

SECURITY BANK AND TRUST COMPANY, PETITIONER, VS. RIZAL COMMERCIAL BANKING CORPORATION, RESPONDENT.

G.R. No. 170984. January 30, 2009

Ponente: QUISUMBING, Acting C.J.

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QUISUMBING, Acting C.J.

Before us are opposing parties' petitions for review of the Decision[1] dated March 29, 2005 and Resolution[2] dated December 12, 2005 of the Court of Appeals in CA-G.R. CV No. 67387. The two petitions are herein consolidated as they stem from the same set of factual circumstances.

The facts, as found by the trial and appellate courts, are as follows:

On January 9, 1981, Security Bank and Trust Company (SBTC) issued a manager's check for P8 million, payable to "CASH," as proceeds of the loan granted to Guidon Construction and Development Corporation (GCDC). On the same day, the P8-million check, along with other checks, was deposited by Continental Manufacturing Corporation (CMC) in its Current Account No. 0109-022888 with Rizal Commercial Banking Corporation (RCBC). Immediately, RCBC honored the P8-million check and allowed CMC to withdraw the same.[3]

On the next banking day, January 12, 1981, GCDC issued a "Stop Payment Order" to SBTC, claiming that the P8-million check was released to a third party by mistake. Consequently, SBTC dishonored and returned the manager's check to RCBC. Thereafter, the check was returned back and forth between the two banks, resulting in automatic debits and credits in each bank's clearing balance.[4]

On February 13, 1981, RCBC filed a complaint[5] for damages against SBTC with the then Court of First Instance of Rizal, Branch XXII. Said case was docketed as Civil Case No. 1081 and later transferred to the Regional Trial Court (RTC) of Makati City, Branch 143.

Meanwhile, following the rules of the Philippine Clearing House, RCBC and SBTC stopped returning the checks to each other. By way of a temporary arrangement pending resolution of the case, the P8-million check was equally divided between, and credited to, RCBC and SBTC.[6]

On May 9, 2000, the RTC of Makati City, Branch 143, rendered a Decision[7] in favor of RCBC. The dispositive portion of the decision reads:

PREMISES CONSIDERED, the Court renders judgment in favor of plaintiff [RCBC] and finds defendant SBTC justly liable to [RCBC] and sentences [SBTC] to pay [RCBC] the amount of:

- PhP4,000,000.00 as and for actual damages;
- PhP100,000.00 as and for attorney's fees; and,
- the costs.

SO ORDERED.[8]

On appeal, the Court of Appeals affirmed with modification the above Decision, to wit:

WHEREFORE, the appealed Decision is AFFIRMED with MODIFICATION. Appellant Security Bank and Trust Co. shall pay appellee Rizal Commercial Banking Corporation not only the principal amount of P4,000,000.00 but also interest thereon at (6%) per annum covering appellee's unearned income on interest computed from the time of filing of the complaint on February 13, 1981 to the date of finality of this Decision. For lack of factual and legal basis, the award of attorney's fees is DELETED.

SO ORDERED.[9]

Now for our resolution are the opposing parties' petitions for review on certiorari of the abovesited decision. On its part, SBTC alleges the following to support its petition:

I.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN REFUSING TO APPLY THE LAW BECAUSE, IN ITS OPINION, TO DO SO WOULD "RESULT IN AN INJUSTICE."

II.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN HOLDING THAT TO DETERMINE WHETHER OR NOT A BANK IS A HOLDER IN DUE COURSE, ONLY THE NEGOTIABLE INSTRUMENTS LAW NEED BE APPLIED TO THE EXCLUSION OF CENTRAL BANK RULES AND REGULATIONS.

III.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN FAILING TO NOTE THAT THE MANAGER'S CHECK IN QUESTION WAS ACCEPTED FOR DEPOSIT BY THE RCBC AND WAS NOT ENCASHED BY THE PAYEE.

IV.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN FAILING TO CONSIDER THAT PRIOR TO THE DEPOSIT OF THE CHECKS WORTH PhP53 MILLION, RCBC WAS HOLDING 43 CHECKS TOTALING P49,017,669.66 DRAWN BY CONTINENTAL MANUFACTURING CORPORATION AGAINST ITS CURRENT ACCOUNT WHEN THE BALANCE OF THAT ACCOUNT WAS A MERE P573.62.

V.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN FAILING TO CONSIDER THAT THE CHECKS DEPOSITED WITH RCBC THE PROCEEDS OF WHICH WERE IMMEDIATELY WITHDRAWN TO HONOR THE 43 CHECKS TOTALING P49,017,669.66 DRAWN BY CONTINENTAL MANUFACTURING CORPORATION ON ITS CURRENT ACCOUNT WERE NOT ALL MANAGER'S CHECK[S] BUT INCLUDED ORDINARY CHECKS IN THE TOTAL AMOUNT OF PhP15,436,140.81.

VI.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN FAILING TO CONSIDER THAT EACH OF THE 43 CHECKS DRAWN BY THE CONTINENTAL MANUFACTURING CORPORATION WERE ALL HONORED BY RCBC ON THE BASIS OF A MIXTURE OF ALL THE MANAGER'S AND ORDINARY CHECKS DEPOSITED ON THAT DAY OF 9 JANUARY 1981.

VII.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN HOLDING THAT THE RCBC IS A HOLDER IN DUE COURSE.

VIII.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN HOLDING THAT SBTC WAITED FOR THREE (3) DAYS TO NOTIFY THE RCBC OF THE STOP PAYMENT ORDER.

IX.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN HOLDING THAT SBTC SHOULD HAVE FIRST ACQUIRED PERSONAL KNOWLEDGE OF THE FACTS WHICH GAVE RISE TO THE REQUEST FOR THE STOP PAYMENT ORDER BEFORE HONORING SUCH REQUEST.

