

SECOND DIVISION

[G.R. No. 190512, June 20, 2018]

D.M. RAGASA ENTERPRISES, INC., PETITIONER, V. BANCO DE ORO, INC. (FORMERLY EQUITABLE PCI BANK, INC.), RESPONDENT.

DECISION

CAGUIOA, J:

Before the Court is a Petition for Review^[1] on *Certiorari* (Petition) under Rule 45 of the Rules of Court (Rules) filed by petitioner D.M. Ragasa Enterprises, Inc., (Ragasa) against respondent Banco de Oro, Inc.,^[2] formerly Equitable PCI Bank, Inc. (bank), assailing the Decision^[3] dated March 27, 2009 (questioned Decision) and Resolution^[4] dated November 25, 2009, both of the Court of Appeals (CA) Special Thirteenth (13th) Division and Former Special Thirteenth Division, respectively, in CA-G.R. CV. No. 88322.

The CA reversed and set aside the rulings in favor of Ragasa of the Regional Trial Court (RTC) of Quezon City, Branch 216, in its Decision dated April 4, 2006^[5] and Order dated October 3, 2006^[6] (denying the corresponding Motion for Reconsideration) in Civil Case No. Q-02-46341.

The Facts

On January 30, 1998, Ragasa and then Equitable Banking Corporation (Equitable Bank) executed a Contract of Lease^[7] (Lease Contract), as lessor and lessee, respectively, over the ground and second floors of a commercial building located at 175 Tomas Morato Avenue corner Scout Castor, Quezon City (subject premises), for a period of five years, commencing on February 1, 1998^[8] up to January 31, 2003^[9], with a monthly rental of P122,607.00.^[10] The pertinent provisions of the Lease Contract state, *viz.*:

2. The TERM of this Lease shall be for a period of five (5) years, commencing on February 1, 1998. x x x

3. The TENANT shall pay a monthly rental of ONE HUNDRED TWENTY TWO THOUSAND SIX HUNDRED SEVEN (122,607) pesos based on P463.16 per square meter per month inclusive of Value Added Tax and withholding tax and payable in advance in the first five days of the month, that is 1st to 5th of every month. An annual increase of 10% shall be applied during the term of the lease.

4. The failure to pay two consecutive monthly rentals within the first five (5) days of any month, as stated in No. 3, shall automatically terminate this Contract, without need of any further notice to the TENANT. The

LESSOR is hereby authorized, and has the right to show the premises to prospective tenants, and within five (5) days following the last day of the grace period stated in No. 3, the TENANT shall vacate the premises without the need of the usual judicial proceedings, and/or the LESSOR shall padlock the premises until the TENANT settles his obligations. The TENANT agrees to this padlocking as a sign of his good faith in his compliance with No. 3 of this Contract and the LESSOR is not liable or answerable for any damage that the TENANT may incur or suffer due to his non-entrance to the premises, or the LESSOR may confiscate any property found in the premises equivalent to the unpaid rental, penalty, and interests thereto, as guaranty and/or pledge, and can be retrieved anytime upon full payment of his accounts but must not be for more than three (3) months from the date of default [;] otherwise, the confiscated property or properties shall become permanently owned by the LESSOR as partial payment of his unpaid rentals, penalties and interests, and in case of any unpaid balance, the TENANT is still liable.

x x x x

7. The parties hereby covenant and agree upon the signing of this Contract of Lease that [the] TENANT shall pay to the LESSOR or his representative, the amount of SEVEN HUNDRED THIRTY FIVE THOUSAND SIX HUNDRED FORTY TWO (P735,642) pesos, Philippine Currency, P367,821 as three months advanced rental, and P367,821 as three months deposit, which deposit shall be refunded to the TENANT only upon termination of this Lease, that is, after expiration of the lease, paid occupancy of the said premises, and after vacating the same and also after deducting the unpaid water bills[,] if any, electric bills, extraordinary wear and tear of the premises, losses and breakages of the premises, and other damages sustained by the LESSOR.

