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# FIRST DIVISION

# [ G.R. NO. 142618, July 12, 2007 ]

## PCI LEASING AND FINANCE, INC., PETITIONER, VS. GIRAFFE-X CREATIVE IMAGING, INC., RESPONDENT.

## D E C I S I O N

**GARCIA, J.:**

On a pure question of law involving the application of Republic Act (R.A.) No. 5980, as amended by R.A. No. 8556, in relation to Articles 1484 and 1485 of the Civil Code, petitioner PCI Leasing and Finance, Inc. (PCI LEASING, for short) has directly come to this Court *via* this petition for review under Rule 45 of the Rules of Court to nullify and set aside the Decision and Resolution dated December 28, 1998 and February 15, 2000, respectively, of the Regional Trial Court (RTC) of Quezon City, Branch 227, in its *Civil Case No. Q-98-34266*, a suit for a sum of money and/or personal property with prayer for a writ of replevin, thereat instituted by the petitioner against the herein respondent, Giraffe-X Creative Imaging, Inc. (GIRAFFE, for brevity).

The facts:

On December 4, 1996, petitioner PCI LEASING and respondent GIRAFFE entered into a *Lease Agreement*,[1] whereby the former leased out to the latter one (1) set of *Silicon High Impact Graphics and accessories* worth P3,900,00.00 and one (1) unit of *Oxberry Cinescan 6400-10* worth P6,500,000.00. In connection with this agreement, the parties subsequently signed two (2) separate documents, each denominated as L*ease Schedule.*[2] Likewise forming parts of the basic lease agreement were two (2) separate documents denominated *Disclosure Statements of Loan/Credit Transaction (Single Payment or Installment Plan)*[3] that GIRAFFE also executed for each of the leased equipment. These disclosure statements inter alia described GIRAFFE, *vis-à-vis* the two aforementioned equipment, as the "borrower" who acknowledged the *"net proceeds of the loan,"* the "*net amount to be financed,"* the "financial charges," the "total installment payments" that it must pay monthly for thirty-six (36) months, exclusive of the 36% per annum *"late payment charges."* Thus, for the *Silicon High Impact Graphics*, GIRAFFE agreed to pay P116,878.21 monthly, and for *Oxberry Cinescan,* P181.362.00 monthly. Hence, the total amount GIRAFFE has to pay PCI LEASING for 36 months of the lease, exclusive of monetary penalties imposable, if proper, is as indicated below:

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|---|---|
| P116,878.21 @ month (for the Silicon High mpact Graphics) x 36 months | =P4,207,615.56 |

-- PLUS--

| | |
|---|---|
| P181,362.00 @ month (for the *Oxberry Cinescan*) x 36 months | =P6,529,032.00 |
| Total Amount to be paid by GIRAFFE (or the *NET CONTRACT AMOUNT*) | P10,736,647.56 |

By the terms, too, of the *Lease Agreement*, GIRAFFE undertook to remit the amount of P3,120,000.00 by way of *"guaranty deposit,"* a sort of performance and compliance bond for the two equipment. Furthermore, the same agreement embodied a standard acceleration clause, operative in the event GIRAFFE fails to pay any rental and/or other accounts due.

A year into the life of the Lease Agreement, GIRAFFE defaulted in its monthly rental-payment obligations. And following a three-month default, PCI LEASING, through one Atty. Florecita R. Gonzales, addressed a formal pay-or-surrender-equipment type of demand letter[4] dated February 24, 1998 to GIRAFFE.

The demand went unheeded.

Hence, on May 4, 1998, in the RTC of Quezon City, PCI LEASING instituted the instant case against GIRAFFE. In its complaint,[5] docketed in said court as *Civil Case No. 98-34266* and raffled to Branch 227[6] thereof, PCI LEASING prayed for the issuance of a writ of replevin for the recovery of the leased property, in addition to the following relief:

> 2. After trial, judgment be rendered in favor of plaintiff [PCI LEASING] and against the defendant [GIRAFFE], as follows:
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> a. Declaring the plaintiff entitled to the possession of the subject properties;
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> b. Ordering the defendant to pay the balance of rental/obligation in the total amount of P8,248,657.47 inclusive of interest and charges thereon;
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> c. Ordering defendant to pay plaintiff the expenses of litigation and cost of suit . . . (Words in bracket added.)

