

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. GENERAL
ACCEPTANCE AND FINANCE CORPORATION, PHILIPPINE AMERICAN
GENERAL INSURANCE CO., INC., HON. COURT OF APPEALS, AND
MACARIO OFILADA...**

G.R. No. L-30751. May 24, 1988

Ponente: NARVASA, J.

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NARVASA, J.:

What is sought by the petition for review on certiorari in this case is the setting aside of the judgment of the Court of Appeals in CA-G.R. No. 36757-R[1] and the affirmance instead, of the decision of the Court of First Instance of Manila in Civil Case No. 51458.[2]

The facts are set forth in the Appellate Court's decision.[3] The Philippine National Bank, hereafter simply PNB, approved on February 28, 1962 an application for an import letter of credit in favor of a Hong Kong company[4] in the amount of US \$50,000.00, to cover importation of a defibering machine. The application was presented by Francisco Santos — doing business under the name of FRASAN Coconut Industries, and was embodied in a document entitled "Application and Agreement for Commercial Letter of Credit," dated February 1, 1962.[5] That "Application and Agreement," signed in due course by PNB and FRASAN, contained an undertaking by FRASAN and/ or Francisco Santos to the following effect:

**** as security for the payment and performance of any and all our obligations and or liabilities to you, direct or indirect, absolute or contingent, due or to become due. now existing or hereafter arising, each of us hereby pledges to you and/or gives you a general lien upon and/or right of set-off of all rights, title and interest of each of us in and to the balance of every deposit account now or at any time hereafter existing. ****

Consequent on the PNB's approval of the application, and pursuant to Circular No. 133 of the Central Bank, F. Santos gave the PNB two (2) checks to constitute a special deposit denominated, "25% Special Time Deposit." The first check was for P14,990.75, the other for P30,000.00; but only the second was good, the first having been later dishonored.

Circular No. 133 above mentioned was amended shortly afterwards by CB Circular No. 139 dated March 2, 1962,[6] providing for the release of subsisting special deposits on "essential Consumer goods, essential Producer goods, and decontrolled items.' It is not disputed, by the way, that the def ibering machine subject of the letter of credit, falls under the category of "essential producer goods.' Thereafter, PNB opened for FRASAN Coconut Industries, in favor of the Hong Kong company, Letter of Credit No. 620301-DC for \$50,000.00, to expire on May 31, 1962.[7]

On March 16, 1962, General Acceptance & Finance Corporation, hereafter, simply GAFC,wrote to PNB informing it that FRASAN's special time deposit of P30,000.00 had been assigned to it (attaching the corresponding deed dated March 2, 1962) and asking that the same be delivered to it in as much as the deposit was deemed released in accordance with CB Circular No. 139.

Four days later, however,[8] that same deposit was garnished by the Sheriff of Manila in execution of a judgment of the Manila Court of First Instance in Civil Case No. 44704 obtained against Francisco Santos by the Philippine American General Insurance Co., Inc., hereafter referred to simply as PHILAMGEN. But the garnishment was lifted on March 26, 1962, for some reason or other not precisely ascertainable from the record, although it is otherwise clear that GAFC had nothing to do with the lifting.

PNB referred GAFC's request for delivery to it of the assigned deposit of P30,000.00 to its legal department for opinion, advising GAFC thereof by letter dated March 27, 1962. FRASAN then wrote to PNB authorizing the release of the deposit to GAFC; but PNB wrote back on April 18, 1962 refusing to release the deposit because it considered it as an additional guaranty for another obligation of Francisco Santos owing to the Development Bank of the Philippines.

On April 30, 1962 and again on May 25, 1962, the same special time deposit was once more garnished by the Manila Sheriff. PNB informed the sheriff that the deposit had been previously assigned to GAFC, but this notwithstanding, the sheriff served on PNB on July 18, 1962, and again on August 14, 1962 a Notice of Delivery of Money. PNB informed GAFC of these developments on August 2, 1962.

Evidently, PNB was already willing at this time to release FRASAN's deposit of P30,000.00 but its problem was, it did not know to whom delivery should rightfully be made. To resolve the problem, it decided to file an action of interpleader against the claimants thereof; GAFC and PHILAMGEN. This it did on September 1, 1962.

