

**Title:** Consolidated Bank and Trust Corporation (Solidbank) vs. Court of Appeals, Continental Cement Corporation, Gregory T. Lim and Spouse

**Facts:**

1. **Initial Transaction:** On July 13, 1982, Continental Cement Corporation (Respondent Corporation) and Gregory T. Lim (Respondent Lim) obtained Letter of Credit No. DOM-23277 amounting to P1,068,150.00 from Consolidated Bank and Trust Corporation (Solidbank) (Petitioner).
2. **Payment:** Respondent Corporation paid a marginal deposit of P320,445.00 to Petitioner on the same date.
3. **Utilization of Letter of Credit:** The Letter of Credit was used to purchase approximately 500,000 liters of bunker fuel oil from Petrophil Corporation, delivered directly to Respondent Corporation's Bulacan plant.
4. **Trust Receipt Execution:** A trust receipt for P1,001,520.93 was executed by Respondent Corporation, signed by Respondent Lim.
5. **Complaint:** Claiming failure to turn over goods/proceeds covered by the trust receipt, Petitioner filed a complaint for a sum of money with a preliminary attachment application before the Regional Trial Court of Manila.
6. **Response and Counterclaim:** Respondents contended the transaction was a simple loan, not a trust receipt transaction, and cited payments made. They also sought reimbursement of P490,228.90 for alleged overpayment.
7. **Issues at Pre-trial:**
  - Nature of the transaction (loan vs. trust receipt).
  - Appropriateness of interest rates charged.
  - Proper application of Respondent Corporation's payments.
  - Personal liability of Respondent Lim and his spouse.
8. **RTC Decision (September 17, 1990):** Dismissed Petitioner's complaint, ordering Petitioner to pay Respondents P490,228.90 for overpayment, with interest from July 26, 1988, P10,000.00 as attorney's fees, and costs.
9. **Appeals:** Both parties appealed to the Court of Appeals. The appellate court deleted the attorney fees and ordered Respondent Corporation to pay Petitioner P37,469.22 as attorney's fees and litigation expenses.
10. **Petition to Supreme Court:** Petitioner raised issues regarding overpayment, marginal deposit computation, validity of a floating interest rate agreement, characterization of the transaction, and personal liability of Respondent Lim and his spouse.

**\*\*Issues:\*\***

1. **\*\*Overpayment\*\***: Whether there was indeed an overpayment by Respondents to Petitioner amounting to P490,228.90 and if the computation was correct.
2. **\*\*Marginal Deposit\*\***: Whether the marginal deposit should be deducted before or after computing interests and charges.
3. **\*\*Floating Interest Rate\*\***: Validity of the floating rate of interest stipulated in the trust receipt.
4. **\*\*Nature of Transaction\*\***: Whether the transaction was a trust receipt transaction or simply a loan.
5. **\*\*Personal Liability\*\***: Whether Respondent Lim and his spouse could be held personally liable under the trust receipt.

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

1. **\*\*Overpayment\*\***: Affirmed. The Supreme Court upheld findings of fact by the lower courts, calculating and confirming overpayment to be at least P563,070.13, more than the P490,228.90 ordered reimbursed.
2. **\*\*Marginal Deposit\*\***: The Supreme Court supported the deduction of the marginal deposit from the letter of credit before computing interests and charges, to avoid unjust enrichment by the banks.
3. **\*\*Floating Interest Rate\*\***: The floating interest rate stipulated was invalidated for indeterminacy and for leaving rate setting to the sole discretion of Petitioner, without a reference market rate.
4. **\*\*Nature of Transaction\*\***: The transaction was determined to be a simple loan. Given that delivery of the fuel oil occurred before the trust receipt execution and Respondent Corporation's continued efforts to meet its obligations, the nature of a trust receipt was not established.
5. **\*\*Personal Liability\*\***: The Court held that Respondent Lim and his spouse could not be personally liable as the transactions were made in Lim's capacity as Executive Vice President of Respondent Corporation, protecting the corporate veil.

**\*\*Doctrine:\*\***

1. **\*\*Trust Receipt vs. Loan\*\***: If goods are delivered and utilized before the execution of a trust receipt, the transaction should be characterized as a loan rather than a trust receipt.
2. **\*\*Interest Rates\*\***: A provision stipulating for a floating interest rate must reference a specific market rate or index to be valid.
3. **\*\*Marginal Deposits\*\***: Must be credited against the principal before calculating interests and penalties.

**\*\*Class Notes:\*\***

- **\*\*Trust Receipts Law\*\***: Criminal liability under trust receipts is predicated on dishonesty or abuse of confidence.
- **\*\*Corporate Personality\*\***: Officers acting within their official capacity do not incur personal liability; separate the corporation's identity.
- **\*\*Civil Code\*\***:
- **\*\*Article 1279\*\***: Allows for compensation when debts equal each other.
- Key cases cited: Polotan, Sr. v. CA, Colinares v. CA, establishing valid floating rates and elucidating the nature of pertinent transactions.

**\*\*Historical Background:\*\***

This case reflects a period in Philippine banking history where the practice of categorizing loans as trust receipts was common, a tactic by banks to ensure repayment through heightened penalties and potential criminal liability, as illustrated by the pattern of loan facilitation and subsequent legal battles over financial disputes and the statutory interpretation of trust receipts. The legal consensus evolved to protect corporate borrowers from inequitable bank practices. The ruling underscores the judiciary's role in correcting discrepancies in financial contract enforcement and protecting equitable commercial practices.