

Title: PNB Madecor v. Uy (G.R. No. 49693)

Facts:

1. Guillermo Uy assigned his receivables from Pantranco North Express Inc. (PNEI), totaling P4,660,558.00, to respondent Gerardo Uy, including invoices stipulating interest and attorney's fees.
2. On January 23, 1995, Gerardo Uy filed a collection suit with an application for a writ of preliminary attachment against PNEI at the Regional Trial Court (RTC) seeking P8,397,440.00 and alleging fraud by PNEI.
3. On January 26, 1995, an attachment writ was issued, and notices were served to Philippine National Bank (PNB) and PNB Management and Development Corporation (PNB MADECOR) to attach goods, credits, and other personal properties of PNEI.
4. In March 1995, the RTC issued a subpoena duces tecum to PNB and PNB MADECOR for specific documents, including accounts and contracts related to PNEI.
5. PNB MADECOR responded, asserting that it held receivables of PNEI amounting to P8,784,227.48, while owing PNEI P7,884,000.00 due to a promissory note.
6. PNB MADECOR claimed that by operation of law on compensation, the mutual debts were extinguished but acknowledged a balance of P900,227.48 due from PNEI.
7. Respondent Uy countered, claiming PNB MADECOR's debt, with accrued interest, totaled P75,813,508.26, thus sufficient to satisfy his demand.
8. On July 26, 1995, the RTC rendered judgment against PNEI, issuing a writ of execution on August 18, 1995. On August 21, 1995, the RTC issued an order garnishing PNB MADECOR's credits and receivables of PNEI.
9. PNB MADECOR appealed the August 21, 1995 order but the Court of Appeals (CA) affirmed the RTC's decision on February 19, 1997, and denied the motion for reconsideration on June 19, 1997.
10. The CA ruled compensation could not occur due to third-party attachment proceedings initiated by respondent Uy.
11. PNB MADECOR filed a petition for review on certiorari to the Supreme Court, contending errors in the interpretation of applicable laws and the conduct of trial procedures.

Issues:

1. Whether the conditions for legal compensation under Articles 1278 and 1279 of the Civil Code were met, thereby extinguishing the mutual obligations between PNB MADECOR and PNEI.
2. Whether PNB MADECOR was improperly denied due process by being made a forced

intervenor through the notice of garnishment without a separate action being instituted as provided by Rule 39, Section 43 of the Rules of Court.

3. Whether there was a valid demand made by PNEI to PNB MADECOR for the payment of the promissory note dated October 31, 1982, making the debt due and demandable.

Court's Decision:

1. Legal Compensation Non-Concurrence:

- The Supreme Court noted that legal compensation requires several conditions, particularly that mutual debts be due and demandable.

- Since the promissory note stipulated interest only after a notice of demand, the letter dated September 28, 1984, was not a valid demand. Therefore, PNB MADECOR's debt was not due, and legal compensation couldn't apply, meaning PNB MADECOR's debt could be garnished.

2. Forced Intervenor Status:

- The court cited precedents asserting that garnishees become "forced intervenors" upon notice of garnishment, thus acquiring jurisdiction to bind them to processes of the court.

- Given PNB MADECOR's express admission of its debt, a separate action was unnecessary as Rule 39, Section 43 of the Rules of Court applied only when an adverse interest was claimed or the debt was denied.

Doctrine:

- Legal Compensation: For legal compensation to occur under Articles 1278 and 1279 of the Civil Code, it is required that:

1. Both parties must be principal debtors and creditors.
2. The debts must be of the same kind, and if applicable, of the same quality.
3. The debts must be due.
4. The debts must be liquidated and demandable.
5. There must be no retention or controversy related to the debts.

- Garnishment: Garnishees become forced intervenors upon receiving notice of garnishment and are bound to comply with court orders to satisfy the judgment (Tayabas Land Co. v. Sharruf, Perla Compania de Seguros, Inc. v. Ramolete).

Class Notes:

1. **Legal Compensation:** Must meet five specific requisites, including debts that are due and demandable. Compensation occurs by operation of law.
2. **Garnishment and Forced Intervention:** Garnishees are bound to comply with court

processes upon notice. No separate action is needed unless an adverse claim or debt denial exists.

3. **Demand and Debt Accrual:** For interest stipulations to apply, a clear demand for payment must be made according to agreed terms in a promissory note or contract.

Historical Background:

- The case highlights the complexities in debt collection involving corporate entities and third-party attachment proceedings.
- Illustrates judicial interpretations of compensation and garnishment under Philippine Civil law and procedural rules, as influenced by past precedents.