Answers and other pleadings were in due course filed, and trial was had, after which judgment was rendered on July 19, 1965. The Court inter alia declared —

1) as without merit, PHILAMGEN's "claim that it has a better and superior right over the deposit, *** since, among other reasons, Philamgen's lien was created on 30 April 1962 when the attachment was served on the plaintiff anew after it was lifted on 16 April 1962, whereas defendant General Acceptance's right to the sum in plaintiff's hands arose as early as 2 March 1962;" and

2) deductions from the deposit, in the total amount of P8,331.13, had been correctly made by PNB since it had been "authorized to apply the deposit *** to letter of credit No. 620301-DC and other accounts of Frasan Coconut Industries pursuant to the 'Application and Agreement for Commercial Letter of Credit' *** and by express authority of the depositor ***" The judgment thus disposed of the case as follows:

"WHEREFORE, in view of all the foregoing, judgment is hereby rendered, as follows:

"1.

Ordering the plaintiff (PNB) to deliver to defendant General Acceptance the sum of P21,668.87, with interests at the legal rate from the date of this decision;

"2. Declaring as legal and proper the deductions made by the plaintiff on the original deposit of P30,000.00;

"3. Dismissing both defendants' counterclaims against the plaintiff;

"4. Dismissing cross-plaintiff General Acceptance's cross-claim against *** Philamgen;

"5. Dismissing plaintiffs counterclaim against defendant General Acceptance; and

"6. Without pronouncement as to costs."

Both GAFC and PHILAMGEN appealed to the Court of Appeals. That Court, in its decision promulgated on December 24, 1968, expressed agreement with the Trial Court's conclusions except only with respect to the deductions made by PNB from the deposit. On this point, the Appellate Court said:

**** (W)e cannot agree with the conclusion *** that appellee bank was authorized to deduct from the said deposit various charges and accounts due the bank from the Frasan Coconut Industries in the total amount of P8,331.13. Appellants General Acceptance and Philamgen correctly contend that special deposits, as in the case at bar, are deliveries of money or other property to a bank for safe-keeping and return in kind (the same kind). Title to the thing deposited remains in the depositor, and the bank becomes his agent, bailee, or trustee. There is no relation of debtor and creditor between the bank in which the deposit is made and its special depositor, their status or relation being that of agent and principal, bailee and bailor, or trustee and cestui que trust, or a combination of such relationships (9 C.J.S.. pp. 562-563). This being the case, a bank implicitly binds itself, by accepting the special deposit, not to set off against such deposit a debt due it from the depositor (7 Am. Jur.. p. 461). As a matter of fact, even appellee bank admits this proposition in the case of special deposit *** Of course, the bank argues that the deposit in question is a general deposit and therefore the same is governed by the rules on simple loan. But, as we have stated earlier, the receipt clearly reveals the contrary, to say nothing of the judicial admission of the bank contained in its own complaint.

"Likewise we cannot agree with the finding of the lower court that appellee was authorized to apply the deposit *** to the charges and account due it under the letter of credit *** pursuant to the Application and Agreement for Commercial Letter of Credit *** and by express authority of the depositor ***, the same having no legal significance respecting special deposits. ****"

The Appellate Court's judgment consequently modified that of the Lower Court in the following manner:

WHEREFORE, judgment is hereby rendered modifying the decision of the lower court in the following manner, to wit:

" 1.

Ordering appellee *** (PNB) to deliver the sum of P21,668.87 and the further sum of P8,331.13 representing the deducted charges and accounts, or a total of P30,000.00, to appellant *** (GAFC) and, by way of compensatory damages, to pay said appellant interest at the legal rate from March 16, 1962, on said amount of P30,000.00;

"2.

Ordering appellee *** (PNB) to pay appellant *** (GAFC) the sum of P5,000.00 as exemplary or corrective damages and the further sum of P3,000.00 for attorney's fees and expenses of litigation;

"3.

Dismissing appellant *** (GAFC's) cross-claim against appellant Philamgen;

"4.

Costs against appellee *** (PNB).

"Thus modified, the decision appealed from is affirmed in all other respects."

PNB appealed, as aforestated, and in its petition it contends that the Court of Appeals erred in holding —

1)

"that the relationship between *** (it) and its depositor, FRASAN ***, on the controverted deposit of P30,000.00 is that of agent and principal, bailee and bailor, or trustee and cestui que trust, and not as debtor and creditor;

2)

"that the Application and Agreement for Commercial Letter of Credit *** and the Letters-Authority *** have no legal significance respecting special deposit, hence, the deductions made by petitioner bank, on the aforesaid deposit, are not legal and proper; and

3)

"that petitioner bank is liable for compensatory and exemplary damages as well as attorney's fees and expenses of litigations."

