJECTMENT BECAUSE RESPONDENT HAVING PRESENTED A DIFFERENT SET OF CONTRACT OF LEASE IN ITS ANSWER TRANSFORMED THIS SUIT INTO ONE INCAPABLE OF PECUNIARY ESTIMATION.

II.

THE COURT OF APPEALS ERRED IN NOT HOLDING THAT SUFFICIENT GROUNDS EXIST TO EJECT RESPONDENT FROM THE LEASED PREMISES.”[44]

At the outset, the Bank clarifies that Tala’s first assignment of error is inaccurate. The Bank points out that the Court of Appeals upheld the dismissal of the instant case by the MTC of Malolos on two jurisdictional grounds: (1) it did not have jurisdiction to determine whether the 20-year or 11-year lease contract was valid and genuine, which transformed the instant suit into one incapable of pecuniary estimation, and (2) it did not have jurisdiction to resolve the preliminary issue of the real nature of the contractual relation between Tala and the Bank.[45] The latter issue necessitates a determination of whether there was indeed a lessor-lessee relationship between the parties, or their transaction partook of an implied trust where the Bank was the trustor and beneficiary and Tala was the trustee with an obligation to return the subject Bulacan property to the Bank upon the latter’s demand.

The Bank also asserts that the MTC of Malolos was correct in dismissing the complaint for ejectment on the ground that Tala was guilty of forum shopping in that it filed the complaint for ejectment after the SEC’s denial of its motion to dismiss on the ground of lack of jurisdiction over the subject matter in SEC Case No. 04-94-4750, the derivative suit filed in the SEC by the Bank’s minority stockholders for and on behalf of the Bank against Tala.[46] The Bank is of the view that as pronounced by the MTC of Malolos, “the essential facts and circumstances pending in the Securities and Exchange Commission are practically the same facts and circumstances pending before the Court.”[47]

A careful perusal of the decisions of the MTC of Malolos, RTC of Malolos and Court of Appeals would show the following grounds for their dismissal of the cases before them:

1. The MTC of Malolos dismissed the complaint for ejectment on the ground of forum shopping as the ejectment and collection of goodwill money, deposit and adjusted rentals in the instant case are the very acts sought to be restrained by the Bank’s minority stockholders in the derivative suit pending in the SEC. The

MTC decision also discussed that the 20-year lease contract was valid and genuine and that the Bank had a better right to possess the subject Bulacan property, while the 11-year contract was spurious and fictitious and its original copy was not presented to the court. The court concluded, however, that it could not uphold or strike down either contract as it had no jurisdiction to determine the validity of these contracts.

2. The RTC of Malolos dismissed the appeal of the MTC decision and affirmed that the MTC of Malolos had no jurisdiction to declare a contract valid or invalid as this involves an action incapable of pecuniary estimation cognizable by the Regional Trial Court. In addition, the RTC of Malolos ruled that such issue is not proper in an ejectment suit.

3. The Court of Appeals dismissed the petition for review on the ground that the MTC had no jurisdiction to determine two issues: (1) the nature of the contractual relations between the Bank and Tala; and (2) the validity of the 11-year and the 20-year contracts. Since these issues must first be resolved, the summary action for ejectment was premature and thus could not proceed.

The Memoranda of Tala and the Bank discuss all the grounds upon which the MTC of Malolos, RTC of Malolos and Court of Appeals based their dismissal of the actions before them. To avoid further prolonging litigation and to settle the foregoing issues which involve not only the subject Bulacan property but other properties leased by Tala to the Bank, we will tackle these grounds one by one.

We first deal with the forum shopping issue. For forum shopping to exist, both actions - the derivative suit in the SEC and the instant ejectment case filed in the MTC of Malolos - must involve the same transactions, same essential facts and circumstances, and must raise identical causes of actions, subject matter and issues.[48] While the SEC case seeking annulment of the sale of the Bank's properties by "warehousing agreement" with Tala includes the transactions and subject matter as well as the essential facts and circumstances of the instant ejectment suit, the causes of action and issues in the two cases are different. In the SEC case, the Bank's minority stockholders seek the reconveyance of its branch sites transferred to Tala through the "warehousing agreement" in 1981 on the ground that their sale was simulated and fictitious and without valuable consideration, thus the Bank was the true owner of the "warehoused" properties. On the other hand, in the instant ejectment suit, Tala seeks physical possession or possession de facto of the subject Bulacan property and does not deal with the issue of ownership brought to the fore by an allegation that the sale of the subject Bulacan property is simulated and fictitious. Even the Bank's demand for reconveyance in the instant case does not make this case similar to the SEC case. In the latter case, the Bank's stockholders seek reconveyance of the subject property on the ground of nullity of the contract of sale between the Bank and Tala, while in the instant case, the Bank does not seek the declaration of nullity of the contract of sale executed between it and Tala and instead seeks reconveyance as an enforcement of an alleged implied trust relationship between it and Tala. The two actions for reconveyance - one based on nullity of sale and the other on enforcement of an implied trust - are different.[49] An action for reconveyance based on nullity of a contract of sale does not divest the MTC of jurisdiction over an ejectment suit[50] precisely because the causes of action and issues in the two cases are different. At any rate, the derivative suit in the SEC was eventually dismissed for lack of jurisdiction on March 6, 1995.[51] We thus find that petitioner is not guilty of forum shopping in filing the instant case.