8. The TENANT voluntarily binds himself and agrees to the following without any coercion or force by the LESSOR;

x x x x

m) The full deposit shall be forfeited in favor of the LESSOR upon non-compliance of the Term of the Contract of Lease by the TENANT, and cannot be applied to Rental;

n) To pay a penalty of 3% of the monthly rental, for every month of delay of payment of the monthly rental, [with] a fraction of the month x x x considered [as] one month;

p) Breach or non-compliance of any of the provisions of this Contract, especially non-payment of two consecutive monthly rentals on time, shall mean the termination of this Contract, and within five (5) days from the date of breach, non-compliance, or default, the TENANT shall vacate the premises quietly and peacefully without need of the required judicial proceedings. If he does not vacate the premises, the TENANT has agreed that the LESSOR has no liability whatsoever due to the padlocking of the same;

x x x x

10. In the event that a Court Litigation has been resorted to by the LESSOR or LESSEE, due to non-compliance of any of the foregoing provisions, the aggrieved party shall be paid by the other party, no less than fifteen thousand (P15,000) pesos, Philippine Currency, for Attorney's fees, and other damages that the honorable court may allow; the cost of litigations shall be born[e] or paid by the party in fault, or in default. All unpaid accounts and obligations of the TENANT shall earn interest or bear interest at the rate of 14% per annum or at the allowable rate of interest from the date of default. The legal suits shall be brought in the town of Quezon City.^[11]

Pursuant to the Lease Contract, Equitable Bank paid the amounts of P367,821.00 representing three months advance rentals, and P367,821.00 representing three months rentals as security deposit.^[12]

Meanwhile, Equitable Bank entered into a merger with Philippine Commercial International Bank (PCI Bank) thereby forming Equitable PCI Bank, Inc.^[13] The latter would eventually, pending the present case, merge with Banco de Oro, Inc. to form the respondent bank.^[14]

As a result of the merger, the bank closed and joined the branches of its constituent banks which were in close proximity with each other as maintaining said branches would be impractical.^[15] One of the branches which had to be closed is the branch located in the subject premises.^[16]

For this reason, the bank sent a notice dated May 28, 2001, informing Ragasa that the former was pre-terminating their Lease Contract effective June 30, 2001 (Notice of Pre-termination)^[17]. Ragasa responded with a demand letter dated June 20, 2001^[18] for payment of monthly rentals for the remaining term of the Lease Contract from July 1, 2001 to January 31, 2003 totaling P3,146,596.42, inasmuch as there is no express provision in the Lease Contract allowing pre-termination.^[19] The bank countered, through a letter dated June 26, 2001,^[20] that its only liability for pre-terminating the contract is the forfeiture of its security deposit pursuant to item 8(m) of the Lease Contract.^[21] On June 30, 2001, the bank vacated the subject premises without heeding Ragasa's demand for payment.

After sending two more reiterative demand letters,^[22] which were both ignored by the bank, Ragasa finally filed on March 11, 2002 with the RTC the Complaint for Collection of Sum of Money (amounting to P3,146,596.42 representing the monthly rentals under the Lease Contract for the period July 1, 2001 to January 31, 2003) and Damages. Ragasa argued that under the Lease Contract, the forfeiture of the bank's security deposit does not exempt it from payment of the rentals for the remaining term of the lease because the bank's act of pre-terminating the contract was a major breach of its terms. Moreover, item 8(m) expressly provides that the security deposit shall not be applied to the rentals.

In its Answer filed on April 26, 2002, the bank argued, in gist, that item 8(m) of the Lease Contract is actually a penalty clause which, in line with Article 1226^[23] of the Civil Code, takes the place of damages and interests in case of breach. Hence, for breaching the Lease Contract by pre-terminating the same, the bank is liable to forfeit its security deposit in favor of Ragasa but would not be liable for rentals

corresponding to the remaining life of the Contract. Moreover, the bank is not liable for the penalty at the rate of 3% under item 8(n) of the Lease Contract because the bank paid the due rentals up to the time it pre-terminated the same.^[24]

Ruling of the RTC

The RTC ruled in Ragasa's favor in a Decision dated April 4, 2006, the dispositive portion of which reads:

WHEREFORE, the Court finds that plaintiff has established its case against defendant by preponderance of evidence and judgment is hereby rendered ordering defendant Equitable PCI Bank, Inc. to pay plaintiff the following:

1. The amount of Php 3,146,596.42 Philippine Currency, representing the monthly rentals from July 1, 2001 to January 31, 2003;
2. A penalty of 3% of the monthly rental for every month of delay;
3. An interest of 14% per annum on the full amount due until fully paid;
4. Attorney's fees in the amount of Php 30,000.00; and
5. Costs of litigation.