Whether or not the "25% special time deposit" made pursuant to CB Circular No. 133 in connection with the opening of a foreign letter of credit so "freezes" or isolates the deposit that it may not be used except in relation to said letter of credit, and no part of it may be applied for any other purpose, such as the payment of any other obligation of the party opening the letter of credit, is the first and chief issue raised by the petitioner — the Appellate Court's new being that the "deposit was made in compliance with said Circular No. 133"; hence, "(t)itle to the thing deposited remains in the depositor, and the bank becomes his agent, bailee, or trustee;" and the PNB impliedly bound itself, "by accepting the special deposit, not to set off against such deposit a debt due it from the depositor." [9]

Resolution of the issue in the affirmative, or in the manner of the appealed judgment, is however precluded by CB Circular No. 139 dated March 2, 1962, [10] which as already pointed out, released "subsisting time deposits on Essential *** Producer goods," among others. In other words, while the deposit — in connection with the projected importation of an "Essential Producer" machine — was admittedly tied down to a specific purpose when made, in accordance with CB Circular No. 133, and therefore could not be applied by either the PNB or FRASAN to any other purpose, it was subsequently released from this restriction by CB Circular No. 139.

Moreover, under the "Application and Agreement," signed by PNB and FRASAN on February 1, 1962, Francisco Santos and/or FRASAN had pledged or given to the PNB "a general lien upon and/or right of set-off of all rights, title and interest *** to the balance of every deposit account now or at any time hereafter existing," "(a)s security for the payment and performance of any and all *** (their) obligations and or liabilities ***, direct or indirect, absolute or contingent, due or to become due, *** then existing or (t)hereafter arising ***" Parenthetically, it may be pointed out that among the "obligations thereafter arising" were the deposits required to be made by FRASAN on other letters of credit, Numbered 620424-DC and 620551-DC in the amounts of \$110 and \$220, respectively, which FRASAN, by letters dated March 13, and March 19, 1962, had authorized PNB to deduct

from the deposit in question.[11]

Thus, when FRASAN assigned his "rights, title and interest . . . (in) his fixed deposit" of favor of GAFC by deed dated March 2, 1962, the latter acquired the same subject to (1) CB Circular No. 133, as amended by CB Circular No. 139, as well as to (2) the general lien and /or right of set-off constituted in PNB's favor over the deposit by the assignor, FRASAN. Evidently, the act of assignment could not have, without more, operated to erase liens or restrictions burdening the right assigned. The assignee cannot, after all, acquire a greater right than that pertaining to the assignor.

The PNB was therefore acting well within its rights in making deductions on FRASAN's special time deposit in satisfaction of its credits against the latter relative to transactions other than the original letter of credit. The correctness of the amount of those deductions has not, incidentally, been impugned. This being the case, its refusal to deliver to GAFC the entire deposit in the sum of P30,000.00, in the face of the latter's insistence that no deductions should be made therefrom and this was the correct amount to be delivered to it, coupled with the conflicting claim made on the same deposit by a third party, was not of so reckless, oppressive or malevolent, a character as would give rise to liability for exemplary or corrective damages,[12] or for attorney's fees.[13]

WHEREFORE, the judgment of the Court of Appeals promulgated on December 24, 1968 (in CA-G.R. No. 36575-R) is REVERSED, and that rendered on July 19, 1965 by the Trial Court (in Civil Case No. 51458), REINSTATED AND AFFIRMED.

Cruz, Gancayco, Griño-Aquino, and Medialdea, JJ., concur.

[1] Mendoza, J.. ponente; Lucero and Perez. JJ.. concurring.

[2] Rendered by Judge (later. C.A. and then. S.C. Justice) Guillermo S. Santos.

[3] Based on the parties' Partial Stipulation of Facts as well as the evidence.

[4] Southern Industrial Corporation and/or assignee.

[5] Exh. A-1.

[6] Copy of which was received by PNB on March 5. 1962.

[7] The Court of Appeals found that "the \$50,000.00 letter of credit for which the '25% Spl time Deposit' was put up was never negotiated.' Rollo, p. 72.

[8] i.e., March 20, 1962.

[9] Rollo, pp. 47-48.

[10] SEE footnote No. 1, p. 2, supra.

[11] Exhs. S and T: SEE Record on Appeal, p. 103 (Rollo. pp. 103 et seq).

[12] ART. 2232. Civil Code.

[13] ART. 2208. Civil Code.

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