

Title:

Far East Bank & Trust Company vs. Diaz Realty Inc.: A Case of Tender of Payment and Assignment of Credit

Facts:

The case revolves around a loan initially secured by Diaz Realty Inc. (Diaz) from the Philippine Allied Banking Corporation (PaBC), which was later transferred to the Far East Bank & Trust Company (FEBTC). In 1973, Diaz obtained a loan from PaBC, secured by a mortgage over two parcels of land in Davao City. In 1981, Allied Banking Corporation rented an office space on these properties, with rent payments directed to PaBC to offset the loan.

In 1986, after the closure of PaBC by the Central Bank, FEBTC acquired Diaz's loan from PaBC. Diaz was informed of this acquisition in 1988 and was told its loan amounted to P1,447,142.03. In December 1988, Diaz tendered a check of P1,450,000.00 to FEBTC to settle its debt, which FEBTC accepted but treated as a deposit. FEBTC's failure to acknowledge this as payment led Diaz to file a lawsuit at the Regional Trial Court (RTC) of Davao City. The RTC ruled in favor of Diaz, ordering the computation of interest due and the cancellation of the mortgage, among other directives. FEBTC's Motion for Reconsideration led to a modified decision, which was subsequently appealed.

Issues:

1. The validity of the tender of payment by Diaz and its acceptance by FEBTC.
2. Whether the transfer of Diaz's account to FEBTC constituted a novation of the original agreement.
3. The applicable interest rate on Diaz's loan after its account was transferred from PaBC to FEBTC.
4. The status of the Real Estate Mortgage post-tender of payment.

Court's Decision:

The Supreme Court denied FEBTC's petition, affirming the decision of the CA with modifications. It held that:

- There was a valid tender of payment by Diaz when it issued a check to FEBTC, which the latter accepted and hence cannot refuse later.
- The transfer of Diaz's loan from PaBC to FEBTC was an assignment of credit, not a novation. FEBTC acquired PaBC's rights against Diaz, subject to original terms.
- The interest rate applicable should be 20% per annum until the date of tender of payment

(November 14, 1988), after which it should be computed at 12% per annum until full payment.

- The Real Estate Mortgage and associated lease contract provisions remain valid until the full settlement of the obligation.

Doctrine:

- Tender of payment must be a definite act showing intent, ability, and capability to meet the obligation, which becomes effective upon the creditor's acceptance.

- A check, while not legal tender, may be accepted as payment, and acceptance constitutes discharge of the obligation.

- Assignment of credit transfers rights without altering the original terms of the agreement or obligating the debtor's consent.

- Interest rates stipulated in original agreements are honored unless a valid tender of payment is made, after which legal interest rates apply until full payment.

Class Notes:

- ****Tender of Payment****: A commitment by the debtor to pay the creditor, shown by a clear, unequivocal act.

- ****Legal Tender vs. Check****: A check can be accepted as payment but is not legal tender by law. Acceptance of a check as payment settles the debt.

- ****Assignment of Credit****: Transfers credit rights from assignor to assignee without altering the underlying agreement's terms or necessitating the debtor's approval.

- ****Legal Interest Rates****: Upon effective tender of payment, any stipulated interest above legal rates should revert to the legal rate until the debt is fully settled.

Historical Background:

The backdrop involves the broader financial landscape and regulatory environment in the Philippines during the 1980s, marked by bank closures and the liquidation of banking institutions by the Central Bank. This case exemplifies the complexities of loan transactions and transfers between banks and their impact on borrowers.

The decision reiterates principles around the tender of payment, the nature of checks as payment, and the rights and obligations in assignments of credit, underpinning these with established jurisprudence and statutory provisions, specifically under the Civil Code of the Philippines.