Upon PCI LEASING's posting of a replevin bond, the trial court issued a writ of replevin, paving the way for PCI LEASING to secure the seizure and delivery of the equipment covered by the basic lease agreement.

Instead of an answer, GIRAFFE, as defendant *a quo,* filed a *Motion to Dismiss*, therein arguing that the seizure of the two (2) leased equipment stripped PCI LEASING of its cause of action. Expounding on the point, GIRAFFE argues that, pursuant to Article 1484 of the Civil Code on installment sales of personal property, PCI LEASING is barred from further pursuing any claim arising from the lease agreement and the companion contract documents, adding that the agreement between the parties is in reality a lease of movables with option to buy. The given situation, GIRAFFE continues, squarely brings into applicable play Articles 1484 and

1485 of the Civil Code, commonly referred to as the *Recto Law*. The cited articles respectively provide:

> ART. 1484. In a contract of sale of personal property the price of which is payable in installments, the vendor may exercise any of the following remedies:
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> (1) Exact fulfillment of the obligation, should the vendee fail to pay;
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> (2) Cancel the sale, should the vendee's failure to pay cover two or more installments;
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> (3) **Foreclose the chattel mortgage on the thing sold, if one has been constituted**, should the vendee's failure to pay cover two or more installments. In this case, he shall have **no further action against the purchaser to recover any unpaid balance of the price**. Any agreement to the contrary shall be void. (Emphasis added.)
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> ART. 1485. The preceding article shall be applied to contracts purporting to be leases of personal property with option to buy, when the lessor has deprived the lessee of the possession or enjoyment of the thing.

It is thus GIRAFFE's posture that the aforequoted Article 1484 of the Civil Code applies to its contractual relation with PCI LEASING because the lease agreement in question, as supplemented by the schedules documents, is really a **lease with option** to buy under the companion article, Article 1485. Consequently, so GIRAFFE argues, upon the seizure of the leased equipment pursuant to the writ of replevin, which seizure is equivalent to foreclosure, PCI LEASING has no further recourse against it. In brief, GIRAFFE asserts in its Motion to Dismiss that the civil complaint filed by PCI LEASING is proscribed by the application to the case of Articles 1484 and 1485, supra, of the Civil Code.

In its **Opposition** to the motion to dismiss, PCI LEASING maintains that its contract with GIRAFFE is a *straight lease without an option to buy*. Prescinding therefrom, PCI LEASING rejects the applicability to the suit of Article 1484 in relation to Article 1485 of the Civil Code, claiming that, under the terms and conditions of the basic agreement, the relationship between the parties is one between an ordinary lessor and an ordinary lessee.

In a decision[7] dated December 28, 1998, the trial court granted GIRAFFE's motion to dismiss mainly on the interplay of the following premises: 1) the lease agreement package, as memorialized in the contract documents, is akin to the contract contemplated in Article 1485 of the Civil Code, and 2) GIRAFFE's loss of possession of the leased equipment consequent to the enforcement of the writ of replevin is "akin to foreclosure, " the condition precedent for application of Articles 1484 and 1485 [of the Civil Code]." Accordingly, the trial court dismissed Civil Case No. Q-98-34266, disposing as follows:

> WHEREFORE, premises considered, the defendant [GIRAFFE] having relinquished any claim to the personal properties subject of replevin which are now in the possession of the plaintiff [PCI LEASING], plaintiff is DEEMED fully satisfied pursuant to the provisions of Articles 1484 and

> 1485 of the New Civil Code. By virtue of said provisions, plaintiff is DEEMED estopped from further action against the defendant, the plaintiff having recovered thru (replevin) the personal property sought to be payable/leased on installments, defendants being under protection of said RECTO LAW. In view thereof, this case is hereby DISMISSED.