We next deal with the jurisdictional issues. The Court of Appeals held that the RTC of Malolos did not err in ruling that the MTC of Malolos did not have jurisdiction to determine two issues in the present case: (1) jurisdiction to determine the nature of the contractual relations between the parties, i.e., whether lessor-lessee or trustor-trustee; and (2) jurisdiction to determine the validity of the 20-year and 11-year contracts.

Anent the first jurisdictional issue, the MTC of Malolos had jurisdiction to determine the contractual relations between the Bank and Tala in order to settle the issue of ownership and possession of the subject property. The

Revised Rules on Summary Procedure, effective November 15, 1991, prior to the filing of the instant case in November 1994, provide in Section 1, A(1), viz:

“Section 1. Scope. - This rule shall govern the summary procedure in the Metropolitan Trial Courts, the Municipal Trial Courts in Cities, the Municipal Trial Courts, and the Municipal Circuit Trial Courts in the following cases falling within their jurisdiction:

A. Civil Cases:

(1) All cases of forcible entry and unlawful detainer, irrespective of the amount of damages or unpaid rentals sought to be recovered. x x x.”

All ejectment cases are covered by the rules on summary procedure and are within the jurisdiction of the said inferior courts regardless of whether they involve questions of ownership. The courts in ejectment cases may determine questions of ownership whenever necessary to decide the question of possession.[52]

Rep. Act No. 7691, approved on March 25, 1994, amended Section 33 of the Judiciary Reorganization Act of 1980, viz:

“Sec. 33. Jurisdiction of Metropolitan Trial Courts, Municipal Trial Courts and Municipal Circuit Trial Courts in Civil Cases. - Metropolitan Trial Courts, Municipal Trial Courts and Municipal Circuit Trial Courts shall exercise:

x x x x x x x x

(2) Exclusive original jurisdiction over cases of forcible entry and unlawful detainer: Provided, That when, in such cases, the defendant raises the question of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession . . .” (emphasis supplied)

The 1997 Rules of Civil Procedure also provide in Section 16, viz:

“Sec. 16. Resolving defense of ownership. - When the defendant raises the defense of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession.”

The pivotal question in the instant case, therefore, is whether or not it is necessary to settle the question of ownership based on the alleged “warehousing agreement” or trustor-trustee relationship in order to settle the issue of possession. The decision of the MTC of Malolos discussed the validity of the 11-year and the 20-year contracts. It noted that the 11-year contract was spurious and the 20-year contract was genuine and governed the relationship between Tala and the Bank, but the court did not uphold the 20-year contract nor strike down the 11-year contract for want of jurisdiction. The decision also touched upon the “warehousing” circumstances under which the 20-year contract was executed as described by the Bank, but only in its narration of facts. It did not discuss, much less rule on, the validity of the “warehousing agreement.” The RTC of Malolos did not also rule upon whether or not the issue of ownership based on the “warehousing agreement” needed to be resolved to determine the issue of possession. The Court of Appeals, however, found that the resolution of the real nature of the contractual relations between the parties is a prerequisite to determine the issue of ownership and possession.

We agree with the appellate court that it is necessary to resolve the real nature of the contractual relations between Tala and the Bank to determine ownership over the subject property and consequently settle the issue of who between the Bank or Tala has the right to possess the property. Tala’s right to lease the property to the Bank proceeds from its (Tala’s) claim of ownership of the property based on a contract of sale executed between it and the Bank on August 25, 1981. The Bank, however, disputes Tala’s ownership “in fee simple” as stated in its

20-year lease contract with Tala as it (the Bank) alleges that there is an implied trust relationship between the Bank as trustor and beneficiary and Tala as trustee. Pursuant to this implied trust, the Bank in April 1994 demanded Tala to perform its obligation as trustee and return the disputed property to the Bank as trustor and beneficiary. The Bank is of the view, therefore, that since it had already sought enforcement of the implied trust and reconveyance of the subject property, the Bank had the right to its possession and Tala did not have a right to eject it from the property.

There is no doubt that the Bank sold the subject property to Tala on August 25, 1981 and that the latter leased the property to the Bank on the same day. The Bank itself admits that it executed the August 25, 1981 contract of sale over the subject property with Tala. Its provisions are clear that the Bank transferred ownership of the subject property to Tala, viz:

“NOW, THEREFORE, for and in consideration of the foregoing premises and of the agreed purchase price of Nine Hundred Seventy Five Thousand Pesos Only (P975,000.00), Philippine Currency, which the VENDEE have (sic) now paid to the VENDOR and receipt whereof in full the VENDOR acknowledged and confessed to its entire and complete satisfaction, the said VENDOR do (sic) hereby SELL, TRANSFER, CEDE, and CONVEY and by these presents have SOLD, TRANSFERRED, CEDED, and CONVEYED absolutely and perpetually, unto the VENDEE, its transferee and assigns, all of its above described properties as free from all liens and encumbrances whatsoever . . .”

