

## SECOND DIVISION

[ G.R. No. 181398, June 29, 2011 ]

**FEB LEASING AND FINANCE CORPORATION (NOW BPI LEASING CORPORATION), PETITIONER, VS. SPOUSES SERGIO P. BAYLON AND MARITESS VILLENA-BAYLON, BG HAULER, INC., AND MANUEL Y. ESTILLOSO, RESPONDENTS.**

### DECISION

**CARPIO, J.:**

#### The Case

This is a petition for review on certiorari<sup>[1]</sup> of the 9 October 2007 Decision<sup>[2]</sup> and the 18 January 2008 Resolution<sup>[3]</sup> of the Court of Appeals in CA-G.R. CV No. 81446. The 9 October 2007 Decision affirmed the 30 October 2003 Decision<sup>[4]</sup> of the Regional Trial Court (Branch 35) of Gapan City in Civil Case No. 2334 ordering petitioner to pay respondents damages. The 18 January 2008 Resolution denied petitioner's motion for reconsideration.

#### The Facts

On 2 September 2000, an Isuzu oil tanker running along Del Monte Avenue in Quezon City and bearing plate number TDY 712 hit Loretta V. Baylon (Loretta), daughter of respondent spouses Sergio P. Baylon and Maritess Villena-Baylon (spouses Baylon). At the time of the accident, the oil tanker was registered<sup>[5]</sup> in the name of petitioner FEB Leasing and Finance Corporation<sup>[6]</sup> (petitioner). The oil tanker was leased<sup>[7]</sup> to BG Hauler, Inc. (BG Hauler) and was being driven by the latter's driver, Manuel Y. Estilloso. The oil tanker was insured<sup>[8]</sup> by FGU Insurance Corp. (FGU Insurance).

The accident took place at around 2:00 p.m. as the oil tanker was coming from Balintawak and heading towards Manila. Upon reaching the intersection of Bonifacio Street and Del Monte Avenue, the oil tanker turned left. While the driver of the oil tanker was executing a left turn side by side with another vehicle towards Del Monte Avenue, the oil tanker hit Loretta who was then crossing Del Monte Avenue coming from Mayon Street. Due to the strong impact, Loretta was violently thrown away about three to five meters from the point of impact. She fell to the ground unconscious. She was brought for treatment to the Chinese General Hospital where she remained in a coma until her death two days after.<sup>[9]</sup>

The spouses Baylon filed with the RTC (Branch 35) of Gapan City a Complaint<sup>[10]</sup> for damages against petitioner, BG Hauler, the driver, and FGU Insurance. Petitioner filed its answer with compulsory counterclaim while FGU Insurance filed its answer with counterclaim. On the other hand, BG Hauler filed its answer with compulsory

counterclaim and cross-claim against FGU Insurance.

Petitioner claimed that the spouses Baylon had no cause of action against it because under its lease contract with BG Hauler, petitioner was not liable for any loss, damage, or injury that the leased oil tanker might cause. Petitioner claimed that no employer-employee relationship existed between petitioner and the driver.

BG Hauler alleged that neither do the spouses Baylon have a cause of action against it since the oil tanker was not registered in its name. BG Hauler contended that the victim was guilty of contributory negligence in crossing the street. BG Hauler claimed that even if its driver was at fault, BG Hauler exercised the diligence of a good father of a family in the selection and supervision of its driver. BG Hauler also contended that FGU Insurance is obliged to assume all liabilities arising from the use of the insured oil tanker.

For its part, FGU Insurance averred that the victim was guilty of contributory negligence. FGU Insurance concluded that the spouses Baylon could not expect to be paid the full amount of their claims. FGU Insurance pointed out that the insurance policy covering the oil tanker limited any claim to a maximum of P400,000.00.

During trial, FGU Insurance moved that (1) it be allowed to deposit in court the amount of P450,000.00 in the joint names of the spouses Baylon, petitioner, and BG Hauler and (2) it be released from further participating in the proceedings. After the RTC granted the motion, FGU Insurance deposited in the Branch Clerk of Court a check in the names of the spouses Baylon, petitioner, and BG Hauler. The RTC then released FGU Insurance from its contractual obligations under the insurance policy.

