

THIRD DIVISION

[G.R. NO. 142672, September 27, 2006]

**BANCO FILIPINO SAVINGS AND MORTGAGE BANK, PETITIONER,
VS. TALA REALTY SERVICES CORPORATION, RESPONDENT.**

D E C I S I O N

CARPIO MORALES, J.:

In 1979, the Banco Filipino Savings and Mortgage Bank (Banco Filipino) decided to reduce and unload some of its branch site holdings in order to conform to the limit set for real estate investment under Sections 25(a) and 34 of Republic Act No. 337, as amended (General Banking Act) .^[1] For this purpose, the majority of the stockholders agreed to form a corporation known as the Tala Realty Services Corporation (Tala) to which some of Banco Filipino's existing branch sites could be unloaded. The arrangement was that Banco Filipino would transfer some of its existing branch sites to Tala, and the latter would simultaneously lease them back to it.^[2]

The parties also agreed that any or all of those branch sites would be returned or reconveyed to Banco Filipino anytime at its pleasure at the same transfer price or at its acquisition cost.^[3] For the services rendered to Banco Filipino, Tala was to receive a 3% add-on to its loan amortization which was built into the monthly rentals stipulated in the lease contracts.^[4]

On August 25, 1981, Banco Filipino executed in favor of Tala a Deed of Absolute Sale^[5] transferring to it one of its branch sites located at Poblacion, San Fernando, La Union (the property) at the agreed purchase price of P1,195,000. On even date, Tala in turn leased the property to Banco Filipino for a period of 20 years, renewable for another 20 years at the option of Banco Filipino, at a monthly rental of P11,900.^[6] The contract further required Banco Filipino to pay Tala the amount of P597,500 as advance rentals for the 11th to the 20th years of lease.^[7]

Tala claims that on the same day, August 25, 1981, the parties executed another lease contract which modified the previous lease contract. The second lease contract^[8] shortened the term of the lease to 11 years, renewable for 9 years at the option of Banco Filipino. The contract required Banco Filipino to pay the amount of P597,500 as security deposit to secure its faithful compliance with its obligations, to answer for any damage to the property, or for any damage that maybe sustained by Tala on account of any breach or default on the part of Banco Filipino.

In the meantime, on January 15, 1985, on the basis of the finding of the Monetary Board that Banco Filipino was insolvent and unable to do business without loss to its creditors and depositors, the Central Bank issued a Resolution ordering the closure of Banco Filipino and placing it under receivership of the then Deputy Governor of

the Central Bank.^[9]

On December 11, 1991, this Court, in *Banco Filipino & Mortgage Bank v. Monetary Board, Central Bank of the Philippines*,^[10] held that the closure of Banco Filipino was arbitrary and committed with grave abuse of discretion. Accordingly, the Central Bank and the Monetary Board were ordered to reorganize Banco Filipino and allow it to resume business.

More than 11 years after the execution of the contract of lease, Tala's director, Elizabeth H. Palma, sent Banco Filipino a letter^[11] dated June 22, 1993 informing that the lease contract had expired as of August 1992, and that starting September 1992, the contract had been extended on a monthly basis under different terms and conditions including the monthly lease rental. Tala noted, however, that as Banco Filipino had failed to take any definite action towards the renewal of the contract, it (Tala) was free to lease, dispose, sell and/or alienate the property.

On April 14, 1994, Tala notified Banco Filipino that by the end of the month, the lease contract would no longer be renewed, hence, it demanded that it vacate the property and pay unpaid rentals amounting to P1,851,180.^[12]

Banco Filipino did not heed Tala's demands, prompting the latter to file on November 23, 1994 a complaint^[13] for ejectment before the Municipal Trial Court (MTC) of San Fernando, La Union.

The MTC dismissed the petition after it found that Tala was not the owner of the property and at best was a mere trustee, hence, not entitled to possession.^[14] The MTC noted that the property continued to be declared for tax purposes under the name of Banco Filipino which in fact paid the taxes due thereon.^[15] And the MTC upheld the validity of the 20-year term lease contract.

