

PRUDENTIAL BANK & TRUST CO., PETITIONER, VS. COMMUNITY BUILDERS CO., INC., ET AL., RESPONDENTS.

G.R. No. L-31600. September 12, 1988

Ponente: NARVASA, J.

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NARVASA, J.:

The sole issue raised in this case turns on the interpretation of one of two documents entitled deeds of assignment -- whether it is to be regarded as security for certain specific obligations, or as an outright sale (assignment) of receivables.

The deeds[1] were executed in relation to the extension by Prudential Bank & Trust Company of credits on current accounts (or an overdraft line) to Community Builders Co., Inc., in consideration of which the latter agreed to pay on demand all advances or deliveries of money made by the former, with interest at the rate of 6% per annum for the first P100,000.00, and 10% per annum for the next P40,000.00.[2] The deeds were signed on the same day[3] that Prudential Bank (hereafter, simply Prudential) agreed to grant the overdraft line to Community Builders Co., Inc. (hereafter, simply Community).

The first deed stated that in consideration of the "loan, overdraft or credit accommodation" thus granted, Community assigned to Prudential "all its rights, title and interest in the sum of One Hundred Thousand Pesos (P100,000.00), Philippine Currency, together with interest thereon, out of its savings deposit with the said Bank, covered by Savings Account No. 9827 issued in its name, together with any and all sums subsequently deposited **.; (and that) in the event that the loan is not paid at maturity or at any time upon demand by the Bank for any reason whatsoever, the said Bank is fully authorized and empowered to apply the said savings deposit to the payment of the loan, overdrafts and credit accommodations ** mentioned." [4] The second deed -- which is the deed whence the issue before the Court has arisen -- pertinently recited that -

"... for and in consideration of the foregoing (credit line) and as security for the payment of said amount of P140,000.00 with interest thereon as above-indicated, as well as for other loans, advances, overdrafts and credit-accommodation which the ASSIGNEE (Prudential) may hereafter grant to the ASSIGNOR (Community), the ASSIGNOR does hereby assign, transfer and convey unto ASSIGNEE, its successors and assigns, all its rights, title and interest in ten per cent (10%) of all collections made by virtue of said contract, Annex 'A' hereof, after deducting ten per cent (10%) representing retentions by the Republic of the Philippines. * * "[5]

The "collections" above referred to were receivables from the Republic of the Philippines owing to Community in virtue of its contract for the construction of the Airmen's Dormitory and Mess Building of the Armed Forces of the Philippines.[6]

In addition, Alpha Insurance Co., Inc. posted on the following day a surety bond in Prudential's favor to guarantee Community's obligations up to the amount of P40,000.00.[7] In turn, and as is usual in transactions of this nature, an indemnity agreement was required by Alpha (to cover liability under its bond), and was duly executed and

signed by Filadelfo Rojas, as General Manager of Community and in his personal capacity.[8]

The overdraft account of Community expired without the advances thereunder given to it being paid despite demand. Consequently, and pursuant to the terms of the first deed of assignment, Prudential applied Community's savings deposit then in the aggregate sum of P159,405.63, in extinguishment pro tanto of Community's obligations inclusive of stipulated interest. This left, according to Prudential, a balance of P44,533.86, including interest, still due from Community. However, Community failed to pay this balance despite Prudential's repeated demands therefor.

Prudential brought suit in the Manila Court of First Instance for collection of this balance of P44,533.86 against both Community and Alpha Insurance Co., Inc.[9] In the answer of the surety (hereafter, simply Alpha), a cross-claim was set up by it against its co-defendant, Community. Alpha also subsequently filed a third-party complaint against Filadelfo Rojas, Community's General Manager, on the basis of the indemnity agreement signed by the latter.

After trial, the Court a quo rendered judgment[10] dismissing Prudential's complaint, as well as Alpha's cross-claim against Community and its third-party complaint against Rojas. It ruled that the second deed of assignment (relating as aforesaid to the "collections" under Community's contract with the Republic for the construction of the AFP airmen's dormitory and mess building, *supra*) operated to release the defendants from their obligation to pay the debt, and that the word "security" found therein was but surplusage and could not be taken as altering the import and legal effect of the document.

From this judgment both Prudential and Alpha perfected an appeal to the Court of Appeals. That Court, however, forwarded the appeal to this Court in accordance with paragraph 6, Section 17, in connection with Section 31, of the Judiciary Act of 1948, as amended, opining that the appeal raised only questions of law.[11]

The appeal must be resolved in favor of appellant Prudential.

It is a cardinal rule in the interpretation of contracts that if the terms thereof are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations should control;[12] and that in order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered.[13] In line with these principles, the facts cannot be construed otherwise than as establishing the plain intent of the parties that the deeds of assignment should constitute a security for the fulfillment by Community of its obligations under its agreement with Prudential for credit accommodation in the form of an overdraft line.

