

**RIZAL COMMERCIAL BANKING CORPORATION, PETITIONER, VS.
THE HONORABLE PACIFICO P. DE CASTRO AND PHILIPPINE
VIRGINIA TOBACCO ADMINISTRATION, RESPONDENTS.**

G.R. No. L-34548. November 29, 1988

Ponente: CORTES, J.

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CORTES, J.:

The crux of the instant controversy dwells on the liability of a bank for releasing its depositor's funds upon orders of the court, pursuant to a writ of garnishment. If in compliance with the court order, the bank delivered the garnished amount to the sheriff, who in turn delivered it to the judgment creditor, but subsequently, the order of the court directing payment was set aside by the same judge, should the bank be held solidarily liable with the judgment creditor to its depositor for reimbursement of the garnished funds? The Court does not think so.

In Civil Case No. Q-12785 of the Court of First Instance of Rizal, Quezon City Branch IX entitled "Badoc Planters, Inc. versus Philippine Virginia Tobacco Administration, et al.," which was an action for recovery of unpaid tobacco deliveries, an Order (Partial Judgment) was issued on January 15, 1970 by the Hon. Lourdes P. San Diego, then Presiding Judge, ordering the defendants therein to pay jointly and severally, the plaintiff Badoc Planters, Inc. (hereinafter referred to as "BADO") within 48 hours the aggregate amount of P206,916.76, with legal interests thereon.

On January 26, 1970, BADO filed an Urgent Ex-Parte Motion for a Writ of Execution of the said Partial Judgment which was granted on the same day by the herein respondent judge who acted in place of the Hon. Judge San Diego who had just been elevated as a Justice of the Court of Appeals. Accordingly, the Branch Clerk of Court on the very same day, issued a Writ of Execution addressed to Special Sheriff Faustino Rigor, who then issued a Notice of Garnishment addressed to the General Manager and/or Cashier of Rizal Commercial Banking Corporation (hereinafter referred to as RCBC), the petitioner in this case, requesting a reply within five (5) days to said garnishment as to any property which the Philippine Virginia Tobacco Administration (hereinafter referred to as "PVTA") might have in the possession or control of petitioner or of any debts owing by the petitioner to said defendant. Upon receipt of such Notice, RCBC notified PVTA thereof to enable the PVTA to take the necessary steps for the protection of its own interest [Record on Appeal, p. 36.]

Upon an Urgent Ex-Parte Motion dated January 27, 1970 filed by BADO, the respondent Judge issued an Order granting the Ex-Parte Motion and directing the herein petitioner "to deliver in check the amount garnished to Sheriff Faustino Rigor and Sheriff Rigor in turn is ordered to cash the check and deliver the amount to the plaintiff's representative and/or counsel on record." [Record on Appeal, p. 20; Rollo, p. 5.] In compliance with said Order, petitioner delivered to Sheriff Rigor a certified check in the sum of P206,916.76.

Respondent PVTA filed a Motion for Reconsideration dated February 26, 1970 which was granted in an Order dated April 6, 1970, setting aside the Orders of Execution and of Payment and the Writ of Execution and ordering petitioner and BADO "to restore, jointly and severally, the account of PVTA with the said bank in the same

condition and state it was before the issuance of the aforesaid Orders by reimbursing the PVTA of the amount of P206,916.76 with interests at the legal rate from January 27, 1970 until fully paid to the account of the PVTA. This is without prejudice to the right of plaintiff to move for the execution of the partial judgment pending appeal in case the motion for reconsideration is denied and appeal is taken from the said partial judgment." [Record on Appeal, p. 58.]

The Motion for Reconsideration of the said Order of April 6, 1970 filed by herein petitioner was denied in the Order of respondent judge dated June 10, 1970 and on June 19, 1970, which was within the period for perfecting an appeal, the herein petitioner filed a Notice of Appeal to the Court of Appeals from the said Orders.

This case was then certified by the Court of Appeals to this Honorable Court, involving as it does purely questions of law.

The petitioner raises two principal queries in the instant case: 1) Whether or not PVTA funds are public funds not subject to garnishment; and 2) Whether or not the respondent Judge correctly ordered the herein petitioner to reimburse the amount paid to the Special Sheriff by virtue of the execution issued pursuant to the Order/Partial Judgment dated January 15, 1970.

