

Title:

Banco De Oro Unibank, Inc. vs. Edgardo C. Ypil, Sr., Cebu Sureway Trading Corporation, and Leopoldo Kho

Facts:

- **August 20, 2002:** Leopoldo Kho, representing Cebu Sureway Trading Corporation (CSTC), proposed to Edgardo C. Ypil, Sr. (Ypil) an investment in the Prudentiallife Plan-Millionaires in Business scheme, leading to Ypil investing P300,000.00.
- **February 11, 2003:** Ypil sought a refund via letter. CSTC and Kho did not respond.
- **May 19, 2003:** Ypil's lawyer sent an unresponded demand letter to Kho.
- **2003:** Ypil filed a Complaint for Specific Performance with Attachment in RTC, docketed as Civil Case No. CEB-29462. He sought P300,000.00 plus interest, damages, and attorney's fees.
- **October 15, 2003:** RTC granted Ypil's ex-parte issuance of an attachment order.
- **October 29, 2003:** Trial court issued a Writ of Preliminary Attachment.
- **February 4, 2004:** Sheriff Guaren served Notice of Garnishment to BDO's North Mandaue Branch.
- **February 10, 2004:** BDO responded, stating CSTC/Kho had no available garnishable funds.
- **March 5, 2004:** Kho filed an Answer to Ypil's Complaint.
- **October 24, 2007:** RTC issued subpoenas for Polloso's appearance and documents. Polloso did not appear, and another subpoena was issued.
- **February 1, 2008:** Polloso testified. Court discovered BDO debited CSTC's account to offset loan obligations.
- **May 9, 2008:** RTC issued an Order directing BDO to justify why it should not be held in indirect contempt for debiting CSTC's accounts.
- **June 16, 2008:** BDO filed its Compliance/Explanation, asserting legal compensation had occurred due to CSTC's default on its loan.
- **August 11, 2008:** RTC absolved Polloso of contempt but ordered BDO to make the garnished amounts available.
- **May 20, 2011:** RTC denied BDO's Partial Motion for Reconsideration, leading BDO to petition for certiorari to the CA.
- **November 23, 2012:** RTC issued a Judgment Based on Compromise Agreement between Ypil and Kho, instructing BDO to tender the garnished amount to Ypil.
- **May 6, 2013:** CA denied BDO's application for writ of injunction.
- **January 15, 2014:** CA affirmed RTC's orders, prompting BDO to file a Petition for

Review on Certiorari to the Supreme Court.

Issues:

1. Whether legal compensation took place ipso jure between BDO and CSTC when CSTC defaulted in its obligations to BDO, thereby affecting the garnishment.
2. Whether the inclusion of the disputed deposit in the Compromise Agreement was done in bad faith, leading to its erroneous inclusion in the RTC's Judgment Based on Compromise Agreement.

Court's Decision:

- ****On Legal Compensation:**** The Supreme Court concluded that the elements of legal compensation under Article 1279 of the Civil Code were not met. Specifically, CSTC's debt was not considered due and liquidated as BDO failed to specify the date when CSTC defaulted. This absence of particularity meant that CSTC's debts were not considered liquidated and demandable as required by law.
- ****On Custodia Legis:**** The Court held that the service of the Notice of Garnishment effectively placed CSTC's deposits under custodia legis. Thus, BDO could not unilaterally debit the funds after the garnishment, and the trial court had jurisdiction over these funds.
- ****On Bad Faith Argument:**** The Supreme Court found no evidence of bad faith in the inclusion of the deposit in the Compromise Agreement. The garnishment was validly executed, and no legal compensation had taken place to nullify the amount under dispute.

Doctrine:

- ****Custodia Legis:**** Garnished funds are under the sole control of the court and cannot be unilaterally debited by the bank after service of the Notice of Garnishment.
- ****Legal Compensation (Article 1279, Civil Code):**** Compensation requires due, liquidated, and demandable debts with no existing third-party retention or controversy. Without specific details on defaults, debts are not deemed liquidated.
- ****Bank's Duty:**** Banks are required to exercise the highest degree of diligence in their transactions, especially in managing accounts and offsetting client debts.

Class Notes:

- ****Compensation (Article 1279, Civil Code):**** Key elements include both parties being creditors and debtors, debts being sums of money, debts being due, liquidated, demandable, and absence of third-party retention/controversy.
- ****Custodia Legis:**** Notice of Garnishment places funds under court control until the

garnish is discharged or the debt is satisfied.

- ****Bank's Obligation:**** Banks must monitor accounts diligently and comply with legal procedures such as garnishments without unilateral actions.

Historical Background:

The case arises from a common banking issue involving obligations, garnishments, and compensation principles. It reflects the stringent procedural requirements and fiduciary responsibilities imposed on banks in the Philippines to maintain trust and fairness in financial and judicial proceedings.