With its motion for reconsideration having been denied by the trial court in its resolution of February 15, 2000,[8] petitioner has directly come to this Court *via* this petition for review raising the sole legal issue of whether or not the underlying Lease Agreement, Lease Schedules and the Disclosure Statements that embody the financial leasing arrangement between the parties are covered by and subject to the consequences of Articles 1484 and 1485 of the New Civil Code.

As in the court below, petitioner contends that the financial leasing arrangement it concluded with the respondent represents a straight lease covered by R.A. No. 5980, the *Financing Company Act*, as last amended by R.A. No. 8556, otherwise known as *Financing Company Act of 1998,* and is outside the application and coverage of the *Recto Law.* To the petitioner, R.A. No. 5980 defines and authorizes its existence and business.

The recourse is without merit.

R.A. No. 5980, in its original shape and as amended, partakes of a supervisory or regulatory legislation, merely providing a regulatory framework for the organization, registration, and regulation of the operations of financing companies. As couched, it does not specifically define the rights and obligations of parties to a financial leasing arrangement. In fact, it does not go beyond defining commercial or transactional financial leasing and other financial leasing concepts. Thus, the relevancy of Article 18 of the Civil Code which reads:

Article 18. - In matters which are governed by . . . special laws, their deficiency shall be supplied by the provisions of this [Civil] Code.

Petitioner foists the argument that the *Recto Law, i.e.,* the Civil Code provisions on installment sales of movable property, does not apply to a financial leasing agreement because such agreement, by definition, does not confer on the lessee the option to buy the property subject of the financial lease. To the petitioner, the absence of an option-to-buy stipulation in a financial leasing agreement, as understood under R.A. No. 8556, prevents the application thereto of Articles 1484 and 1485 of the Civil Code.

We are not persuaded.

The Court can allow that the underlying lease agreement has the earmarks or made to appear as a *financial leasing*,[9] a term defined in Section 3(d) of R.A. No. 8556 as -

> a mode of extending credit through a non-cancelable lease contract under which the lessor purchases or acquires, at the instance of the lessee, machinery, equipment, . . . office machines, and other movable or immovable property in consideration of the periodic payment by the lessee of a fixed amount of money sufficient to amortize at least seventy

(70%) of the purchase price or acquisition cost, including any incidental expenses and a margin of profit over an obligatory period of not less than two (2) years during which the lessee has the right to hold and use the leased property . . . but with no obligation or option on his part to purchase the leased property from the owner-lessor at the end of the lease contract.

In its previous holdings, however, the Court, taking into account the following mix: the imperatives of equity, the contractual stipulations in question and the actuations of parties vis-à-vis their contract, treated disguised transactions technically tagged as financing lease, like here, as creating a different contractual relationship. Notable among the Court's decisions because of its parallelism with this case is *BA Finance Corporation v. Court of Appeals*[10] which involved a motor vehicle. Thereat, the Court has treated a purported financial lease as actually a sale of a movable property on installments and prevented recovery beyond the buyer's arrearages. Wrote the Court in *BA Finance:*

> **The transaction** involved **... 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**. xxx.
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> The pertinent provisions of [RA] 5980, thus implemented, read:
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> "'Financing companies,' ... are primarily organized for the purpose of extending credit facilities to consumers ... either by ... leasing of motor vehicles, ... and office machines and equipment, ... and other movable property."
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> "'Credit' shall mean any loan, ... any contract to sell, or sale or contract of sale of property or service, ... under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; .....;"

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, xxx. **[T]he term of the contract** [over a motor vehicle] was for thirty six (36) months at a "monthly rental" ... (P1,689.40), or for a total amount of P60,821.28. The contract also contained [a] clause [requiring the Lessee to give a guaranty deposit in the amount of P20,800.00] xxx

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