

Title: Richardson Steel Corporation, et al. vs. Union Bank of the Philippines

Facts:

- **1996**: Union Bank of the Philippines (UBP) proposed a special financing deal to petitioners Richardson Steel Corporation (RSC), Ayala Integrated Steel Manufacturing Co., Inc. (AISM), and Asian Footwear and Rubber Corp. (AFRC), involving a credit accommodation of PHP 240M to finance RSC's Continuous Galvanizing Line (CGL) and a working capital of PHP 600M.
- **Acceptance and Actions**: Petitioners accepted; however, while the credit accommodation was disbursed, the working capital was not provided, stalling RSC's operations.
- **1999**: Petitioners requested further loans of PHP 150M (RSC) and PHP 30M (AISM) due to mounting debts. UBP agreed through Memorandum of Agreements (MOAs) and Credit Line Agreements (CLAs).
- **Non-Compliance Allegation (1999-2000)**: Petitioners claimed that UBP did not release the promised working capital under CLAs and used the funds to pay monthly interests of restructured loans without consent, leading to a lawsuit for Specific Performance and Damages in April 2001.
- **Foreclosure Action (2003)**: UBP initiated foreclosure due to alleged non-payment. Petitioners asserted they were not in default as they received no written default notice from UBP; properties mortgaged were auctioned with UBP as the highest bidder.
- **RTC Ruling (2012)**: RTC favored petitioners, held that CLAs and RAs are separate; UBP expected to disburse funds for working capital and damages awarded to petitioners.
- **CA Ruling (2015)**: Reversed RTC, binding CLAs and RAs together, justified foreclosure as petitioners defaulted on restructured loans.
- **Supreme Court Review (ongoing)**: Petitioners challenged CA's interpretation of contractual obligations, foreclosure process, and the award of damages.

Issues:

1. **Contracts Interpretation**: Whether the CLAs and RAs should be construed independently or together.
2. **Obligation to Disburse Working Capital**: Whether UBP was obligated under CLAs to provide working capital strictly as per CLAs apart from servicing restructured loans.
3. **Validity of Foreclosure**: Whether petitioners were rightly declared in default and UBP was justified in foreclosing the mortgaged properties.
4. **Damages and Costs**: Whether awarding liquidated, compensatory, moral, and exemplary damages, and attorney's fees by the RTC was appropriate given UBP's handling

of loans.

Court's Decision:

- ****Contracts Interpretation****:

- SC held that CLAs and RAs are distinct and should stand independently. The literal meaning of their terms should be upheld.

- CLAs explicitly stated the purpose is working capital and not to merely service existing debts.

- "Plain-meaning-rule" under Civil Code, Article 1370 applied: Clear contract terms control.

- ****Obligation to Disburse Working Capital****:

- SC confirmed RTC's position requiring UBP to release funds for working capital: UBP's automatic application of credit line proceeds towards interest payments without petitioners' consent was deemed a circumvention of the CLA terms.

- Working Capital understood as overall cost to sustain operations, not exclusively interest payments of long-term loans.

- ****Validity of Foreclosure****:

- SC found foreclosure proceedings premature; petitioners were not in default as per Article 1169, Civil Code.

- UBP's foreclosure without fulfilling its obligation under CLA was wrongful; properties' foreclosure and auction declared void.

- ****Damages and Costs****:

- SC modified RTC's and CA's rulings: Deleted actual/compensatory and moral damages due to lack of certainty but maintained exemplary damages (PHP 5M) to underscore UBP's fiduciary responsibilities.

- Reduced attorney's fees from PHP 500,000 to PHP 300,000.

Doctrine:

- ****Doctrine of Independent Contractual Interpretation****:

- Contracts should be interpreted by their clear terms unless intrinsic ambiguities exist.

- Complementary contracts construed together doesn't apply to independent contracts. Contracts must be honored as written.

- ****Parol Evidence Rule****:

- Parties may not present extrinsic evidence contradicting clear written contract terms unless exceptions applied.

Class Notes:

- **Key Concepts**:
- **Clarity of Contract Terms**: Emphasis on literal interpretation of contract terms when they are unambiguous (Civil Code, Article 1370).
- **Default Criteria**: Obligors delay from the time obligee demands fulfillment unless a law or nature of obligation dictates otherwise (Civil Code, Article 1169).
- **Parol Evidence Rule**: Written contracts are conclusive unless intrinsic ambiguity or other exceptions apply (Rules of Court, Section 9, Rule 130).
- **Statutory Provisions**:
- **Civil Code, Article 1370**: Literal interpretation of unequivocal contracts.
- **Civil Code, Article 1169**: Defaults in obligations; delay defined.
- **Rules of Court, Section 9, Rule 130**: Parol Evidence and its exceptions.

Historical Background:

- **Economic Context**: The late 1990s was marked by a financial crisis impacting liquidity and banking. This case underscores tensions between business sectors needing operational funds and fiduciary duties of financial institutions.
- **Banking Practices**: Cases reflecting banks' responsibilities and dealings during financial distress situations highlight the importance of clear contract terms and faithful execution of agreements to prevent undue business harm and legal disputes.