With the limitation set by the General Banking Act on the Bank's real estate holdings, the Bank did not have a choice but to transfer ownership of the subject property to Tala. Hence, in the 20-year lease contract which the Bank claims is the valid and genuine lease contract, it is stated that Tala is “the owner in fee simple” of the subject property.

The contemporaneous and subsequent acts of the parties unequivocally show that a genuine sale and lease of the Bulacan property were consummated. The Bank paid advance rentals in the amount of P487,500.00 and monthly rentals of P39,200.00 for the first three months of the lease, i.e., from September to December 1981, as evidenced by the Bank's own Exhibit 13, the official receipt that Tala issued to the Bank for the said amounts.[53] The Bank, however, argues that the sale and lease of the property were not really contemplated by the parties because part of the payment for the purchase price came from the Bank's own payment of advance rentals, and the amortizations of the loan which paid the balance of the purchase price were paid out of the Bank's monthly rentals on the property. In other words, Tala did not really pay for the purchase price as it did not have to shell out a single centavo under the arrangement. Instead, according to the Bank, the arrangement between Tala and the Bank should be understood as a “warehousing agreement” whereby Tala holds the subject property for the Bank.

The Bank's argument fails to support its cause. The application of the advance rentals to the purchase price and the monthly rentals to the loan amortizations does not negate, but even bolsters the conclusion that there was a genuine sale and lease between the Bank and Tala because the arrangement shows that there was in fact valuable consideration for the sale and lease. Simply put, Tala truly had to pay the purchase price for the Bank to sell the subject property to it and the Bank truly had to pay rentals to Tala for its lease. It is of no moment that the purchase price came from the advance and monthly rentals paid by the Bank itself because these amounts were due to Tala as the lessor. As such, it could dispose of the money by applying it to a portion of the purchase price and the amortizations of its loan that covered the balance of the purchase price.

Having established that there was a genuine sale and lease of the disputed property, we now determine which of the two lease contracts - the 20-year contract or 11-year contract - is valid and genuine. Tala claims it is the former while the Bank asserts that it is the latter. This brings us to the other jurisdictional issue of whether or not the MTC of Malolos had jurisdiction to determine the validity of the lease contracts. The MTC of Malolos, RTC

of Malolos and Court of Appeals all ruled that the MTC of Malolos did not have jurisdiction to decide this question of validity as this is an issue incapable of pecuniary estimation cognizable by the Regional Trial Court. We find it unnecessary to settle this jurisdictional issue at this point as this Court has already ruled upon the validity of similar contracts in several cases between the same parties, involving the same issues and set of facts and circumstances, with only the property subject of the lease contracts varying.

Dictated by the doctrine of stare decisis,[54] we adhere to the factual finding of this Court that the 20-year lease contract governs the relationship between the parties and that the 11-year lease contract is spurious in the following cases: *Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank*, G.R. No. 129887, February 17, 2000, penned by Justice Sabino de Leon, Jr.; *Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank*, G.R. No. 137980, June 20, 2000, penned by Justice Consuelo Ynares-Santiago; and *Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank*, G.R. No. 132051, June 25, 2001, penned by Justice Angelina Sandoval-Gutierrez. Following the stare decisis doctrine, the last two cases adhered to and quoted the following conclusion of the first case that the 20-year contract is valid and the 11-year contract is spurious:

“Second. Petitioner Tala Realty insists that its eleven (11)-year lease contract controls. We agree with the MTC and the RTC, however, that the eleven (11)-year contract is a forgery because (1) Teodoro O. Arcenas, then Executive Vice-President of private respondent Banco Filipino, denied having signed the contract; (2) the records of the notary public who notarized the said contract, Atty. Generoso S. Fulgencio, Jr. do not include the said document; and (3) the said contract was never submitted to the Central Bank as required by the latter’s rules and regulations (Rollo, pp. 383-384.).

Clearly, the foregoing circumstances are badges of fraud and simulation that rightly make any court suspicious and wary of imputing any legitimacy and validity to the said lease contract.

Executive Vice-President Arcenas of private respondent Banco Filipino testified that he was responsible for the daily operations of said bank. He denied having signed the eleven (11)-year contract and reasoned that it was not in the interest of Banco Filipino to do so (Rollo, p. 384). That fact was corroborated by Josefina C. Salvador, typist of Banco Filipino’s Legal Department, who allegedly witnessed the said contract and whose initials allegedly appear in all the pages thereof. She disowned the said marginal initials (Id., p. 385).

