

CENTRAL BANK OF THE PHILIPPINES, CARLOTA P. VALENZUELA, AND ISLAND SAVINGS BANK, PETITIONERS, VS. COURT OF APPEALS, AND GREGORIO M. FLORES, RESPONDENTS.

G.R. No. L-37859. July 26, 1988

Ponente: NARVASA, J.

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NARVASA, J.:

The question presented in the instant appeal by certiorari is not new. It is whether or not an ordinary action for the recovery of a time deposit may be maintained against a savings bank, independently of the proceedings instituted in another court by the Central Bank for judicial assistance and supervision in the liquidation of said bank in accordance with Section 29 of its Charter.[1] To the question, this Court has already thrice given a negative answer.[2]

The bank involved was the Island Savings Bank, hereafter simply, Island; and the time deposit in question was made at its branch office at Bustillos, Sampaloc, Manila by Gregorio M. Flores, in the sum of P200,000.00.[3]

It appears that the Monetary Board, by its Resolution No. 967 dated June 14, 1968, prohibited Island Bank from doing business in the Philippines and instructed the Acting Superintendent of Banks to take charge of said bank's assets. The asserted reason was the alleged discovery that Island had been found to have engaged in unsound banking practices and was in a state of insolvency.[4] The Bank Superintendent thus took over Island's assets on June 14, 1968.

It appears further that by a later resolution (No. 1187 dated July 18, 1968), the Monetary Board permitted Island to resume business under certain conditions.[5] The latter however failed to meet those conditions. As a result, the Solicitor General, at the Central Bank's instance, filed with the Court of First Instance of Rizal on June 23, 1971 a petition for assistance and supervision in the liquidation of Island Bank pursuant to Section 29 of the Central Bank Act.[6] The case was docketed as Civil Case No. 3676-P.[7]

Earlier, at about the end of January, 1969, Gregorio Flores had tried to withdraw from Island his aforementioned time deposit of P200,000.00, with interest, but the bank refused to allow such withdrawal precisely because its assets had already been taken over by the Central Bank.

What Flores did was to apply for relief with the Philippine Deposit and Insurance Corporation, which paid him the sum of P10,000.00 pursuant to Republic Act 5517.[8] Thereafter, or more particularly on March 23, 1971, he brought suit against Island Bank in the Court of First Instance of Antique praying that the bank be sentenced to pay him P190,000.00 with interest at 6% p.a. from January 9, 1968 until fully paid, P50,000.00 as moral damages, and P500.00 as attorney's fees. In this action, docketed as Case No. 853, Island Bank was declared in default by Order dated July 1, 1971, for failure to file its answer within the reglementary period from service of summons. The Central Bank however filed on August 19, 1971 an "Urgent Motion to Intervene and to Set Aside the Order of Default." The Court allowed intervention but declined to lift the order of default. The Central Bank's answer in intervention was filed on November 25, 1971. In its answer the Central Bank adverted to its having forbidden

Island Bank to do business, its having taken over its assets, and its having instituted judicial proceedings for liquidation of Island in consequence of which the liquidation court acquired exclusive jurisdiction over all claims against Island, inclusive of Flores' application to withdraw his time deposit.

After due proceedings, including the submission by the parties of a stipulation of facts, the Court rendered judgment in Case No. 853 dismissing the complaint without prejudice to the plaintiff's filing his claim with the liquidation court. It ruled[9]

"That the pendency of the liquidation proceedings in court vests in the same exclusive jurisdiction, to the exclusion of other courts, over all matters pertaining to the liquidation of the Island Savings Bank, and that in the liquidation proceedings, the intervenors Central Bank of the Philippines and the Superintendent of Banks, with the assistance and supervision of the court, will undertake to gather all the assets of the bank, convert them into cash and distribute the net assets to depositors and other creditors their proportionate share after payment of reasonable costs of the proceedings including reasonable expenses and fees of the Central Bank * *

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"That the plaintiff herein should file his claim for recovery of deposit in said liquidation court and that the court has no jurisdiction to entertain the action.