The record reveals that on February 2, 1970, private respondent PVTA filed a Motion for Reconsideration of the Order/Partial Judgment of January 15, 1970. This was granted and the aforementioned Partial Judgment was set aside. The case was set for hearings on November 4, 9 and 11, 1970 [Rollo, pp. 205-207.] However, in view of the failure of plaintiff BADOCA to appear on the said dates, the lower court ordered the dismissal of the case against PVTA for failure to prosecute [Rollo, p. 208.]

It must be noted that the Order of respondent Judge dated April 6, 1970 directing the plaintiff to reimburse PVTA the amount of P206,916.76 with interests became final as to said plaintiff who failed to even file a motion for reconsideration, much less to appeal from the said Order. Consequently, the order to restore the account of PVTA with RCBC in the same condition and state it was before the issuance of the questioned orders must be upheld as to the plaintiff, BADOCA.

However, the questioned Order of April 6, 1970 must be set aside insofar as it ordered the petitioner RCBC, jointly and severally with BADOCA, to reimburse PVTA.

The petitioner merely obeyed a mandatory directive from the respondent Judge dated January 27, 1970, ordering petitioner "to deliver in check the amount garnished to Sheriff Faustino Rigor and Sheriff Rigor is in turn ordered to cash the check and deliver the amount to the plaintiff's representative and/or counsel on record." (Record on Appeal, p. 20.)

PVTA however claims that the manner in which the bank complied with the Sheriff's Notice of Garnishment indicated breach of trust and dereliction of duty on the part of the bank as custodian of government funds. It insistently urges that the premature delivery of the garnished amount by RCBC to the special sheriff even in the absence of a demand to deliver made by the latter, before expiration of the five-day period given to reply to the Notice of Garnishment, without any reply having been given thereto nor any prior authorization from its depositor, PVTA and even if the court's order of January 27, 1970 did not require the bank to immediately deliver the garnished amount constitutes such lack of prudence as to make it answerable jointly and severally with the plaintiff for the wrongful release of the money from the deposit of the PVTA. The respondent Judge in his controverted Order sustained such contention and blamed RCBC for the supposed "hasty release of the amount from the deposit of the PVTA without giving PVTA a chance to take proper steps by informing it of the action being taken against its deposit, thereby observing with prudence the five-day period given to it by the sheriff."

[Rollo, p. 81.]

Such allegations must be rejected for lack of merit. In the first place, it should be pointed out that RCBC did not deliver the amount on the strength solely of a Notice of Garnishment; rather, the release of the funds was made pursuant to the aforesaid Order of January 27, 1970. While the Notice of Garnishment dated January 26, 1970 contained no demand of payment as it was a mere request for petitioner to withhold any funds of the PVTa then in its possession, the Order of January 27, 1970 categorically required the delivery in check of the amount garnished to the special sheriff, Faustino Rigor.

In the second place, the bank had already filed a reply to the Notice of Garnishment stating that it had in its custody funds belonging to the PVTa, which, in fact was the basis of the plaintiff in filing a motion to secure delivery of the garnished amount to the sheriff [See Rollo, p. 93.]

Lastly, the bank, upon the receipt of the Notice of Garnishment, duly informed PVTa thereof to enable the latter to take the necessary steps for the protection of its own interest [Record on Appeal, p. 36.]

It is important to stress, at this juncture, that there was nothing irregular in the delivery of the funds of PVTa by check to the sheriff, whose custody is equivalent to the custody of the court, he being a court officer. The order of the court dated January 27, 1970 was composed of two parts, requiring: 1) RCBC to deliver in check the amount garnished to the designated sheriff and 2) the sheriff in turn to cash the check and deliver the amount to the plaintiff's representative and/or counsel on record. It must be noted that in delivering the garnished amount in check to the sheriff, the RCBC did not thereby make any payment, for the law mandates that delivery of a check does not produce the effect of payment until it has been cashed [Article 1249, Civil Code.]

Moreover, by virtue of the order of garnishment, the same was placed in custodia legis and therefore, from that time on, RCBC was holding the funds subject to the orders of the court a quo. That the sheriff, upon delivery of the check to him by RCBC encashed it and turned over the proceeds thereof to the plaintiff was no longer the concern of RCBC as the responsibility over the garnished funds passed to the court. Thus, no breach of trust or dereliction of duty can be attributed to RCBC in delivering its depositor's funds pursuant to a court order which was merely in the exercise of its power of control over such funds.

. . .The garnishment of property to satisfy a writ of execution operates as an attachment and fastens upon the property a lien by which the property is brought under the jurisdiction of the court issuing the writ. It is brought into custodia legis, under the sole control of such court. . . . [De Leon v. Salvador, G.R. Nos. L-30871 and L-31603, December 28, 1970, 36 SCRA 567, 574.]

