

**METROPOLITAN BANK AND TRUST COMPANY, PETITIONER, VS.
PHILIPPINE BANK OF COMMUNICATIONS, FILIPINAS ORIENT
FINANCE CORPORATION, PIPE MASTER CORPORATION AND TAN
JUAN LIAN, RESPONDE...**

G.R. NO. 141408. October 18, 2007

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SANDOVAL-GUTIERREZ, J

Sometime in 1978, Pipe Master Corporation (Pipe Master) represented by Yu Kio, its president, applied for check discounting with Filipinas Orient Finance Corporation (Filipinas Orient). The latter approved and granted the same.

On July 1, 1978, the Board of Directors of Pipe Master issued a Board Resolution authorizing Yu Kio, in his capacity as president, and/or Tan Juan Lian, in his capacity as vice-president, to execute, indorse, make, sign, deliver or negotiate instruments, documents and such other papers necessary in connection with any transaction coursed through Filipinas Orient for and in behalf of the corporation.

Tan Juan Lian then executed in favor of Filipinas Orient a continuing guaranty that he shall pay at maturity any and all promissory notes, drafts, checks, or other instruments or evidence of indebtedness for which Pipe Master may become liable; that the extent of his liability shall not at any one time exceed the sum of P1,000,000.00; and that in the event of default by Pipe Master, Filipinas Orient may proceed directly against him.

On April 9, 1980, under the check discounting agreement between Pipe Master and Filipinas Orient, Yu Kio sold to Filipinas Orient four Metropolitan Bank and Trust Company (Metro Bank) checks amounting to P1,000,000.00. In exchange for the four Metro Bank checks, Filipinas Orient issued to Yu Kio four Philippine Bank of Communications (PBCom) crossed checks totaling P964,303.62, payable to Pipe Master with the statement “for payee’s account only.”

Upon his receipt of the four PBCom checks, Yu Kio indorsed and deposited in the Metro Bank, in his personal account, three of the checks valued at P721,596.95. As to the remaining check amounting to P242,706.67, he deposited it in the Solid Bank Corporation (Solid Bank), also in his personal account. Eventually, PBCom paid Metro Bank and Solid Bank the amounts of the checks. In turn, Metro Bank and Solid Bank credited the value of the checks to the personal accounts of Yu Kio.

Subsequently, when Filipinas Orient presented the four Metro Bank checks equivalent to P1,000,000.00 it received from Yu Kio, they were dishonored by the drawee bank. Pipe Master, the drawer, refused to pay the amounts of the checks, claiming that it never received the proceeds of the PBCom checks as they were delivered and paid to the wrong party, Yu Kio, who was not the named payee.

Filipinas Orient then demanded that PBCom restore to its (Filipinas Orient’s) account the value of the PBCom checks. In turn, PBCom sought reimbursement from Metro Bank and Solid Bank, being the collecting banks, but they refused. Thus, Filipinas Orient filed with the Regional Trial Court (RTC), Branch 39, Manila a complaint for

a sum of money against Pipe Master, Tan Juan Lian and/or PBCom.

In their answer to the complaint, Pipe Master and Tan Juan Lian averred that they did not authorize Yu Kio to negotiate and enter into discounting transaction with Filipinas Orient, and even if Yu Kio was so authorized, Pipe Master never received the proceeds of the checks. Consequently, they filed a cross-claim against PBCom for gross negligence for having paid the wrong party. In turn, PBCom, Pipe Master and Tan Juan Lian filed third-party complaints against Metro Bank and Solid Bank.

On July 12, 1990, the RTC rendered a Decision against Metro Bank and Solid Bank, the dispositive portion of which reads:

WHEREFORE, premises considered, judgment is hereby rendered:

- Ordering third-party defendant Metro Bank to pay plaintiff the amount of Seven Hundred Twenty One Thousand Five Hundred Ninety Six Pesos and Ninety-Five Centavos (P721,596.95) plus legal interest;
- Ordering third-party defendant Solid Bank to pay plaintiff the amount of Two Hundred Forty-Two Thousand Seven Hundred Six Pesos and Sixty-Seven Centavos (P242,706.67) plus legal interest;
- Ordering third-party defendants to pay the costs of suit.

SO ORDERED.

On appeal, the appellate court affirmed in toto the Decision of the trial court. Metro Bank and Solid Bank filed their respective motions for reconsideration but the same were denied.

Hence, the instant consolidated petitions for review on certiorari filed by Metro Bank and Solid Bank.

The issue for our resolution is whether Metro Bank and Solid Bank, petitioners, are liable to respondent Filipinas Orient for accepting the PBCom crossed checks payable to Pipe Master.

Petitioner banks contend that respondents Pipe Master, Tan Juan Lian and/or PBCom should be made liable to respondent Filipinas Orient for the value of the checks.

