

Title: Carolyn M. Garcia v. Rica Marie S. Thio

Facts: The case revolves around two loans allegedly made by petitioner Carolyn M. Garcia to respondent Rica Marie S. Thio. According to Garcia, two crossed checks one dated February 24, 1995, and another June 29, 1995, were issued in favor of a third party, Marilou Santiago, at Thio's instruction. The checks were valued at US\$100,000 and P500,000, respectively. Monthly interest payments were made by Thio to Garcia for a period following the issuance of the checks, but Thio failed to repay the principal amounts upon maturity of the loans. Garcia filed a complaint to recover the amounts due, plus damages, to which Thio responded by denying the existence of a loan agreement and claiming that the checks were issued for Santiago who, she intimated, was the actual borrower.

The RTC ruled in favor of Garcia, finding that a loan had been granted to Thio and ordering the repayment of the sum plus interest and damages. Thio appealed to the CA, which reversed the RTC's decision, concluding no contract of loan existed between Garcia and Thio. Garcia then sought review from the Supreme Court.

Issues: The principal issues were whether there had indeed been a loan contract between Garcia and Thio and whether Thio was liable to repay the principal sums and agreed-upon interest.

Court's Decision: The Supreme Court ruled in favor of Garcia, holding that while physical receipt of loan proceeds was not executed, delivery in the form of control and possession of the proceeds through checks was sufficient to constitute Thio as a borrower. The SC reinstated the RTC's finding that Thio was liable for the principal amounts. Regarding interest payments, the SC held that the absence of a written agreement precluded enforcement of the claimed rates of 3% and 4% per month. However, the Court applied legal interest pursuant to Article 2209 of the Civil Code, setting it at 12% per annum from the date of judicial demand. Actual damages and attorney's fees awards were deleted due to a lack of factual basis provided by the RTC.

Doctrine: A loan is a real contract which requires the delivery of the object of the contract for perfection. Interest payments must be expressly stipulated in writing to be due. In the absence of such stipulation, legal interest applies. Crossing a check has specific legal implications regarding the negotiability and deposit requirements.

Class Notes:

- Real contracts such as loans require delivery of the object (money or fungible things) to

perfect the contract.

- For interest to be due, there must be a stipulation in writing explicitly stating the agreed-upon interest (Civil Code, Art. 1956).
- Legal interest may be applied in the absence of a written agreement about interest rates (Civil Code, Art. 2209).
- A crossed check implies it may not be encashed but only deposited, and it can only be negotiated once to a party holding a bank account.

Historical Background: In this particular case, the Supreme Court had to interpret and apply provisions of the Civil Code regarding contracts of loan and the payment of interest. The decision reflects upon the rigid approach that Philippine courts take towards the enforcement of contractual terms and the necessity to put certain agreements — particularly those concerning interest payments — into writing, an element that is underscored by the Civil Code’s articulation of the obligations and rights which arise from loan contracts.