The Executive Judge of the RTC supervises a notary public by requiring submission to the Office of the Clerk of Court of his monthly notarial report with copies of acknowledged documents thereto attached. Under this procedure and requirement of the Notarial Law, failure to submit such notarial report and copies of acknowledged documents has dire consequences including the possible revocation of the notary’s notarial commission.

The fact that the notary public who notarized petitioner Tala Realty’s alleged eleven (11)-year lease contract did not retain a copy thereof for submission to the Office of the Clerk of Court of the proper RTC militates against the use of said document as a basis to uphold petitioner’s claim. The said alleged eleven (11)-year lease contract was not submitted to the Central Bank whose strict documentation rules must be complied with by banks to ensure their continued good standing. On the contrary, what was submitted to the Central Bank was the twenty-year lease contract.

Granting arguendo that private respondent Banco Filipino deliberately omitted to submit the eleven (11)-year contract to the Central Bank, we do not consider that fact as violative of the *res inter alios acta aliis non nocet* (Section 28, Rule 130, Revised Rules of Court provides, viz.: ‘Sec. 28. Admission by third party - The rights of a party cannot be prejudiced by an act, declaration or omission of another, except as hereinafter provided;’ *Compania General de Tabacos v. Ganson*, 13 Phil. 472, 477 [1909]) rule in evidence. Rather, it is an indication of said contract’s inexistence.

It is not the eleven (11)-year contract but the twenty (20)-year lease contract which is the real and genuine contract between petitioner Tala Realty and private respondent Banco Filipino. Considering that the twenty (20)-year lease contract is still subsisting and will expire in 2001 yet, Banco Filipino is entitled to the possession of the subject premises for as long as it pays the agreed rental and does not violate the other terms and conditions thereof (Art. 1673, New Civil Code)."[55] (emphasis supplied)

In the case at bar, the above-quoted "badges of fraud and simulation that rightly make any court suspicious and wary of imputing any legitimacy and validity to the said lease contract" are also present. The MTC of Malolos found that Teodoro Arcenas, then Executive Vice-President of the Bank at the time the alleged 11-year contract was signed, denied having signed the 11-year contract.[56] Josefina G. Corpuz, then clerk typist in the Bank's legal department also disowned her alleged marginal initials in every page of the contract.[57] The Clerk of Court of the Regional Trial Court of Manila certified that the notarized 11-year contract of lease dated August 26, 1981, allegedly notarized by Rolando C. Salonga, a notary public for the City of Manila, was never reported to that office by the notary public as required by law.[58] The 11-year lease contract was also not submitted to the Central Bank.[59] We find no reason to depart from the finding in the other cases between Tala and the Bank that the 20-year contract is the real and genuine contract between the parties and the 11-year contract is spurious.

In addition, Tala admits that the nine ejectment cases it filed against the Bank with respect to the nine properties it leased to the latter, including the subject property, "involve the same parties-litigants and stemmed from a single chain of events and issues." In collecting unpaid rentals from the Bank, Tala itself invokes the doctrine of stare decisis in inviting this Court's attention to the decisions in G.R. No. 129887, G.R. No. 137980, and G.R. No. 132051, all similarly entitled Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank, holding that "it is the TWENTY (20)-year lease agreement which governs the relations of the parties." [60]

The Bank alleges that the sale and twenty-year lease of the disputed property were part of a larger implied trust "warehousing agreement." Concomitant with this Court's factual finding that the 20-year contract governs the relations between the parties, we find the Bank's allegation of circumstances surrounding its execution worthy of credence; the Bank and Tala entered into contracts of sale and lease back of the disputed property and created an implied trust "warehousing agreement" for the reconveyance of the property. In the eyes of the law, however, this implied trust is inexistent and void for being contrary to law.[61]

A trust is defined as a "fiduciary relationship with respect to property which involves the existence of equitable duties imposed upon the holder of the title to the property to deal with it for the benefit of another. A person who establishes a trust is called the trustor; one in whom confidence is reposed as regards property for the benefit of another is known as the trustee; and the person for whose benefit the trust has been created is referred to as the beneficiary or cestui que trust." [62] In the instant case, the Bank claims to be both the trustor and beneficiary while Tala is the trustee.

Trust is either express or implied. The Bank, in alleging the existence of an implied trust between it and Tala, relies on Articles 1448 and 1453 of the New Civil Code which provide:

"Art. 1448. There is an implied trust when property is sold, and the legal estate is granted to one party but the price is paid by another for the purpose of having the beneficial interest of the property. The former is the trustee, while the latter is the beneficiary. . .

