

Title:

****Fidelity Savings and Mortgage Bank vs. Spouses Timoteo and Olimpia Santiago****

Facts:

The Spouses Santiago had deposits amounting to P100,000 with Fidelity Savings and Mortgage Bank, which became insolvent and was eventually closed by the Central Bank of the Philippines. Following the bank's closure, the Santiagos sought to recover their deposits, initiating legal action that spanned various levels of the Philippine judicial system. Their journey through the courts culminated with a decision by the Manila Court of First Instance (now Regional Trial Court) in their favor, awarding them the sum of their deposits plus interest, exemplary damages, and attorney's fees. Fidelity Savings and Mortgage Bank, positioned as the petitioner, appealed this decision to the Supreme Court on grounds questioning the legitimacy of accruing interest post-insolvency and the awarding of damages and fees in light of the bank's insolvent status.

Issues:

1. Whether an insolvent bank may be adjudged to pay interest on unpaid deposits after its closure due to insolvency, without contravening preferences of credits under the Civil Code.
2. Whether such an insolvent bank can be mandated to pay moral and exemplary damages, attorney's fees, and costs where the insolvency is attributed to anomalous transactions, without violating Civil Code provisions on preference of credits.

Court's Decision:

The Supreme Court acknowledged the legislative intent not to burden insolvent banks with accruing interest post-closure and found no basis for penalizing Fidelity Savings and Mortgage Bank with damages or attorney's fees in the absence of fraud or bad faith. The Court modified the trial court's decision, holding Fidelity liable only for the principal amount of the deposits up until the date of closure, without interest beyond that date, and removed the awards for damages and attorney's fees.

Doctrine:

1. An insolvent bank declared closed by the Central Bank cannot be held liable for interest on deposits accruing after its operational cessation.
2. In the absence of fraud, bad faith, malice, or wanton attitude, a bank under insolvency

cannot be held liable for moral and exemplary damages or attorney's fees due to non-performance of obligations.

Class Notes:

- The cessation of interest accrual on bank deposits from the date of bank closure due to insolvency.
- The non-liability for moral and exemplary damages and attorney's fees in cases of bank insolvency in the absence of fraud or bad faith.
- ****Relevant Provisions****: Articles 2219, 2232, 2208, and 2201 of the Civil Code concerning damages and the preference of credits.

Historical Background:

The case reflects the nuances of dealing with bank insolvencies within the Philippine financial system, emphasizing the protection of banks' creditors against the backdrop of ensuring the stability of the banking sector. The resolution underscores the balancing act between honoring depositor claims and adhering to legal frameworks governing insolvency proceedings and creditor claims, resonating with the broader themes of financial regulation, depositor protection, and liquidation procedures.