### **The Ruling of the RTC**

After weighing the evidence submitted by the parties, the RTC found that the death of Loretta was due to the negligent act of the driver. The RTC held that BG Hauler, as the employer, was solidarily liable with the driver. The RTC further held that petitioner, as the registered owner of the oil tanker, was also solidarily liable.

The RTC found that since FGU Insurance already paid the amount of P450,000.00 to the spouses Baylon, BG Hauler, and petitioner, the insurer's obligation has been satisfactorily fulfilled. The RTC thus dismissed the cross-claim of BG Hauler against FGU Insurance. The decretal part of the RTC's decision reads:

Wherefore, premises considered, judgment is hereby rendered in favor of the plaintiffs and against defendants FEB Leasing (now BPI Leasing), BG Hauler, and Manuel Estilloso, to wit:

1. Ordering the defendants, jointly and severally, to pay plaintiffs the following:
  - a. the amount of P62,000.00 representing actual expenses incurred by the plaintiffs;
  - b. the amount of P50,000.00 as moral damages;
  - c. the amount of P2,400,000.00 for loss of earning capacity of the deceased victim, Loretta V. Baylon;

- d. the sum of P50,000.00 for death indemnity;
- e. the sum of P50,000.00 for and as attorney's fees; and
- f. with costs against the defendants.

2. Ordering the dismissal of defendants' counter-claim for lack of merit and the cross claim of defendant BG Hauler against defendant FGU Insurance.

SO ORDERED. <sup>[11]</sup>

Petitioner, BG Hauler, and the driver appealed the RTC Decision to the Court of Appeals. Petitioner claimed that as financial lessor, it is exempt from liability resulting from any loss, damage, or injury the oil tanker may cause while being operated by BG Hauler as financial lessee.

On the other hand, BG Hauler and the driver alleged that no sufficient evidence existed proving the driver to be at fault. They claimed that the RTC erred in finding BG Hauler negligent despite the fact that it had exercised the diligence of a good father of a family in the selection and supervision of its driver and in the maintenance of its vehicles. They contended that petitioner, as the registered owner of the oil tanker, should be solely liable for Loretta's death.

### **The Ruling of the Court of Appeals**

The Court of Appeals held that petitioner, BG Hauler, and the driver are solidarily liable for damages arising from Loretta's death. Petitioner's liability arose from the fact that it was the registered owner of the oil tanker while BG Hauler's liability emanated from a provision in the lease contract providing that the lessee shall be liable in case of any loss, damage, or injury the leased oil tanker may cause.

Thus, the Court of Appeals affirmed the RTC Decision but with the modification that the award of attorney's fees be deleted for being speculative. The dispositive part of the appellate court's Decision reads:

WHEREFORE, in the light of the foregoing, the instant appeal is DENIED. Consequently, the assailed Decision of the lower court is AFFIRMED with the MODIFICATION that the award of attorney's fees is DELETED.

IT IS SO ORDERED. <sup>[12]</sup>

Dissatisfied, petitioner and BG Hauler, joined by the driver, filed two separate motions for reconsideration. In its 18 January 2008 Resolution, the Court of Appeals denied both motions for lack of merit.

Unconvinced, petitioner alone filed with this Court the present petition for review on certiorari impleading the spouses Baylon, BG Hauler, and the driver as respondents.

<sup>[13]</sup>

### **The Issue**

The sole issue submitted for resolution is whether the registered owner of a financially leased vehicle remains liable for loss, damage, or injury caused by the vehicle notwithstanding an exemption provision in the financial lease contract.

### **The Court's Ruling**

Petitioner contends that the lease contract between BG Hauler and petitioner specifically provides that BG Hauler shall be liable for any loss, damage, or injury the leased oil tanker may cause even if petitioner is the registered owner of the said oil tanker. Petitioner claims that the Court of Appeals erred in holding petitioner solidarily liable with BG Hauler despite having found the latter liable under the lease contract.

For their part, the spouses Baylon counter that the lease contract between petitioner and BG Hauler cannot bind third parties like them. The spouses Baylon maintain that the existence of the lease contract does not relieve petitioner of direct responsibility as the registered owner of the oil tanker that caused the death of their daughter.