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Art. 1453. When property is conveyed to a person in reliance upon his declared intention to hold it for, or transfer it to another or the grantor, there is an implied trust in favor of the person whose benefit is contemplated." [63]

Implied trusts are either resulting or constructive trusts. *Morales v. Court of Appeals*[64] describes the two, viz:

“Resulting trusts are based on the equitable doctrine that valuable consideration and not legal title determines the equitable title or interest and are presumed always to have been contemplated by the parties. They arise from the nature or circumstances of the consideration involved in a transaction whereby one person thereby becomes invested with legal title but is obliged in equity to hold his legal title for the benefit of another. On the other hand, constructive trusts are created by the construction of equity in order to satisfy the demands of justice and prevent unjust enrichment. They arise contrary to intention against one who, by fraud, duress or abuse of confidence, obtains or holds the legal right to property which he ought not, in equity and good conscience, to hold.”[65]

Both Articles 1448 and 1453 invoked by the Bank are examples of resulting trusts.[66]

An implied trust could not have been formed between the Bank and Tala as this Court has held that “where the purchase is made in violation of an existing statute and in evasion of its express provision, no trust can result in favor of the party who is guilty of the fraud.”[67] In *Ramos v. Court of Appeals*,[68] Lydia Celestino was a Central Bank employee disqualified from owning a lot through the People’s Homesite & Housing Corporation (PHHC) which awarded rights to buy certain parcels of land to employees of the Central Bank. Only those who did not own lots in Quezon City were qualified, but she already owned a residential lot in Quezon City. To circumvent her disqualification, she “purchased” a lot from the PHHC through a qualified Central Bank employee. After Celestino paid the full purchase price of the PHHC-awarded lot and issues arose regarding the ownership of the property, Celestino filed an action for reconveyance to enforce the resulting trust between her and the qualified Central Bank employee based on Article 1448 of the New Civil Code. The Court ruled that the alleged resulting trust was void, viz:

“The inevitable conclusion then is that Lydia Celestino, knowing of her disqualification to acquire a lot from the PHHC at the subdivision reserved for qualified Central Bank employees, tried to get one through the backdoor. Otherwise stated, she wanted to get indirectly that which she could not do so directly. Having acted with evident bad faith, she did not come to court with clean hands when she asked for the reconveyance of the property on the basis of a resulting trust under Article 1448 of the Civil Code.

A resulting trust is an ‘intent-enforcing’ trust, based on a finding by the court that in view of the relationship of the parties their acts express an intent to have a trust, even though they did not use language to that effect. The trust is said to result in law from the acts of the parties. However, if the purpose of the payor of the consideration in having title placed in the name of another was to evade some rule of the common or statute law, the courts will not assist the payor in achieving his improper purpose by enforcing a resultant trust for him in accordance with the ‘clean hands’ doctrine. The court generally refuses to give aid to claims from rights arising out of an illegal transaction, such as where the payor could not lawfully take title to land in his own name and he used the grantee as mere dummy to hold for him and enable him to evade the land laws. . . (George T. Bogert, *Trusts*, sec. 74 [6th ed. 1987]).

Otherwise stated, as an exception to the law on trusts, ‘[a] trust or a provision in the terms of a trust is invalid if the enforcement of the trust or provision would be against public policy, even though its performance does not involve the commission of a criminal or tortuous act by the trustee.’ (Restatement [Second] of Trusts 62 [1959]) The parties must necessarily be subject to the same limitations on allowable stipulations in ordinary contracts, i.e., their stipulations must not be contrary to law, morals, good customs, public order, or public policy (Article 1306, Civil Code). What the parties then cannot expressly provide in their contracts for being contrary to law and public policy, they cannot impliedly or implicitly do so in the guise of a resulting trust.”[69] (emphasis supplied)

Applying the *Ramos* ruling to the case at bar, the Bank cannot use the defense of nor seek enforcement of its

alleged implied trust with Tala since its purpose was contrary to law. As admitted by the Bank, it “warehoused” its branch site holdings to Tala to enable it to pursue its expansion program and purchase new branch sites including its main branch in Makati, and at the same time avoid the real property holdings limit under Sections 25(a) and 34 of the General Banking Act which it had already reached.[70] The Bank stated in its Memorandum that “the (n)ew branch sites which the Respondent (Bank) will be disqualified from buying, by reason of the aforecited limitations under existing banking laws and regulations, will be acquired for it by the Petitioner (Tala) which will forthwith lease them to the Respondent (Bank).”[71] The Bank also admitted that the agreement that the branch sites “will be returned to the bank anytime at its pleasure at the same transfer price” was differently stated in the lease contracts as a “first preference to buy” because the Bank was apprehensive that the agreement to return property, “if spelled out as-is in the documents, might provide basis for the Central Bank to question the sale and simultaneous lease back of the branch sites as simulated and accordingly, derail the expansion program of the Respondent.”[72]

Clearly, the Bank was well aware of the limitations on its real estate holdings under the General Banking Act and that its “warehousing agreement” with Tala was a scheme to circumvent the limitation. Thus, the Bank opted not to put the agreement in writing and call a spade a spade, but instead phrased its right to reconveyance of the subject property at any time as a “first preference to buy” at the “same transfer price.” This arrangement which the Bank claims to be an implied trust is contrary to law. Thus, while we find the sale and lease of the subject property genuine and binding upon the parties, we cannot enforce the implied trust even assuming the parties intended to create it. In the words of the Court in the Ramos case, “the courts will not assist the payor in achieving his improper purpose by enforcing a resultant trust for him in accordance with the ‘clean hands’ doctrine.”[73] The Bank cannot thus demand reconveyance of the property based on its alleged implied trust relationship with Tala.

