

### Title:

Feati Bank & Trust Company (now Citytrust Banking Corporation) vs. The Court of Appeals and Bernardo E. Villaluz

### Facts:

Bernardo E. Villaluz agreed to sell 2,000 cubic meters of lauan logs to Axel Christiansen on June 3, 1971, for \$54,000.00, payable via an irrevocable letter of credit issued by Security Pacific National Bank, Los Angeles, and notified to Feati Bank & Trust Company (now Citytrust). The letter of credit required specific documents and certifications for payment, including a certification from Christiansen, which he refused to provide. As a result, Feati Bank refused to advance payment to Villaluz.

Villaluz filed an action for mandamus and specific performance against Christiansen and Feati Bank before the Court of First Instance of Rizal. Christiansen left the Philippines, leading Villaluz to amend the complaint to hold Feati Bank solidarily liable. The trial court ruled in favor of Villaluz, ordering Christiansen and Feati Bank to pay jointly and severally. Feati Bank's appeal and motions for reconsideration and to suspend writ of execution were denied by the trial court, but its petition for certiorari and prohibition was granted by the Court of Appeals, nullifying the immediate execution order against Feati Bank. However, the Court of Appeals later affirmed the trial court's decision, dismissing Feati Bank's appeal.

### Issues:

1. Whether or not a correspondent bank is liable under the letter of credit despite non-compliance by the beneficiary with its terms.
2. The correctness of classifying Feati Bank as a notifying bank, negotiating bank, or confirming bank.
3. The nature of Feati Bank's liability if considered a confirming bank.
4. The applicability of Central Bank regulations on the required certification.

### Court's Decision:

The Supreme Court reversed the Court of Appeals' decision. It ruled that Feati Bank was only a notifying bank, not obligated to honor the payment to Villaluz due to non-compliance with the letter of credit terms. The Court highlighted the principle of strict compliance in commercial transactions involving letters of credit, whereby every document stipulated must be provided for payment to be obliged. The Court also clarified that Feati Bank was not a confirming bank as there was no explicit confirmation of obligation, and the prior loan to Villaluz did not equate to confirmation of the letter of credit.

### Doctrine:

The documents tendered in transactions involving letters of credit must strictly conform to its terms. A correspondent bank's responsibility ends with notification/transmission of the letter of credit and does not extend to guaranteeing the issuing bank's obligations unless it explicitly confirms the credit.

### Class Notes:

1. **Strict Compliance Rule:** In transactions involving letters of credit, every document required by the letter must be provided for the correspondent bank to be obliged to honor the payment.
2. **Roles of Banks in Letters of Credit:**
  - **Notifying Bank:** Only responsible for notifying/transmitting the letter of credit without assuming liability for payment.
  - **Negotiating Bank:** Assumes liability after negotiation but is not obliged to accept drafts without full compliance with the letter's terms.
  - **Confirming Bank:** Assumes direct obligation and guarantees payment under the letter of credit, requiring explicit confirmation of the obligation.
3. **Irrevocable vs. Confirmed Credit:** Irrevocability refers to the inability to revoke the credit without beneficiary consent, while confirmation means the bank guarantees payment as if it had issued the letter of credit itself.

### Historical Background:

This case illustrates the complexities and legal intricacies involved in international trade facilitated by letters of credit. It reinforces the stringent adherence to the documentation and procedural requirements set forth in commercial transactions, highlighting the roles and liabilities of participating financial institutions within the framework of international commerce.