

****Title:**** The International Corporate Bank, Inc. vs. Court of Appeals and Philippine National Bank

****Facts:****

****1. Initial Complaint:****

- On March 16, 1982, International Corporate Bank, Inc. (ICB) filed a complaint for the collection of sums of money against Philippine National Bank (PNB) in the Court of First Instance (CFI) of Manila, Branch 6, which was later amended on March 19, 1982.
- The case was re-raffled to Regional Trial Court (RTC) of Manila, Branch 52.

****2. Issuance and Deposit of Checks:****

- The Ministry of Education and Culture issued 15 checks drawn against PNB, which ICB accepted for deposit on various dates.

****List of checks:****

- Check Number: 7-3694621-4, Date: 7-20-81, Payee: Trade Factors, Inc., Amount: P97,500.00
- Check Number: 7-3694609-6, Date: 7-27-81, Payee: Romero D. Palmares, Amount: P98,500.50
- ... (a comprehensive list follows in the same format for all 15 checks)

****3. Deposits and Clearance:****

- The checks were deposited into designated accounts and submitted to PNB for clearing. A day after submission, ICB paid the value of the checks and allowed withdrawals of the deposits.
- On October 14, 1981, PNB returned all the checks to ICB, post submission, citing material alterations as the reason.

****Proceedings in the Trial Court:****

- The trial court ruled in favor of PNB, citing that they utilized reasonable business practices and the delay in clearing was justified due to the precision of alterations.
- The court emphasized that ICB should have taken precautions, such as telephonically verifying the status of checks with PNB.
- Trial Court's Decision: Dismissed both the complaint and the counterclaim and assessed costs against the plaintiff (ICB).

****Proceedings in the Court of Appeals:****

- ICB appealed the trial court's decision.
- On October 10, 1991, the Court of Appeals reversed the trial court's decision, holding PNB liable for failing to return the checks within the statutory 24-hour clearing period under Central Bank Circular No. 580.
- PNB filed a motion for reconsideration.
- On August 9, 1994, the Court of Appeals issued an Amended Decision reversing its prior decision and affirming the trial court's ruling.
- ICB moved for reconsideration, which was denied on July 16, 1997.
- ICB then filed a petition for review with the Supreme Court.

****Issues:****

1. ****Material Alteration:**** Were the checks materially altered?
2. ****Negligence and Timeliness:**** Was PNB negligent in failing to recognize the alterations within a reasonable period and in returning the checks timely?
3. ****Motion Filing:**** Was PNB's motion for reconsideration timely, thus preventing the Court of Appeal's decision from becoming final?

****Court's Decision:****

1. ****Material Alteration:****
 - The Supreme Court ruled that the alterations made to the checks were on their serial numbers, which under Sections 124 and 125 of the Negotiable Instruments Law, are not considered material alterations.
 - The ruling cited Philippine National Bank v. Court of Appeals, establishing that alterations of serial numbers do not alter the effect of the instrument, and are thus not material.
2. ****Negligence and Verification:****
 - Owing to the immaterial nature of the alteration, the Supreme Court found that PNB was not entitled to dishonor and return the checks.
 - PNB was held liable to ICB for the check's value since there were no valid alterations affecting the liability.
3. ****Timeliness of Motion for Reconsideration:****
 - PNB's motion for reconsideration was indeed filed late, as evidenced by the postal return receipts, making the Court of Appeals' earlier decision (October 10, 1991) final and executory.

- The Supreme Court emphasized that the intentional misrepresentation regarding the date of receipt was unacceptable, and technical rules could not be circumvented without just cause.

****Doctrine:****

* The alteration of serial numbers on checks does not constitute a material alteration under Sections 124 and 125 of the Negotiable Instruments Law.

* The 24-hour rule applied to regular clearing does not grant a drawee bank the right to refuse a check based on immaterial alterations.

****Class Notes:****

****Key Concepts:****

1. ****Material Alteration:****

- Changes specified under Section 125 of the Negotiable Instruments Law.
- Alterations that modify the contract in a material aspect rendering the check invalid.

2. ****Administrative Circulars Impact:****

- Central Bank Circular No. 580 and the 24-hour clearing rule.
- Adjust tight verification schedules while emphasizing the necessity for due diligence.

****Applicability:****

- Alterations to negotiable instruments, recognizing material vs. immaterial changes.
- Procedural adherence in legal contexts, emphasizing deadlines and their integrity.

****Historical Background:****

The case exemplifies the strict adherence to procedural rules in the legal system and provides clarity on what constitutes a material alteration to checks under the Negotiable Instruments Law. It reflects the evolving banking jurisprudence concerning the responsibilities of drawee and collecting banks in the context of modern clearance procedures.