Defendant's Counterclaim is dismissed.

SO ORDERED.^[25]

The RTC held that the bank may not unilaterally pre-terminate the Lease Contract; hence, it is still liable to pay the rentals for the remaining duration of the said contract. Likewise, in addition to item 8(m) of the Lease Contract providing for the forfeiture of the bank's security deposit, item 8(n), another penalty clause providing for additional 3% of the monthly rental for each month of delay in payment, also applies. Finally, pursuant to Section 10, an interest of 14% per annum on the amount due was awarded.

The bank filed a Motion for Reconsideration which was denied by the RTC in its Order dated October 3, 2006.^[26]

On October 23, 2006, the bank filed a Notice of Appeal to the CA, arguing that the Lease Contract was automatically terminated by the act of the bank in pre-terminating the lease or based on the provisions of the Lease Contract, and that upon termination of the lease, the bank has been released from its future contractual obligations including the payment of "future rentals."^[27]

Ruling of the CA

In the questioned Decision dated March 27, 2009, the CA granted the bank's appeal and reversed and set aside the RTC's ruling, disposing of the case as follows:

WHEREFORE, the appeal is hereby GRANTED. The ruling of the trial court is hereby REVERSED and SET ASIDE. The complaint is dismissed for lack

of legal basis.

SO ORDERED.^[28]

The CA ruled that the bank's failure to continue the Lease Contract until its expiration constituted a breach of its provision. As such, the Lease Contract was automatically terminated by virtue of item 8(p) thereof providing for its outright termination in case of breach of any of its provisions. Hence, there is no legal basis to hold the bank liable for payment of rentals for the unexpired period of the contract. However, the bank is liable to forfeit its security deposit pursuant to the penalty clause under item 8(m) of the contract. The CA ruled that to allow Ragasa to collect the value of the unexpired term of the lease plus penalty would constitute unjust enrichment.

Ragasa filed a Motion for Reconsideration of the questioned Decision, which the CA denied for lack of merit, in its Resolution dated November 25, 2009.^[29]

Refusing to concede, Ragasa filed the present Petition on January 21, 2010 raising four main issues, namely:

Issues

1.) WHETHER OR NOT THE COURT OF APPEALS SERIOUSLY ERRED IN LAW IN GRANTING THE APPEAL OF RESPONDENT BANK AND IN DENYING THE MOTION FOR RECONSIDERATION OF THE PETITIONER WHICH IS CONTRARY TO ARTICLES 1170 AND 1308 OF THE NEW CIVIL CODE[.]

2.) WHETHER OR NOT THE COURT OF APPEALS SERIOUSLY ERRED IN LAW IN RULING THAT THE PENALTY CLAUSE APPLICABLE IN THE CASE IS ITEM NO. 8(m) OF THE CONTRACT, AND NOT ITEM 8(n) OF THE SAME CONTRACT[.]

3.) WHETHER OR NOT THE COURT OF APPEALS SERIOUSLY ERRED IN LAW IN RULING THAT THE SUBJECT CONTRACT HAD BEEN TERMINATED[.]

4.) WHETHER OR NOT THE COURT OF APPEALS SERIOUSLY ERRED IN LAW IN RULING THAT THE PETITIONER IS GUILTY OF UNJUST ENRICHMENT[.]^[30]

The fundamental issue that the Court is called upon to resolve is: What is the liability of the bank, if any, for its act of pre-terminating the Lease Contract?

At the outset, it is well to remember that a contract is the law between the parties.^[31] Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.^[32] The parties are allowed by law^[33] to enter into stipulations, clauses, terms and conditions they may deem convenient which bind the parties as long as they are not contrary to law, morals, good customs, public order or public policy.^[34]

The pertinent provisions of the Lease Contract are as follows:

2. The TERM of this Lease shall be for a period of five (5) years, commencing on February 1, 1998. x x x