We now come to the second assignment of error involving the issue of whether or not sufficient grounds exist to eject the Bank from the leased premises. In G.R. No. 137980 and G.R. No. 132051, this Court ruled that there was a ground for ejectment as the Bank failed to pay rent, viz:

“While advance rentals appear to have been made to be applied for the payment of rentals due from the eleventh year to the twentieth year of the lease, to wit-

‘3. That upon the signing and execution of this Contract, the LESSEE shall pay the LESSOR ONE MILLION TWENTY THOUSAND PESOS ONLY (P1,020,000.00) Philippine Currency representing advance rental to be applied on the monthly rental for the period from the eleventh to the twentieth year.’

the records show that such advance rental had already been applied for rent on the property for the period of August, 1985 to November, 1989.

Thus, when respondent stopped paying any rent at all beginning April, 1994, it gave petitioner good ground for instituting ejectment proceedings. We reiterate the ruling in T & C Development Corporation, supra, that if ever petitioner took exception to the unilateral or illegal increase in rental rate, it should not have completely stopped paying rent but should have deposited the original rent amount with the judicial authorities or in a bank in the name of, and with notice to, petitioner. This circumstance, i.e., respondent’s failure to pay rent at the old rate, does not appear in G.R. No. 129887. Thus, while we are bound by the findings of this Court’s Second Division in that case under the principle of stare decisis, the fact that respondent’s failure to pay any rentals beginning April 1994, which provided ground for its ejectment from the premises, justifies our departure from the outcome of G.R. No. 129887. In this case, we uphold petitioner’s right to eject respondent from the leased premises.”[74] (emphasis supplied)

On motion for reconsideration of the decision in G.R. No. 137980, the Bank insisted that it should be excused

from liability as its closure and consequent lack of access to its funds to pay its obligations, including the rentals on the leased premises, was a fortuitous event. In its Resolution,[75] the Court ruled on this issue, viz:

“Granting, without conceding, that liability should not lie with respondent for unpaid rentals on the leased premises while it was under control of the Central Bank, this matter is not an issue in the instant case, where the subject matter is merely ejectment. As the lessee of the premises, respondent had the exclusive obligation to settle any unpaid rentals. Petitioner dealt directly with respondent, and therefore had the right to enforce the lease contract against respondent only. Any right of action that respondent may have against the Central Bank is a matter that can be best ventilated in the proper forum.”[76]

A close scrutiny of the facts of the case at bar compels us to arrive at a conclusion different from the resolution of the motion for reconsideration of the decision in G.R. No. 137980. The question of whether the Bank was liable to pay rents at the time it was arbitrarily closed by the Central Bank is decisive of the issue of ejectment on the ground of non-payment of rent.

Equity dictates that Tala should not be allowed to collect rent from the Bank. The factual milieu of the instant case clearly shows that both the Bank and Tala participated in the deceptive creation of a trust to circumvent the real estate investment limit under Sections 25(a) and 34 of the General Banking Act. Upholding Tala’s right to collect rent for the period during which the Bank was arbitrarily closed would allow Tala to benefit from the illegal “warehousing agreement.” This would result in the application of the Bank’s advance rentals covering the eleventh to the twentieth years of the lease, to the rentals due for the period during which the Bank was arbitrarily closed. With the advance rentals already used up, and the Bank having stopped payment of rent on the thirteenth year of the lease or in April 1994, rentals would be due Tala from the time the Bank stopped paying rent in April 1994 up to the expiration of the lease period. Just as the Bank should not be allowed to benefit from its deceptive “warehousing agreement,” Tala should also not benefit from the arrangement as it was the Bank’s major stockholders that proposed the arrangement and incorporated Tala. Tala committed deception by participating in the “warehousing agreement,” and committed another deception when it turned the tables on the Bank and denied the arrangement. Allowing Tala to further benefit from the “warehousing agreement” is unconscionable, to say the least.

The Bank and Tala are in *pari delicto*, thus, no affirmative relief should be given to one against the other.[77] The Bank should not be allowed to dispute the sale of its lands to Tala nor should Tala be allowed to further collect rent from the Bank. The clean hands doctrine will not allow the creation or the use of a juridical relation such as a trust to subvert, directly or indirectly, the law.[78] Neither the Bank nor Tala came to court with clean hands; neither will obtain relief from the court as one who seeks equity and justice must come to court with clean hands.[79] By not allowing Tala to collect from the Bank rent for the period during which the latter was arbitrarily closed, both Tala and the Bank will be left where they are, each paying the price for its deception.