The respondent judge however, censured the petitioner for having released the funds "simply on the strength of the Order of the court which, far from ordering an immediate release of the amount involved, merely serves as a standing authority to make the release at the proper time prescribed by the rules:" [Rollo, p. 81.]

This argument deserves no serious consideration. As stated earlier, the order directing the bank to deliver the amount to the sheriff was distinct and separate from the order directing the sheriff to encash the said check. The bank had no choice but to comply with the order demanding delivery of the garnished amount in check. The very tenor of the order called for immediate compliance therewith. On the other hand, the bank cannot be held liable for the subsequent encashment of the check as this was upon order of the court in the exercise of its power of control over the funds placed in custodia legis by virtue of the garnishment.

In a recent decision [Engineering Construction Inc., v. National Power Corporation, G.R. No. L-34589, June 29, 1988] penned by the now Chief Justice Marcelo Fernan, this Court absolved a garnishee from any liability for prompt compliance with its order for the delivery of the garnished funds. The rationale behind such ruling

deserves emphasis in the present case:

But while partial restitution is warranted in favor of NPC, we find that the Appellate Court erred in not absolving MERALCO, the garnishee, from its obligations to NPC with respect to the payment to ECI of P1,114,543.23, thus in effect subjecting MERALCO to double liability. MERALCO should not have been faulted for its prompt obedience to a writ of garnishment. Unless there are compelling reasons such as: a defect on the face of the writ or actual knowledge on the part of the garnishee of lack of entitlement on the part of the garnisher, it is not incumbent upon the garnishee to inquire or to judge for itself whether or not the order for the advance execution of a judgment is valid.

Section 8, Rule 57 of the Rules of Court provides:

Effect of attachment of debts and credits. - All persons having in their possession or under their control any credits or other similar personal property belonging to the party against whom attachment is issued, or owing any debts to the same, at the time of service upon them of a copy of the order of attachment and notice as provided in the last preceding section, shall be liable to the applicant for the amount of such credits, debts or other property, until the attachment be discharged, or any judgment recovered by him be satisfied, unless, such property be delivered or transferred, or such debts be paid, to the clerk, sheriff or other proper officer of the court issuing the attachment.

Garnishment is considered as a specie of attachment for reaching credits belonging to the judgment debtor and owing to him from a stranger to the litigation. Under the above-cited rule, the garnishee [the third person] is obliged to deliver the credits, etc. to the proper officer issuing the writ and "the law exempts from liability the person having in his possession or under his control any credits or other personal property belonging to the defendant, x x x, if such property be delivered or transferred, x x x, to the clerk, sheriff, or other officer of the court in which the action is pending. [3 Moran, Comments on the Rules of Court 34 (1970 ed.)]

Applying the foregoing to the case at bar, MERALCO, as garnishee, after having been judicially compelled to pay the amount of the judgment represented by funds in its possession belonging to the judgment debtor or NPC, should be released from all responsibilities over such amount after delivery thereof to the sheriff. The reason for the rule is self-evident. To expose garnishees to risks for obeying court orders and processes would only undermine the administration of justice. [Italics supplied.]

The aforequoted ruling thus bolsters RCBC's stand that its immediate compliance with the lower court's order should not have been met with the harsh penalty of joint and several liability. Nor can its liability to reimburse PVTa of the amount delivered in check be premised upon the subsequent declaration of nullity of the order of delivery. As correctly pointed out by the petitioner:

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That the respondent Judge, after his Order was enforced, saw fit to recall said Order and decree its nullity, should not prejudice one who dutifully abided by it, the presumption being that judicial orders are valid and issued in the regular performance of the duties of the Court" [Section 5(m) Rule 131, Revised Rules of Court]. This should operate with greater force in relation to the herein petitioner which, not being a party in the case, was just called upon to perform an act in accordance with a judicial fiat. A contrary view will invite disrespect for the majesty of the law and induce reluctance in complying with judicial orders out of fear that said orders might be subsequently invalidated and thereby expose one to suffer some penalty or prejudice for obeying the same. And this is what will happen were the controversial orders to be sustained. We need not underscore the danger of this as a precedent.

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[Brief for the Petitioner, Rollo, p. 212; Underscoring supplied.]

From the foregoing, it may be concluded that the charge of breach of trust and/or dereliction of duty as well as lack of prudence in effecting the immediate payment of the garnished amount is totally unfounded. Upon receipt of the Notice of Garnishment, RCBC duly informed PVTa thereof to enable the latter to take the necessary steps for its protection. However, right on the very next day after its receipt of such notice, RCBC was already served with the Order requiring delivery of the garnished amount. Confronted as it was with a mandatory directive, disobedience to which exposed it to a contempt order, it had no choice but to comply.