The MTC further held that on December 11, 1981, Banco Filipino paid the amount of P612,845 as advance rentals for the 11th to the 20th years or from 1992 to 2001.^[16] On Tala's claim that the said amount had been applied to Banco Filipino's unpaid rentals from February 1985 to November 1989, the MTC discredited it because:

- 1) such application was not authorized in the contract of [l]ease (Exhibit 5), and amounted to a unilateral amendment of said contract by the plaintiff. The contract of lease provides in no terms that the advance rentals were to be applied to the rentals due from the 11th through the 20th years of the lease; 2) the application of the advance rentals was not agreed or consented by the defendant; and 3) considering that the closure and receivership of Banco Filipino was declared null and void by the Supreme Court, defendant is not answerable for the acts and/or omissions of the Central Bank and/or its agents during the period of Banco Filipino's closure.^[17]

On appeal, Branch 27 of the Regional Trial Court of San Fernando, La Union, affirmed the decision of the MTC with the modification that Tala should pay Banco Filipino attorney's fees in the amount of P50,000.^[18]

Its motion for reconsideration having been denied,^[19] Tala elevated the case to the appellate court which affirmed the RTC decision.^[20] In its motion and supplemental motion for reconsideration, Tala asserted that the P597,500 that Banco Filipino paid corresponding to the rental for the 11th to the 20th years could not cover the aggregate rental for the said period at the rate of P11,900.^[21]

Finding the motion meritorious, viz:

We agree with herein movant that the amount of P597,500.00 is not sufficient as rental payment for the period of 10 years or 120 months, which when computed amounts to P1,428,000.00.

Movant admits that respondent bank paid a monthly rental of P11,900.00 starting from the 11th until the 13th month of the lease, or from September, 1991 until March, 1994. This involves a total of P368,900.00 (P11,900.00 multiplied by 31 months). This amount of P368,900.00, if added to the advanced rental of P597,500.00, gives a total of P966,400.00.

Since, as earlier mentioned, the rental payment corresponding to the 11th through the 20th year of the lease, or a period of 10 years or 120 months, is P1,428,000.00, then respondent bank has still an outstanding balance of P461,600.00 (P1,428,000 less P966,400.00),^[22]

the appellate court, by Resolution^[23] dated November 19, 1999, modified its decision, thus:

WHEREFORE, the instant motions are hereby **GRANTED** and Our questioned decision is **MODIFIED** in the sense that respondent bank is ordered to pay movant all past due rentals at the rate of P11,900.00 a month, starting April, 1994 until the amount of P461,600.00 shall have been fully paid, with interest at the legal rate. All other aspects of Our Decision stay.^[24] (Emphasis supplied)

The parties' respective motions for reconsideration to the said resolution were both denied by Resolution^[25] of April 3, 2000.

Banco Filipino (hereafter petitioner) thus comes before this Court on a petition for review, proffering that the appellate court erred in ordering it to pay Tala rentals from April 1994 onwards under the 20-year contract of lease because non-payment of the rentals was not an issue raised by Tala in its complaint for ejectment in the MTC.^[26]

And petitioner takes exception to the computation by the appellate court of the supposed rentals due under the 20-year contract of lease.^[27] Based on the Financial Compound Interest and Annuity Tables compiled by the Financial Publishing Company for the use of the banking industry, petitioner clarifies that the amount of P597,500 in 1981 has the equivalent value of P1,428,000 20 years later or in 2001.^[28] Petitioner thus insists that when it paid the advance rental in 1981, Tala was thereby accorded a minimum of 10 years and a maximum of 20 years of profitable use thereof before it would have otherwise been entitled to the payment thereof.^[29]

On the other hand, Tala submits that the appellate court's decision ordering petitioner to pay "all past due rentals at the rate of P11,900 a month starting April 1994 . . . with interest at the legal rate" should be affirmed but with the modification that petitioner be ordered to pay instead the aggregate amount of P1,059,100;^[30] that the amount of P597,500 was already applied as payment for unpaid rentals from February 1985 to November 1989;^[31] and that since petitioner had paid the amount of P368,900, and the total lease rental due petitioner is P1,480,000, it is still liable for the balance of P1,059,100.^[32]

In similar ejectment cases involving the same parties and substantially the same facts, the only difference being the bank site, this Court has consistently ruled that it is not the 11-year lease contract but the 20-year contract which is the real and genuine contract between the parties.^[33] At this juncture, Tala submits that based on the principle of *stare decisis*, the decisions of this Court should apply to the present case particularly as to its conclusive findings that it is the 20-year contract of lease that governs the contractual relations of the parties. Tala concludes that the validity of the 20-year lease contract must be upheld.

In its November 22, 2002 En Banc decision in G.R. No. 137533, *Tala Realty Services Corporation v. Banco Filipino Savings & Mortgage Bank*, "it has likewise" been settled by this Court that petitioner may not be evicted

for non-payment of rentals. In that case, this Court held that the parties, being in *pari delicto* for circumventing the real estate investment limit under the General Banking Act, should suffer the consequences of their "deception" and should be denied any affirmative relief. Tala, held this Court, should not thus be allowed to further collect rentals from petitioner; and that it has no right to collect rentals for the period when petitioner was arbitrarily closed, and the "erroneous payment" it received must be held in trust for the Banco Filipino pursuant to Article 1456 of the New Civil Code.

x x x 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 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