

Title:

Far East Bank and Trust Company v. The Honorable Court of Appeals, Luis A. Luna, and Clarita S. Luna, G.R. No. 96715

Facts:

- **October 1986:** Luis A. Luna applied for and was issued a FAREASTCARD by Far East Bank and Trust Company (FEBTC). A supplemental card was also issued to Clarita S. Luna at his request.
- **August 1988:** Clarita Luna lost her credit card and notified FEBTC, submitting an affidavit of loss. Standard procedure was to mark both the principal card and the supplemental card as “Hot” or “Cancelled” in FEBTC’s master file.
- **6 October 1988:** Luis A. Luna hosted a despedida lunch at the Bahia Rooftop Restaurant. When he attempted to use his FAREASTCARD to pay, it was not honored due to its “Hot” status. Embarrassed, Luis paid in cash.
- **11 October 1988:** Luis Luna demanded damages through his counsel from FEBTC for the humiliation.
- **3 November 1988:** Adrian V. Festejo, Vice-President of FEBTC, apologized and admitted an overzealous bank employee had mismanaged the card validation process.
- **5 December 1988:** Still feeling aggrieved, the Lunas filed a complaint for damages with the Regional Trial Court (RTC) of Pasig.
- **30 March 1990:** The RTC ordered FEBTC to pay P300,000 in moral damages, P50,000 in exemplary damages, and P20,000 in attorney’s fees.
- **Appeal to Court of Appeals:** The appellate court affirmed the RTC’s decision.
- **After denial of motion for reconsideration:** FEBTC filed a petition for review with the Supreme Court of the Philippines.

Issues:

1. **Can moral damages be awarded in a case of contractual breach where the defendant acted negligently but without malice or bad faith?*
2. **Is the award of exemplary damages justified in this scenario?*
3. **Should the award of attorney’s fees be upheld?*
4. **Is the invocation of Article 21 of the Civil Code appropriate in the context of this contractual breach?*

Court’s Decision:

1. **Moral Damages:**
 - **Resolution:** The Supreme Court held that moral damages in cases of contractual

breaches are only recoverable if the breach was done with fraud or bad faith (Article 2220, Civil Code). The Court found that FEBTC's negligence was not gross enough to constitute bad faith or malice.

- **Analysis:** The Court observed no deliberate intent to harm by FEBTC; thus, FEBTC's negligence did not qualify for moral damages under Article 2220.

2. **Exemplary Damages:**

- **Resolution:** The award for exemplary damages was deleted. These are given to serve as a public good example and require evidence of gross negligence or bad faith, which were absent in this case.

- **Analysis:** The trial and appellate courts failed to establish gross negligence that approximated malice or fraudulent behavior by FEBTC.

3. **Attorney's Fees:**

- **Resolution:** The award of P20,000 in attorney's fees by the RTC was upheld. The Court deemed the award just and equitable under Article 2208 of the Civil Code.

- **Analysis:** The appellate court's discretion in allowing attorney's fees was not misused.

4. **Application of Article 21:**

- **Resolution:** The Court clarified that for Article 21 to apply, there must be a willful act contrary to morals, good customs, or public policy. Since Article 21 primarily relates to quasi-delicts, it must give way to Article 2220's specific provision regarding moral damages for contractual breaches.

- **Analysis:** The application of Article 21 would only be warranted if the defendant's actions amounted to tort independent of the contract, which was not the case here.

Doctrine:

1. **Article 2220, Civil Code:** Moral damages arising from a contractual breach can only be awarded if the breach was done fraudulently or in bad faith.

2. **Article 2232, Civil Code:** Exemplary damages in a contractual breach require evidence of wanton, fraudulent, reckless, or malevolent behavior.

3. **Article 2219 and Article 2220, Civil Code:** The distinction between quasi-delicts and contractual obligations in awarding moral damages must be maintained, emphasizing fraud or bad faith in breach cases.

Class Notes:

- **Key Elements of Culpa Contractual:**

- **Bad Faith Requirement:** Moral damages in contractual breaches require proof of bad faith or fraud.
- **Exemplary Damages Standard:** Evidence of gross negligence or malice.
- **Nominal Damages (Art. 2221, Civil Code):** For recognition of a violated right.
- **Attorney's Fees (Art. 2208, Civil Code):** Allowed if deemed just and equitable.

- **Statutory Provisions:**
 - **Art. 2220, Civil Code:** Requirements for moral damages in contractual breaches.
 - **Art. 2232, Civil Code:** Requirements for exemplary damages.
 - **Art. 2208, Civil Code:** Provisions on attorney's fees.

- **Application of Provisions:** The court's analysis emphasized that mere negligence doesn't equate to bad faith and moral damages require more than just a breach occurred due to negligence.

Historical Background:

In the 1980s, the credit card industry was experiencing significant growth in the Philippines. As more Filipinos adopted credit cards, legal standards regarding consumer protection and business responsibilities were still evolving. This case underscored the legal expectations on banks regarding the management of cardholder information and response to card loss, shaping future jurisprudence on the interplay between negligence, bad faith, and the appropriate scope of damages in contractual breaches involving financial institutions.