On the other hand, BG Hauler and the driver argue that at the time petitioner and BG Hauler entered into the lease contract, Republic Act No. 5980<sup>[14]</sup> was still in effect. They point out that the amendatory law, Republic Act No. 8556,<sup>[15]</sup> which exempts from liability in case of any loss, damage, or injury to third persons the registered owners of vehicles financially leased to another, was not yet enacted at that time.

In point is the 2008 case of *PCI Leasing and Finance, Inc. v. UCPB General Insurance Co., Inc.*<sup>[16]</sup> There, we held liable PCI Leasing and Finance, Inc., the registered owner of an 18-wheeler Fuso Tanker Truck leased to Superior Gas & Equitable Co., Inc. (SUGECO) and being driven by the latter's driver, for damages arising from a collision. This despite an express provision in the lease contract to the effect that the lessee, SUGECO, shall indemnify and hold the registered owner free from any liabilities, damages, suits, claims, or judgments arising from SUGECO's use of the leased motor vehicle.

In the instant case, Section 5.1 of the lease contract between petitioner and BG Hauler provides:

Sec. 5.1. It is the principle of this Lease that while the title or ownership of the EQUIPMENT, with all the rights consequent thereof, are retained by the LESSOR, the risk of loss or damage of the EQUIPMENT from whatever source arising, as well as **any liability resulting from the ownership, operation and/or possession thereof, over and above those actually compensated by insurance, are hereby transferred to and assumed by the LESSEE** hereunder which shall continue in full force and effect.<sup>[17]</sup> (Emphasis supplied)

If it so wishes, petitioner may proceed against BG Hauler to seek enforcement of the latter's contractual obligation under Section 5.1 of the lease contract. In the present case, petitioner did not file a cross-claim against BG Hauler. Hence, this Court

cannot require BG Hauler to reimburse petitioner for the latter's liability to the spouses Baylon. However, as the registered owner of the oil tanker, petitioner may not escape its liability to third persons.

Under Section 5 of Republic Act No. 4136,<sup>[18]</sup> as amended, all motor vehicles used or operated on or upon any highway of the Philippines must be registered with the Bureau of Land Transportation (now Land Transportation Office) for the current year.<sup>[19]</sup> Furthermore, any encumbrances of motor vehicles must be recorded with the Land Transportation Office in order to be valid against third parties.<sup>[20]</sup>

In accordance with the law on compulsory motor vehicle registration, this Court has consistently ruled that, with respect to the public and third persons, the registered owner of a motor vehicle is directly and primarily responsible for the consequences of its operation regardless of who the actual vehicle owner might be.<sup>[21]</sup> Well-settled is the rule that the registered owner of the vehicle is liable for quasi-delicts resulting from its use. Thus, even if the vehicle has already been sold, leased, or transferred to another person at the time the vehicle figured in an accident, the registered vehicle owner would still be liable for damages caused by the accident. The sale, transfer or lease of the vehicle, which is not registered with the Land Transportation Office, will not bind third persons aggrieved in an accident involving the vehicle. The compulsory motor vehicle registration underscores the importance of registering the vehicle in the name of the actual owner.

The policy behind the rule is to enable the victim to find redress by the expedient recourse of identifying the registered vehicle owner in the records of the Land Transportation Office. The registered owner can be reimbursed by the actual owner, lessee or transferee who is known to him. Unlike the registered owner, the innocent victim is not privy to the lease, sale, transfer or encumbrance of the vehicle. Hence, the victim should not be prejudiced by the failure to register such transaction or encumbrance. As the Court held in *PCI Leasing*:

The burden of registration of the lease contract is minuscule compared to the chaos that may result if registered owners or operators of vehicles are freed from such responsibility. Petitioner pays the price for its failure to obey the law on compulsory registration of motor vehicles for registration is a pre-requisite for any person to even enjoy the privilege of putting a vehicle on public roads.<sup>[22]</sup>

In the landmark case of *Erezo v. Jepte*,<sup>[23]</sup> the Court succinctly laid down the public policy behind the rule, thus:

The main aim of motor vehicle registration is to identify the owner so that if any accident happens, or that any damage or injury is caused by the vehicle on the public highways, responsibility therefor can be fixed on a definite individual, the registered owner. Instances are numerous where vehicles running on public highways caused accidents or injuries to pedestrians or other vehicles without positive identification of the owner or drivers, or with very scant means of identification. It is to forestall