In hindsight, the payment of rent on the subject Bulacan property covering the period August 1985 to November 1989 by the Bank’s liquidator and the lawyer of the latter was a payment by mistake because as a matter of equity, Tala did not have the right to collect nor did the Bank have the corresponding obligation to pay rent for the period of its arbitrary closure. Tala thus holds in trust for the Bank the erroneous payment made by the Bank’s liquidator pursuant to Article 1456 of the New Civil Code, which provides:

“Art. 1456. If property is acquired through mistake or fraud, the person obtaining it is, by force of law, considered a trustee of an implied trust for the benefit of the person from whom the property comes.”

Consequently, we rule that the advance rentals paid by the Bank for the period covering the eleventh to the twentieth year of the 20-year lease contract, i.e., from 1992 to 2001, subsist as advance rentals and should not have been applied to the payment of rentals on the Bulacan property for the period covering August 1985 to

November 1989 during which the Bank was arbitrarily closed. If at all, Tala should seek remedy for its loss from the Central Bank which caused the Bank's arbitrary closure and not from the Bank which was itself a victim of the arbitrary act of government.

In sum, there is no ground for ejectment in the case at bar at the time the ejectment suit was instituted in the MTC of Malolos, whether on the ground of expiration of the lease contract or non-payment of rent. We note, however, that by this time, the lease contract over the subject Bulacan property executed between Tala and the Bank on August 25, 1981, which stipulated a twenty-year lease period beginning September 1, 1981 already expired in August 2001. In the absence of renewal or extension of the lease contract, Tala has the right to eject the Bank from the subject Bulacan property on the ground of expiration of the contract.

WHEREFORE, the petition is dismissed. Costs against petitioner.

SO ORDERED.

Davide, Jr., C.J., Bellosillo, Vitug, Mendoza, Quisumbing, Ynares-Santiago, Sandoval-Gutierrez, Carpio, Austria-Martinez, Carpio Morales, Callejo, Sr., and Azcuna, JJ., concur.

Panganiban, J., no part. Former counsel of a party.

Corona, J., on official leave.

[1] Rollo, pp. 103-104; Original Records, vol. 1, pp. 31-34; Deed of Absolute Sale over the Malolos, Bulacan property.

[2] Rollo, pp. 180-184; Original Records, vol. 1, pp. 35-39.

[3] Rollo, pp. 185-189.

[4] Id., p. 161.

[5] Id., p. 164.

[6] Id., p. 166.

[7] Id., p. 165.

[8] Id., p. 170.

[9] Id., pp. 171-172.

[10] Id., p. 518.

[11] Id., pp. 51-52.

[12] Id., p. 53.

[13] Id., p. 519; Original Records, vol. 2, pp. 336-347.

[14] Rollo, p. 519.

[15] Id., pp. 38-42.

[16] Id., p. 173.

[17] Id., pp. 175-176.

[18] Id., pp. 177-178.

[19] Id., p. 176.

[20] Id., p. 518.

[21] Id., pp. 190-194; Original Records, vol. 1, pp. 164-170, Tala Realty Services Corporation Articles of Incorporation.

[22] Rollo, pp. 190-194; Original Records, vol. 1, pp. 164-170.

[23] Rollo, pp. 103-104, 282; Original Records, vol. 2, pp. 161-163, Minutes of Meeting No. 8 of the Board of Directors of Banco Filipino Savings and Mortgage Bank dated August 18, 1981.

[24] Rollo, p. 56.

[25] Ibid.

[26] Id., pp. 195-197, 419; Original Records, vol. 2, pp. 148-154, Affidavit of Tomas Aguirre; Original Records, vol. 4, pp. 78-80, Affidavit of Evelyn Yap; Original Records, vol. 4, pp. 54-58, Affidavit of Teodoro Arcenas, Jr.; Original Records, vol. 4, pp. 60-62, Affidavit of Fortunato Dizon; Original Records, vol. 4, pp. 64-66, Affidavit of Delfin Dimagiba.

[27] Rollo, p. 419; Exhibits 4, 4-A to 4-J; Original Records, vol. 2, pp. 61-107, similar Deeds of Absolute Sale over the properties in Bulacan, Sta. Cruz (Manila), Malabon, Marikina, Iloilo, La Union, Lucena, Pangasinan, Davao, Binondo (Manila), Cabanatuan.

[28] Rollo, p. 181; Twenty-year Contract of Lease, p. 2; Original Records, vol. 2, pp. 109-163, similar Contracts of Lease over the properties in Bulacan, Sta. Cruz (Manila), Malabon, Marikina, Iloilo, La Union, Lucena, Pangasinan, Davao, Binondo (Manila), Cabanatuan.

[29] Rollo, p. 182; the Twenty-year Contract of Lease provides in Stipulation 14:

“14. That should the LESSOR in the future decide to sell the leased premises, the LESSEE shall have the first preference to buy the same if it so desires.”

[30] Rollo, p. 420; Original Records, vol. 4, pp. 54-58, Affidavit of Teodoro Arcenas, Jr.; Original Records, vol. 1, pp. 148-154, Affidavit of Tomas Aguirre; Supplemental Memorandum for the Respondent, pp. 10-12.