The respondent Judge nevertheless held that the liability of RCBC for the reimbursement of the garnished amount is predicated on the ruling of the Supreme Court in the case of *Commissioner of Public Highways v. Hon. San Diego* [G.R. No. L-30098, February 18, 1970, 31 SCRA 616] which he found practically on all fours with the case at bar.

The Court disagrees.

The said case which reiterated the rule in *Republic v. Palacio* [G.R. No. L-20322, May 29, 1968, 23 SCRA 899] that government funds and properties may not be seized under writs of execution or garnishment to satisfy such judgment is definitely distinguishable from the case at bar.

In the *Commissioner of Public Highways* case [supra], the bank which precipitately allowed the garnishment and delivery of the funds failed to inform its depositor thereof, charged as it was with knowledge of the nullity of the writ of execution and notice of garnishment against government funds. In the aforementioned case, the funds involved belonged to the Bureau of Public Highways, which being an arm of the executive branch of the government, has no personality of its own separate from the National Government. The funds involved were government funds covered by the rule on exemption from execution.

This brings us to the first issue raised by the petitioner: Are the PVTa funds public funds exempt from garnishment? The Court holds that they are not.

Republic Act No. 2265 created the PVTa as an ordinary corporation with all the attributes of a corporate entity subject to the provisions of the Corporation Law. Hence, it possesses the power "to sue and be sued" and "to acquire and hold such assets and incur such liabilities resulting directly from operations authorized by the provisions of this Act or as essential to the proper conduct of such operations." [Section 3, Republic Act No. 2265.]

Among the specific powers vested in the PVTa are: 1) to buy Virginia tobacco grown in the Philippines for resale to local bona fide tobacco manufacturers and leaf tobacco dealer [Section 4(b), R.A. No. 2265]; 2) to enter into, make and execute contracts of any kind as may be necessary or incidental to the attainment of its purpose with any person, firm or corporation, with the Government of the Philippines or with any foreign government, subject to existing laws [Section 4(h), R.A. No. 2265]; and 3) generally, to exercise all the powers of a corporation under the Corporation Law, insofar as they are not inconsistent with the provisions of this Act [Section 4(k), R.A. No. 2265.]

From the foregoing, it is clear that PVTa has been endowed with a personality distinct and separate from the government which owns and controls it. Accordingly, this Court has heretofore declared that the funds of the PVTa can be garnished since "funds of public corporations which can sue and be sued were not exempt from garnishment" [*Philippine National Bank v. Pabalan*, G.R. No. L-33112, June 15, 1978, 83 SCRA 595, 598.]

In *National Shipyards and Steel Corp. v. CIR* [G.R. No. L-17874, August 31, 1964, 8 SCRA 781], this Court held that the allegation to the effect that the funds of the NASSCO are public funds of the government and that as such, the same may not be garnished, attached or levied upon is untenable for, as a government-owned or controlled

corporation, it has a personality of its own, distinct and separate from that of the government. This court has likewise ruled that other government-owned and controlled corporations like National Coal Company, the National Waterworks and Sewerage Authority (NAWASA), the National Coconut Corporation (NACOCO), the National Rice and Corn Corporation (NARIC) and the Price Stabilization Council (PRISCO), which possess attributes similar to those of the PVTA are clothed with personalities of their own, separate and distinct from that of the government [National Coal Company v. Collector of Internal Revenue, 46 Phil. 583 (1924); Bacani and Matoto v. National Coconut Corporation, et al., 100 Phil. 471 (1956); Reotan v. National Rice & Corn Corporation, G.R. No. L-16223, February 27, 1962, 4 SCRA 418.] The rationale in vesting it with a separate personality is not difficult to find. It is well-settled that when the government enters into commercial business, it abandons its sovereign capacity and is to be treated like any other corporation [Manila Hotel Employees' Association v. Manila Hotel Co. and CIR, 73 Phil. 734 (1941).]

Accordingly, as emphatically expressed by this Court in a 1978 decision, "garnishment was the appropriate remedy for the prevailing party which could proceed against the funds of a corporate entity even if owned or controlled by the government" inasmuch as "by engaging in a particular business thru the instrumentality of a corporation, the government divests itself pro hac vice of its sovereign character, so as to render the corporation subject to the rules of law governing private corporations" [Philippine National Bank v. CIR, G.R. No. L-32667, January 31, 1978, 81 SCRA 314, 319.]