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"WHEREFORE, judgment is hereby rendered dismissing the plaintiff's complaint without prejudice to plaintiff's filing his claim of his time deposit with the liquidation court, the Court of First Instance of Rizal, without any pronouncement as to costs."

On a petition for mandamus by Flores, the Court of Appeals overturned the Trial Court's judgment. The Appellate Court's decision² disposed of the case as follows:

"WHEREFORE, the instant petition is hereby GRANTED, and the questioned decision of the respondent Court dated December 4, 1972 is hereby SET ASIDE, ordering the respondent Court to proceed with the proceedings of Civil Case No. 853 and thereafter to render judgment in accordance with the evidence adduced during the trial."

Reversal in turn of this decision of the Court of Appeals is what petitioner Central Bank seeks of this Court in the appellate proceeding at bar. It postulates that it is the liquidation court which has jurisdiction over all matters affecting an insolvent banking institution, that under the circumstances the liquidation director (of the CB Department of Commercial & Savings Bank [formerly the Superintendent of Banks]) had no authority to pay Flores out of the funds of the insolvent bank, and failure of service of summons on Island rendered impossible rendition of a valid judgment against Island Bank. The crucial issue, of course, is whether or not original jurisdiction over claims such as that of Flores is vested exclusively in the liquidation court, to the exclusion of all others. As already remarked in the opening paragraph of this opinion, the issue has been previously passed upon and resolved by this Court in the affirmative. In *Central Bank of the Philippines v. Morfe*,^[11] this Court rejected the argument that "fixed, savings, and current deposits of money in banks and similar institutions" are preferred credits, characterizing them merely as "simple loans;" and declared that evidently, "one purpose in prohibiting * * * (an) insolvent bank from doing business (under Sec. 29 of the Central Bank Act) is to prevent some depositors from having an undue or fraudulent preference over creditors and depositors," a purpose which "would be

nullified if, * * * after the bank is declared insolvent, suits by some depositors could be maintained and judgments would be rendered for the payment of their deposits and then such judgments would be considered preferred credits under article 2244 (14) (b) of the Civil Code." The Court then proceeded to explain why.

"A contrary rule would be productive of injustice, mischief and confusion. To recognize such judgments as entitled to priority would mean that depositors in insolvent banks, after learning that the bank is insolvent as shown by the fact that it can no longer pay withdrawals or that it has closed its doors or has been enjoined by the Monetary Board from doing business, would rush to the courts to secure judgments for the payment of their deposits.

"In such an eventuality, the courts would be swamped with suits of that character. Some of the judgments would be default judgments. Depositors armed with such judgments would pester the liquidation court with claims for preference on the basis of article 2244 (14) (b). Less alert depositors would be prejudiced. That inequitable situation could not have been contemplated by the framers of section 29."

So, too, in *Hernandez v. Rural Bank of Lucena, Inc.*,^[12] involving "the claim of the Hernandez spouses that their mortgage obligation had already been extinguished by means of their tender (to the Lucena Rural Bank, then subject of liquidation proceedings in the Manila court of First Instance) of the checks issued by the San Pablo Colleges," this Court categorically held "that the liquidation court or the Manila court ha(d) exclusive jurisdiction to entertain the claim." The holding in *Morfe*, supra, was adverted to — that "after a savings bank was declared insolvent by the Monetary Board, a depositor could not bring a separate action against it for the recovery of his time deposit * * * (his remedy being) to intervene in the liquidation proceeding" — after which this Court further said:

"The fact that the insolvent bank is forbidden to do business, that its assets are turned over to the Superintendent of Banks, as a receiver, for conversion into cash, and that its liquidation is undertaken with judicial intervention means that, as far as lawful and practicable, all claims against the insolvent bank should be filed in the liquidation proceeding.

"The judicial liquidation is intended to prevent multiplicity of actions against the insolvent bank. The lawmaking body contemplated that for convenience only one court, if possible, should pass upon the claims against the insolvent bank and that the liquidation court should assist the Superintendent of Banks and control his operations.

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"The judicial liquidation is a pragmatic arrangement designed to establish due process and orderliness in the liquidation of the bank, to obviate the proliferation of litigations and to avoid injustice and arbitrariness."