[31] Rollo, pp. 418, 477; Court of Appeals Rollo, pp. 469-470, 480-481; Original Records, vol. 2, pp. 56-59; Exhibits 3 and 3-A.

[32] Rollo, p. 420; Original Records, vol. 4, pp. 197-249, Exhibits 1, 5, 5-A to 5-J.

[33] Original Records, vol. 4, p. 530.

[34] 204 SCRA 767 (1991); Original Records, vol. 2, pp. 224-277, Exhibit 9.

[35] Rollo, p. 421.

[36] Original Records, vol. 2, pp. 280-281.

[37] Rollo, p. 422.

[38] Rollo, pp. 324, 327-328, 423; Original Records, vol. 4, p. 369, Exhibit 11.

[39] Rollo, p. 423; Original Records, vol. 4, p. 371; Exhibit 12.

[40] Rollo, pp. 408-409.

[41] Rollo, pp. 247-250.

[42] Court of Appeals Rollo, pp. 386-387.

[43] Rollo, pp. 262-264.

[44] Id., p. 15.

[45] Id., pp. 262-263, 431-432; Court of Appeals Decision, pp. 4-5.

[46] Rollo, pp. 78-79.

[47] Rollo, pp. 249-250; MTC Decision, pp. 5-6.

[48] Yulienco v. Court of Appeals, 308 SCRA 206 (1999).

[49] Carandang v. Venturanza, 133 SCRA 345 (1984).

[50] Arcal v. Court of Appeals, 285 SCRA 34 (1998), citing Wilman Auto Supply Coporation, et al. v. Court of Appeals, et al., 208 SCRA 108 (1992); Dante v. Sison, 174 SCRA 517 (1989).

[51] Original Records, vol. 1, pp. 278-286, SEC Decision of the Commission en banc dated March 6, 1995.

[52] Heirs of Placido Miranda v. Court of Appeals, 255 SCRA 368 (1996), citing Buazon v. Court of Appeals, 220 SCRA 182 (1993); San Pedro v. Court of Appeals, 235 SCRA 145 (1994).

[53] Original Records, vol. 4, p. 530.

[54] Negros Navigation Co., Inc. v. Court of Appeals, 281 SCRA 534 (1997).

[55] Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank, G.R. No. 129887, February 17, 2000, pp. 6-8; Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank, G.R. No. 137980, June 20, 2000, pp. 5-6; Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank, G.R. No. 132051, June 25, 2000, pp. 7-8.

[56] Rollo, pp. 190-194.

[57] Id., pp. 198-199, Original Records, vol. 4, pp. 85-87.

[58] Rollo, pp. 189, 248; Original Records, vol. 1, p. 480, Exhibit 15 of the Bank's Position Paper.

[59] Rollo, p. 248.

[60] Id., pp. 600-602, 639.

[61] Article 1409 of the New Civil Code provides in relevant part, viz:

“Art. 1409. The following contracts are inexistent and void from the beginning:

(1) Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy; x x x.”

[62] Huang v. Court of Appeals, et al., 236 SCRA 420 (1994), citing Tolentino, Arturo M., Commentaries and Jurisprudence on the Civil Code of the Philippines, 1991, p. 669 and Article 1440, New Civil Code.

[63] Rollo, pp. 327-328; Comment, pp. 59-60.

[64] 274 SCRA 282 (1997).

[65] *Id.*, p. 298, citing *Huang v. Court of Appeals*, *supra*; *Vda. de Esconde v. Court of Appeals*, 253 SCRA 66, 73-74 (1996).

[66] *O'Laco, et al. v. Co Cho Chit, et al.*, 220 SCRA 656 (1993).

[67] *Morales v. Court of Appeals*, *supra*, p. 299, citing 4 Tolentino 679-680.

[68] 232 SCRA 348 (1994).

[69] *Ramos v. Court of Appeals*, *supra*, pp. 361-362.

[70] *Rollo*, p. 55.

[71] *Id.*, p. 419.

[72] *Id.*, pp. 419-420.

[73] *Ramos v. Court of Appeals*, *supra*.

[74] *Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank*, G.R. No. 137980, June 20, 2000, pp. 8-9; *Tala Realty Services Corporation v. Banco Filipino Savings and Mortgage Bank*, G.R. No. 132051, June 25, 2001, pp. 10-11.

[75] *Tala Realty Services Corp. v. Banco Filipino Savings and Mortgage Bank*, 344 SCRA 793 (2000).

[76] *Id.*, pp. 795-796.

[77] *Silagan v. Intermediate Appellate Court, et al.*, 196 SCRA 774 (1991).

[78] *Heirs of Lorenzo Yap, et al. v. Court of Appeals, et al.*, 312 SCRA 603 (1999).

[79] *Roque v. Lapuz, et al.*, 96 SCRA 741 (1980).

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