

RAMON L. ABAD, PETITIONER, VS. HON. COURT OF APPEALS & THE PHILIPPINE COMMERCIAL AND INDUSTRIAL BANK, RESPONDENTS.

G.R. No. L-42735. January 22, 1990

Ponente: GRINO-AQUINO, J.

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GRINO-AQUINO, J.:

The bone of contention in this petition for review of the decision dated November 21, 1975 of the Court of Appeals in C.A. G.R. No. 51649-R entitled. "Philippine Commercial and Industrial Bank vs. TOMCO, Inc., Oregon Industries, Inc., and Ramon L. Abad" is whether the debtor (or its surety) is entitled to deduct the debtor's cash marginal deposit from the principal obligation under a letter of credit and to have the interest charges computed only on the balance of the said obligation.

On October 31, 1963, TOMCO, Inc., now known as Southeast Timber Co. (Phils.), Inc., applied for, and was granted by the Philippine Commercial and Industrial Bank (hereafter called "PCIB"), a domestic letter of credit for P80,000 in favor of its supplier, Oregon Industries, Inc., to pay for one Skagit Yarder with accessories. PCIB paid to Oregon Industries the cost of the machinery against a bill of exchange for P80,000, with recourse, presentment and notice of dishonor waived, and with date of maturity on January 4, 1964.

After making the required marginal deposit of P28,000 on November 5, 1963, TOMCO, Inc. signed and delivered to the bank a trust receipt acknowledging receipt of the merchandise in trust for the bank, with the obligation "to hold the same in storage" as property of PCIB, with a right to sell the same for cash provided that the entire proceeds thereof are turned over to the bank, to be applied against acceptance(s) and any other indebtedness of TOMCO, Inc.

In consideration of the release to TOMCO, Inc. by PCIB of the machinery covered by the trust receipt, petitioner Ramon Abad signed an undertaking entitled, "Deed of Continuing Guaranty" appearing on the back of the trust receipt, whereby he promised to pay the obligation jointly and severally with TOMCO, Inc.

Except for TOMCO's P28,000 marginal deposit in the bank, no payment has been made to PCIB by either TOMCO, Inc. or its surety, Abad, on the P80,000 letter of credit.

Consequently, the bank sued TOMCO, Inc. and Abad in Civil Case No. 75767-CFI Manila entitled, "Philippine Commercial and Industrial Bank vs. TOMCO, Inc. and Ramon Abad." PCIB presented in evidence a "Statement of Draft Drawn" showing that TOMCO was obligated to it in the total sum of P125,766.13 as of August 26, 1970.

TOMCO did not deny its liability to PCIB under the letter of credit but it alleged that inasmuch as it made a marginal deposit of P28,000, this amount should have been deducted from its principal obligation, leaving a balance of P52,000 only, on which the bank should have computed the interest, bank charges, and attorney's fees.

On February 5, 1972, the trial court rendered judgment in favor of PCIB ordering TOMCO, Inc. and Abad to pay jointly and severally to the bank the sum of P125,766.13 as of August 26, 1970, with interest and other charges

until complete payment is made, plus attorney's fees and costs.

Abad appealed to the Court of Appeals which, in a decision dated November 21, 1975, affirmed in toto the decision of the trial court.

Abad filed this petition for review raising the issue of whether TOMCO's marginal deposit of P28,000 in the possession of the bank should first be deducted from its principal indebtedness before computing the interest and other charges due. Petitioner alleges that by not deducting the marginal deposit from TOMCO's indebtedness, the bank unjustly enriched itself at the expense of the debtor (TOMCO) and its surety (Abad).

The petition is impressed with merit.

The nature and mercantile usage of a trust receipt was explained in the case of PNB vs. General Acceptance & Finance Corporation, et al., G.R. No. L-30751, 24 May 1988 and Vintola vs. Insular Bank of Asia and America, 150 SCRA 578, as follows:

"x x x. A trust receipt is considered as a security transaction intended to aid in financing importers and retail dealers who do not have sufficient funds or a resources to finance the importation or purchase of merchandise, and who may not be able to acquire credit except through utilization, as collateral of the merchandise imported or purchased. x x x. The bank does not become the real owner of the goods. It is merely the holder of a security title for the advances it had made to the importer. The goods the importer had purchased through the bank financing, remain the importer's property and he holds it at his own risk. The trust receipt arrangement does not convert the bank into an investor; it remains a lender and creditor. This is so because the bank had previously extended a loan which the letter of credit represents to the importer, and by that loan, the importer should be the real owner of the goods. If under the trust receipt, the bank is made to appear as the owner, it was but an artificial expedient, more of a legal fiction than fact, for if it were so, it could dispose of the goods in any manner it wants, which it cannot do, just to give consistency with the purpose of the trust receipt of giving a stronger security for the loan obtained by the importer. To consider the bank as the true owner from the inception of the transaction would be to disregard the loan feature involved.

"x x x. A letter of credit-trust receipt arrangement is endowed with its own distinctive features and characteristics. Under that set-up, a bank extends a loan covered by the letter of credit, with the trust receipt as a security for the loan. In other words, the transaction involves a loan feature represented by the letter of credit, and a security feature which is in the covering trust receipt. x x x.

"A trust receipt, therefore, is a security agreement, pursuant to which a bank acquires a 'security interest' in the goods. It secures an indebtedness and there can be no such thing as security interest that secures no obligation."

The marginal deposit requirement is a Central Bank measure to cut off excess currency liquidity which would create inflationary pressure. It is a collateral security given by the debtor, and is supposed to be returned to him upon his compliance with his secured obligation. Consequently, the bank pays no interest on the marginal deposit, unlike an ordinary bank deposit which earns interest in the bank. As matter of fact, the marginal deposit requirement for letters of credit has been discontinued, except in those cases where the applicant for a letters of credit is not known to the bank or does not maintain a good credit standing therein (Bankers Associations of the Philippines Policy, Rules 6 and 7).

It is only fair then that the importer's marginal deposit (if one was made, as in this case), should be set off against his debt, for while the importer earns no interest on his marginal deposit, the bank, apart from being able to use said deposit for its own purposes, also earns interest on the money it loaned to, the importer. It would be onerous to compute interest and other charges on the face value of the letter of credit which the bank issued, without first crediting or setting off the marginal deposit which the importer paid to the bank. Compensation is proper and

should take effect by operation of law because the requisites in Article 1279 of the Civil Code are present and should extinguish both debts to the concurrent amount (Art. 1290, Civil Code). Although Abad is only a surety, he may set up compensation as regards what the creditor owes the principal debtor, TOMCO (Art. 1280, Civil Code).

It is not farfetched to assume that the bank used TOMCO's marginal deposit to partially fund the P80,000 letter of credit it issued to TOMCO, hence, the interests and other charges on said letter of credit should be levied only on the balance of P52,000 which was the portion that was actually funded or loaned by the bank from its own funds. Requiring the importer to pay interest on the entire letter of credit without deducting first his marginal deposit, would be a clear case of unjust enrichment by the bank.

WHEREFORE, the petition for review is granted. The decision of the Court of Appeals is modified by deducting TOMCO's marginal deposit of P28,000 from the principal amount of P80,000 covered by its letter of credit. The interests and other charges of the bank should be computed on the outstanding loan balance of P52,000 only. The decision is affirmed in other respects, with costs against the respondent Philippine Commercial and Industrial Bank.

SO ORDERED.

Narvasa, (Chairman), Cruz, Gancayco, and Medialdea, JJ., concur.

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