Again, in *Spouses Lipana v. Development Bank of Rizal*, decided on September 24, 1987,¹ this Court, citing *Central Bank v. Morfe*, supra, upheld the stay of execution of a final judgment in favor of plaintiffs-depositors who were claiming their time and Savings deposits from an insolvent bank, it appearing that such bank had been placed under receivership, and to enforce the judgment would cause the bank's assets to be unduly depleted to the obvious prejudice of other depositors and creditors.

It should at once be apparent that these rulings² are on all fours with the proceeding at bar, and no reason of any cogency whatever has been advanced to warrant a departure therefrom. On the authority of these rulings, there

can be no gainsaying that the decision of the Trial Court of Antique is correct and should be upheld.

WHEREFORE, the decision of the Court of Appeals subject of the instant appeal is REVERSED AND SET ASIDE, and that rendered by the Antique Trial Court is SUSTAINED AND AFFIRMED. Costs against private respondent.

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

[1] R.A. 265, later amended by P.D. 72, prom. Nov. 29, 1972 and PD 1007 prom. Sept. 22, 1976.

[2] Central Bank v. Morfe, 63 SCRA 114 [1975]; Hernandez v. Rural Bank of Lucena, 81 SCRA 75 [1978]; Sps. Lipana v. Development Bank of Rizal, G.R. No. 73884, Sept. 24, 1987.

[3] The time deposit was made on January 9, 1968.

[4] Sec. 29 (par. 1), RA 265 provides inter alia that, "Whenever, upon examination * * * into the condition of any banking institution, it shall be disclosed that the condition of the same is one of insolvency, or that its continuance in business would involve probable loss to its depositors or creditors, * * * the Board * * * shall forthwith forbid the institution to do business in the Philippines and shall designate an official of the Central Bank as receiver to immediately take charge of its assets and proceeds according to law."

[5] Said Sec. 29 (par. 2) further provides that, "The Monetary Board shall thereupon determine within thirty days whether the institution may be reorganized or otherwise place in such a condition so that it may be permitted to resume business with safety to its creditors and shall prescribe the conditions under which such resumption of business shall take place. * * *."

[6] The same Sec. 29 (par. 3) states that "If the Monetary Board shall determine that the banking institution cannot resume business with safety to its creditors, it shall, by the Solicitor General, file a petition in the Court of First Instance * * * praying the assistance and supervision of the court in the liquidation of the affairs of the same. * * *."

[7] Of Branch 27, at Pasay City.

[8] This act created a fund from which were to be disbursed amounts necessary to pay depositors in amounts not exceeding P10,000.00 per individual depositor of banks forbidden to do business by the Central Bank pursuant to Republic Act 265 (Sec. 1).

[9] Rollo, p. 63; the judgment was rendered by Hon. Noli Ma. Cortes.

[10] Rollo, pp. 40-61; the judgment was rendered by Martin, J., ponente, concurred in by San Diego and Gaviola, JJ.

[11] 63 SCRA 114, 119-120.

[12] 81 SCRA 75, 87.

[13] G.R. No. 73884, see footnote 2, p. 1, supra.

[14] Cf. Jose and Benita Carandang v. C.A., et al., G.R. No. L-44932, April 15, 1988 in which it was held that an action for the nullification of a promissory note and a mortgage deed executed in favor of a bank could be maintained in a regular court independently of the liquidation proceedings already pending in another court, where the issue of forgery of the documents sought to be annulled had been fully litigated in the first court, and

the Central Bank, in said first court (after having unsuccessfully moved for dismissal of the action on the ground of lack of jurisdiction) had tried to establish the validity of the instruments but failed. This Court ruled that it was bound by the finding of the trial court, affirmed by the Court of Appeals, as to the spuriousness of the deeds; and since the claim of the Central Bank of title over the property had been found to be null and void (as based on forged documents), it could not properly contend that the property was under receivership and in custodia legis; and that moreover, a liquidation court was a court of limited jurisdiction which could not pass upon the validity of contracts such as those subject of the suit.

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