Respondents Pipe Master and Tan Juan Lian counter that although Yu Kio was expressly authorized to indorse Pipe Master's checks, such authority extended only to acts done in the ordinary course of business, not in his personal capacity. For its part, respondent Filipinas Orient contends that petitioner banks were negligent in allowing Yu Kio to deposit the PBCom checks in his account. Respondent PBCom, as the drawee bank, maintains that it has no liability because in clearing the checks, it relied on the express guarantee made by petitioner banks that the checks were validly indorsed.

We find in favor of respondents.

A check is defined by law as a bill of exchange drawn on a bank payable on demand.[1] The Negotiable Instruments Law is silent with respect to crossed checks. Nonetheless, this Court has taken judicial cognizance of the practice that a check with two parallel lines on the upper left hand corner means that it could only be deposited and not converted into cash.[2] The crossing of a check with the phrase "Payee's Account Only" is a warning that the check should be deposited in the account of the payee. It is the collecting bank which is bound to scrutinize the check and to know its depositors before it can make the clearing indorsement, "all prior indorsements and/or lack of indorsement guaranteed." [3]

Here, petitioner banks have the obligation to ensure that the PBCom checks were deposited in accordance with the instructions stated in the checks.[4] The four PBCom checks in question had been crossed and issued "for payee's

account only.” This could only mean that the drawer, Filipinas Orient, intended the same for deposit only by the payee, Pipe Master. The effect of crossing a check means that the drawer had intended the check for deposit only by the rightful person, i.e., the payee named therein[5] – Pipe Master.

As what transpired in this case, petitioner banks accommodated Yu Kio, being a valued client and the president of Pipe Master, and accepted the crossed checks. They stamped at the back thereof that “all prior indorsements and/or lack of indorsements are guaranteed.” In so doing, they became general endorsers. Under Section 66 of the Negotiable Instruments Law, an endorser warrants “that the instrument is genuine and in all respects what it purports to be; that he has a good title to it; that all prior parties had capacity to contract; and that the instrument is at the time of his indorsement valid and subsisting.”

Clearly, petitioner banks, being endorsers, cannot deny liability.

In *Associated Bank v. Court of Appeals*,[6] we held that the collecting bank or last endorser generally suffers the loss because it has the duty to ascertain the genuineness of all prior indorsements and is privy to the depositor who negotiated the check.

PBCom, as the drawee bank, cannot be held liable since it mainly relied on the express guarantee made by petitioners, the collecting banks, of all prior indorsements.

Evidently, petitioner banks disregarded established banking rules and procedures. They were negligent in accepting the checks and allowing the transaction to push through. In *Jai-Alai Corp. of the Phil. v. Bank of the Phil. Islands*,[7] we ruled that one who accepts and encashes a check from an individual knowing that the payee is a corporation does so at his peril. Therefore, petitioner banks are liable to respondent Filipinas Orient.

In fine, it must be emphasized that the law imposes on the collecting bank the duty to diligently scrutinize the checks deposited with it for the purpose of determining their genuineness and regularity. The collecting bank, being primarily engaged in banking, holds itself out to the public as the expert on this field, and the law thus holds it to a high standard of conduct.[8] Since petitioner banks’ negligence was the direct cause of the misappropriation of the checks, they should bear and answer for respondent Filipinas Orient’s loss, without prejudice to their filing of an appropriate action against Yu Kio.

WHEREFORE, we DENY the petitions. The challenged Decision[9] and Resolution of the Court of Appeals in CA-G.R. CV No. 30702 are AFFIRMED. Costs against petitioners.

SO ORDERED.

Puno, C.J., (Chairperson), Corona, Azcuna, and Garcia, JJ., concur.

[1] Section 185, Act No. 2031, The Negotiable Instruments Law.

[2] *State Investment House v. Intermediate Appellate Court*, G.R. No. 72764, July 13, 1989, 175 SCRA 310.

[3] *Philippine Commercial International Bank v. Court of Appeals*, G.R. No. 121413, January 29, 2001, 350 SCRA 446.

[4] Under Section 72 of the Negotiable Instruments Law, presentment for payment, to be sufficient, must be made by the holder, or by some person authorized to receive payment on his behalf.

[5] *Yang v. Court of Appeals*, G.R. No. 138074, August 15, 2003, 409 SCRA 159.

[6] G.R. Nos. 107382 and 107612, January 31, 1996, 252 SCRA 620, citing *Bank of the Philippine Islands v.*

Court of Appeals, G.R. No. 102383, November 26, 1992, 216 SCRA 51.

[7] No. L-29432, August 6, 1975, 66 SCRA 29.

[8] Banco de Oro Savings and Mortgage Bank v. Equitable Banking Corp., No. L-74917, January 20, 1988, 157 SCRA 188.

[9] Penned by Associate Justice B.A. Adefuin-de la Cruz and concurred in by Associate Justice Eugenio S. Labitoria (retired) and Associate Justice Presbitero J. Velasco, Jr. (now a member of this Court)

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