

Title:

Dra. Mercedes Oliver vs. Philippine Savings Bank and Lilia Castro, G.R. No. 215730 (2016)

Facts:

****Initial Loan and Deposits:****

- In 1997, Dra. Mercedes Oliver deposited P12 million into her Philippine Savings Bank (PSBank) account.
- Respondent Lilia Castro, Assistant Vice President and Acting Branch Manager of PSBank San Pedro, Laguna, proposed that Oliver use her funds as interim financing for approved loans awaiting release.
- Approved loans would be shown to Oliver, and Castro would withdraw the corresponding amount. Upon loan release, Oliver's account would be reimbursed with interest income, and Castro would receive a commission.

****Issues around Withdrawals and Loans:****

- This arrangement proceeded smoothly for months, with Oliver even entrusting her passbook to Castro.
- Oliver secured an additional credit line of P10 million, backed by a mortgage on her Ayala Alabang house and lot.
- Oliver instructed Castro to pay PSBank P2 million monthly starting September 3, 1998, to settle the P10 million credit line by January 3, 1999.

****Emergence of Unauthorized Transactions:****

- In September 1998, Castro ceased accounting to Oliver.
- When Oliver reviewed her passbook in early 1999, she observed several inconsistencies and multiple unauthorized transactions, including an unexpected P4.5 million loan credited and P7 million withdrawal on December 21, 1998.
- Additional discrepancies included an unauthorized loan of P1,396,310.45 on January 5, 1999.
- Despite her claims, Oliver received collection letters for unpaid loans and a foreclosure notice on her Ayala Alabang property in September 1999.

****Court Proceedings:****

- Oliver filed a complaint against PSBank and Castro alleging unauthorized transactions.
- Castro defended that the loans and withdrawals were authorized by Oliver, and admitted

to altering the passbook entries to reconcile with bank records.

- PSBank supported Castro's defense and argued due diligence was exercised.

****RTC and CA Proceedings:****

- The RTC initially dismissed Oliver's complaint but reversed its decision upon reconsideration, ordering PSBank and Castro to pay damages.

- The CA reversed the RTC's order and reinstated the original dismissal, citing lack of compelling evidence of fraud.

Issues:

1. Did the Court of Appeals err in ruling that the petitioner failed to prove fraud in processing and releasing the P4.5 million loan and the P7 million withdrawal?

2. Was the Court of Appeals correct in ruling that Oliver did not provide evidence showing the P7 million was debited without her authorization?

3. Did the Court of Appeals err in holding that PSBank exercised extraordinary diligence in managing Oliver's account?

4. Should the respondents be held jointly and severally liable for damages to Oliver?

Court's Decision:

****Issue 1**:**

- The Supreme Court held that the loans for P4.5 million and P1,396,310.45 were valid as Oliver's signatures were in the loan documents.

- However, the P7 million withdrawal was unauthorized as Castro failed to secure Oliver's permission and altered the passbook entries.

****Issue 2**:**

- The withdrawal of P7 million was deemed unauthorized based on inconsistencies between the transaction history and the passbook, alterations made by Castro, and the lack of a withdrawal slip provided by PSBank or Castro.

****Issue 3**:**

- PSBank was found to have breached its fiduciary duty by failing to safeguard Oliver's funds and allowing unauthorized withdrawals. Ordinary diligence of a good father of a family was insufficient—extraordinary diligence was required.

****Issue 4**:**

- Both Castro and PSBank were held jointly and severally liable for the unauthorized withdrawal leading to damages. The Court reinstated the RTC's order awarding actual, moral, and exemplary damages, as well as attorney's fees but modified amounts for exemplary damages and attorney fees to P50,000.00 each.

Doctrine:

1. **Agency Establishment**: Agency may be express or implied. Acts performed by the agent within the scope of authority bind the principal.
2. **Higher Standard of Care in Banking**: Banks must exercise the highest degree of diligence due to their fiduciary nature with depositors.
3. **Burden of Proof**: The party alleging a fact must prove it. Here, the withdrawal of P7 million without authorization was pivotal.

Class Notes:

- **Elements of Agency**:
 - Consent of both principal and agent.
 - Agent acts on behalf of the principal.
 - Agent acts within the scope of authority.
- **Fiduciary Duty of Banks**:
 - Extraordinary diligence required.
 - Accuracy and promptness in transactions.
 - Accountability for unauthorized transactions.
- **Burden of Proof**:
 - Lies initially with the plaintiff to establish a claim.
 - Shifts to the defendant to refute the claim with proof.

Historical Background:

This case exemplifies the critical scrutiny under which financial institutions operate in managing customer accounts. Amid incidents of fraud and unauthorized transactions, the banking sector's fiduciary responsibilities to depositors are re-emphasized, highlighting the need for rigorous transaction protocols and customer communication to uphold trust and operational integrity in the financial industry.