In accordance with the overdraft agreement, Community could and did draw on Prudential for sums of money from time to time, subject to the obligation to pay the same on demand with interest at the rate of 6% per annum for the first P100,000.00, and 10%, for the next P40,000.00. Now, the first deed dealt with the savings account of Community with Prudential which, at that time, was in the amount of P100,000.00, exclusive of interest. That first deed was obviously understood by the parties as authorizing and empowering Prudential to apply the savings deposit in extinguishment of Community's indebtedness at the time that the advances given to it under the credit arrangement became due and demandable. Indeed, it was pursuant to this first deed that, some time afterwards, when the sums drawn and received by Community under its credit line had become due and payable, Prudential did apply Community's savings account -- then amounting to P159,405.63, together with accrued interest -- in payment thereof. The fact that this act has not at all been challenged by Community, is unmistakable indication that the deed of assignment of the savings deposit was in truth meant to serve as security.

And of course, the posting by Alpha of a bond in the amount of P40,000.00 to guaranty Community's obligations to Prudential under the credit line, is another undeniable indication of the parties' intention that security be given

for that precise purpose.

Under these circumstances, the second deed of assignment -- which explicitly states that Community was assigning, transferring and conveying to Prudential its rights, title and interest in 10% of all collections under its contract with the Armed Forces (after deducting 10% therefrom, "representing retentions by the Republic") as security for the payment of said amount of P140,000.00 (under the credit or overdraft line), with interest thereon, as well as for other loans, advances, overdrafts and credit accommodation which it might subsequently obtain -- cannot also be construed otherwise than as being precisely that: i.e., security for the payment of Community's obligations under the credit line granted to it by Prudential. This conclusion derives not only from the fact that this second deed was executed at the same time as the first and evidently in relation to the surety bond executed on the following day, but also by the parties' use of the word, "security." The term has a fixed, general meaning which should control, there being no factor of any significance demonstrating the parties' use of it in some other sense, or showing it to be a mere stray, unintended, inconsequential word. Given the facts, it would be absurd to suppose that under the second deed of assignment Prudential was not being given security, but was simply buying Community's receivables; and the deed had no relation whatever to and was independent of (1) the first deed of assignment, (2) the surety bond posted by Alpha, and (3) the credit line agreement itself, except only that the price of the receivables was to be set off against Community's liability under its credit line. In any event, it would have been the simplest matter for Community to have itself made the collections from the Government and turned these over to Prudential if these receivables were really due and it genuinely wished to make payment of its obligations to Prudential. That it did not even try to do these things shows lack of good faith and militates against the award of relief to it in the premises.

Community is therefore liable to Prudential for the balance of the credit advances granted to it under the overdraft line; on this obligation, Alpha is solidarily liable with Community but only to the extent of the amount of its bond, P40,000.00;^[14] and Community and Filadelfo Roxas are liable to reimburse Alpha for such amount as Alpha shall pay to Prudential pursuant to its bond.

WHEREFORE, the judgment of the Court a quo is REVERSED and SET ASIDE, and a new one entered, sentencing: (1) appellee Community Builders Co., Inc. to pay to petitioner Prudential Bank & Trust Co. the sum of P44,533.86 with interest thereon at ten percent (10%) per annum from March 23, 1964 until fully paid, as well as stipulated attorney's fees and cost of collection in not less than ten percent (10%) of the amount due; (2) appellant Alpha Insurance Co. also to pay, solidarily with Community Builders Co., Inc., the latter's obligation just mentioned but only up to the extent of the liability assumed by it under its bond, P40,000.00; and (3) Community Builders Co., Inc. and Filadelfo Roxas, jointly and severally, to reimburse to Alpha Insurance Co. whatever amount Alpha shall pay under its surety bond to Prudential Bank, with interest thereon at the legal rate from the time of such payment to Prudential Bank until full reimbursement is effected, as well as all renewal premiums and cost of documentary stamps at the rate of P1,624.00 every twelve (12) months or fraction thereof, starting from May 4, 1960 until Alpha's bond is finally cancelled or liability thereunder fully discharged, and stipulated attorney's fees equivalent to twenty percent (20%) of the amounts due. Costs against appellee Community Builders Co., Inc.

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

Gancayco, J., on leave.

[1] Annexes A and B, Prudential's complaint in Court a quo: Record on Appeal, pp. 7-14; italics supplied

[2] Record on Appeal, pp. 8, 12

[3] May 13, 1964

[4] Record on Appeal, pp. 14-17

[5] Id., pp. 19-20, italics supplied

[6] Id., p. 19

[7] Id., pp. 24-26

[8] Id., pp. 34-42

[9] Docketed as Civil Case No. 39079-R

[10] Dated July 22, 1986, Rec. on App., pp. 112-121

[11] By resolution dated January 22, 1970

[12] Art. 1370, Civil Code; *Herrera v. Petrophil*, 146 SCRA 385

[13] Art. 1371, Civil Code; Sec. 10, Rule 130, Rules of Court; *Nielson & Co. v. Lepanto Consolidated Mining*, 18 SCRA 1040; *GSIS v. C.A.*, G.R. No. 52478, Oct. 30, 1986, 145 SCRA 311

[14] *Jollye v. Luzon Surety Co., Inc.*, 68 Phil. 164; *La Insular v. Machuca Go-Taoco*, 39 Phil. 567

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