Furthermore, in the case of PVTA, the law has expressly allowed its funds to answer for various obligations, including the one sought to be enforced by plaintiff BADO in this case (i.e. for unpaid deliveries of tobacco). Republic Act No. 4155, which discontinued the erstwhile support given by the Central Bank to PVTA, established in lieu thereof a "Tobacco Fund" to be collected from the proceeds of fifty per centum of the tariff or taxes of imported leaf tobacco and also fifty per centum of the specific taxes on locally manufactured Virginia type cigarettes.

Section 5 of Republic Act No. 4155 provides that this fund shall be expended for the support or payment of:

- Indebtedness of the Philippine Virginia Tobacco Administration and the, former Agricultural Credit and Cooperative Financing Administration to FACOMAS and farmers, and planters regarding Virginia tobacco transactions in previous years;
- Indebtedness of the Philippine Virginia Tobacco Administration and the former Agricultural Credit and Cooperative Financing Administration to the Central Bank in gradual amounts regarding Virginia tobacco transactions in previous years;
- Continuation of the Philippine Virginia Tobacco Administration support and subsidy operations including the purchase of locally, grown and produced Virginia leaf tobacco, at the present support and subsidy prices, its procurement, redrying, handling, warehousing and disposal thereof, and the redrying plants trading within the purview of their contracts;
- Operational, office and field expenses, and the establishment of the Tobacco Research and Grading Institute.
[Italics supplied.]

Inasmuch as the Tobacco Fund, a special fund, was by law, earmarked specifically to answer obligations incurred by PVTA in connection with its proprietary and commercial operations authorized under the law, it follows that said funds may be proceeded against by ordinary judicial processes such as execution and garnishment. If such funds cannot be executed upon or garnished pursuant to a judgment sustaining the liability of the PVTA to answer for its obligations, then the purpose of the law in creating the PVTA would be defeated. For it was declared to be a national policy, with respect to the local Virginia tobacco industry, to encourage the production of local Virginia

tobacco of the qualities needed and in quantities marketable in both domestic and foreign markets, to establish this industry on an efficient and economic basis, and to create a climate conducive to local cigarette manufacture of the qualities desired by the consuming public, blending imported and native Virginia leaf tobacco to improve the quality of locally manufactured cigarettes [Section 1, Republic Act No. 4155.]

The Commissioner of Public Highways case is thus distinguishable from the case at bar. In said case, the Philippine National Bank (PNB) as custodian of funds belonging the Bureau of Public Highways, an agency of the government, was chargeable with knowledge of the exemption of such government funds from execution and garnishment pursuant to the elementary precept that public funds cannot be disbursed without the appropriation required by law. On the other hand, the same cannot hold true for RCBC as the funds entrusted to its custody, which belong to a public corporation, are in the nature of private funds insofar as their susceptibility to garnishment is concerned. Hence, RCBC cannot be charged with lack of prudence for immediately complying with the order to deliver the garnished amount. Since the funds in its custody are precisely meant for the payment of lawfully-incurred obligations, RCBC cannot rightfully resist a court order to enforce payment of such obligations. That such court order subsequently turned out to have been erroneously issued should not operate to the detriment of one who complied with its clear order.

Finally, it is contended that RCBC was bound to inquire into the-legality and propriety of the Writ of Execution and Notice of Garnishment issued against the funds of the PVTA deposited with said bank. But the bank was in no position to question the legality of the garnishment since it was not even a party to the case. As correctly pointed out by the petitioner, it had neither the personality nor the interest to assail or controvert the orders of respondent Judge. It had no choice but to obey the same inasmuch as it had no standing at all to impugn the validity of the partial judgment rendered in favor of the plaintiff or of the processes issued in execution of such judgment.

RCBC cannot therefore be compelled to make restitution solidarily with the plaintiff BADO. Plaintiff BADO alone was responsible for the issuance of the Writ of Execution and Order of Payment and so, the plaintiff alone should bear the consequences of a subsequent annulment of such court orders; hence, only the plaintiff can be ordered to restore the account of the PVTA.

WHEREFORE, the petition is hereby granted and the petitioner is ABSOLVED from any liability to respondent PVTA for reimbursement of the funds garnished. The questioned Order of the respondent Judge ordering the petitioner, jointly and severally with BADO, to restore the account of the PVTA are modified accordingly.

SO ORDERED.

Fernan, C.J., Gutierrez, Jr., Feliciano, and Bidin, JJ., concur.

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