X.

THE HONORABLE COURT OF APPEALS RULED CORRECTLY IN REFUSING TO HOLD SBTC LIABLE FOR DAMAGE CLAIMS BASED SOLELY ON SPECULATION, CONJECTURE AND GUESSWORK.

XI.

THE HONORABLE COURT OF APPEALS RULED CORRECTLY IN HOLDING THAT RCBC IS NOT ENTITLED TO EXEMPLARY DAMAGES.

XII.

THE HONORABLE COURT OF APPEALS ERRED GRAVELY IN HOLDING SBTC LIABLE FOR THE ATTORNEY'S FEES OF RCBC [SIC].[10]

On RCBC's part, the following issues are submitted for resolution:

I.

WHETHER OR NOT SBTC IS LIABLE FOR THE MANAGER'S CHECK IT ISSUED.

II.

WHETHER OR NOT RCBC IS ENTITLED TO COMPENSATORY DAMAGES EQUIVALENT TO THE INTEREST INCOME LOST AS A RESULT OF THE ILLEGAL REFUSAL OF SBTC TO HONOR ITS OWN MANAGER'S CHECK, AS WELL AS FOR EXEMPLARY DAMAGES AND ATTORNEY'S FEES.[11]

Simply stated, we find that in these consolidated petitions, the legal issues for our resolution are: (1) Is SBTC liable to RCBC for the remaining P4 million? and (2) Is SBTC liable to pay for lost interest income on the remaining P4 million, exemplary damages and attorney's fees?

RCBC avers that the manager's check issued by SBTC is substantially as good as the money it represents because by its peculiar character, its issuance has the effect of an advance acceptance. RCBC claims that it is a holder in due course when it credited the P8-million manager's check to CMC's account. Accordingly, RCBC asserts that SBTC's refusal to honor its obligation justifies RCBC claim for lost interest income, exemplary damages and attorney's fees.

On the other hand, SBTC contends that RCBC violated Monetary Board Resolution No. 2202 of the Central Bank of the Philippines mandating all banks to verify the genuineness and validity of all checks before allowing drawings of the same. SBTC insists that RCBC should bear the consequences of allowing CMC to withdraw the

amount of the check before it was cleared.[12]

We shall rule on the issues seriatim.

At the outset, it must be noted that the questioned check issued by SBTC is not just an ordinary check but a manager's check. A manager's check is one drawn by a bank's manager upon the bank itself. It stands on the same footing as a certified check,[13] which is deemed to have been accepted by the bank that certified it.[14] As the bank's own check, a manager's check becomes the primary obligation of the bank and is accepted in advance by the act of its issuance.[15]

In this case, RCBC, in immediately crediting the amount of P8 million to CMC's account, relied on the integrity and honor of the check as it is regarded in commercial transactions. Where the questioned check, which was payable to "Cash," appeared regular on its face, and the bank found nothing unusual in the transaction, as the drawer usually issued checks in big amounts made payable to cash, RCBC cannot be faulted in paying the value of the questioned check.[16]

In our considered view, SBTC cannot escape liability by invoking Monetary Board Resolution No. 2202 dated December 21, 1979, prohibiting drawings against uncollected deposits. For we must point out that the Central Bank at that time issued a Memorandum dated July 9, 1980, which interpreted said Monetary Board Resolution No. 2202. In its pertinent portion, said Memorandum reads:

"MEMORANDUM TO ALL BANKS
July 9, 1980

For the guidance of all concerned, Monetary Board Resolution No. 2202 dated December 31, 1979 prohibiting, as a matter of policy, drawing against uncollected deposit effective July 1, 1980, uncollected deposits representing manager's cashier's/ treasurer's checks, treasury warrants, postal money orders and duly funded "on us" checks which may be permitted at the discretion of each bank, covers drawings against demand deposits as well as withdrawals from savings deposits."[17]

Thus, it is clear from the July 9, 1980 Memorandum that banks were given the discretion to allow immediate drawings on uncollected deposits of manager's checks, among others. Consequently, RCBC, in allowing the immediate withdrawal against the subject manager's check, only exercised a prerogative expressly granted to it by the Monetary Board.

Moreover, neither Monetary Board Resolution No. 2202 nor the July 9, 1980 Memorandum alters the extraordinary nature of the manager's check and the relative rights of the parties thereto. SBTC's liability as drawer remains the same – by drawing the instrument, it admits the existence of the payee and his then capacity to indorse; and engages that on due presentment, the instrument will be accepted, or paid, or both, according to its tenor.[18]

Concerning RCBC's claim for lost interest income on the remaining P4 million, this is already covered by the amount of damages in the form of legal interest of 6%, based on Article 2200[19] and 2209[20] of the Civil Code of the Philippines, as awarded by the Court of Appeals in its decision.

In addition to the above-mentioned award of compensatory damages, we also find merit in the need to award exemplary damages in order to set an example for the public good. The banking system has become an indispensable institution in the modern world and plays a vital role in the economic life of every civilized society. Whether as mere passive entities for the safe-keeping and saving of money or as active instruments of business and commerce, banks have attained an ubiquitous presence among the people, who have come to regard them with respect and even gratitude and, above all, trust and confidence. In this connection, it is important that banks

should guard against injury attributable to negligence or bad faith on its part. As repeatedly emphasized, since the banking business is impressed with public interest, the trust and confidence of the public in it is of paramount importance. Consequently, the highest degree of diligence is expected, and high standards of integrity and performance are required of it. SBTC having failed in this respect, the award of exemplary damages to RCBC in the amount of P50,000.00 is warranted.[21]

Pursuant to current jurisprudence, with the finding of liability for exemplary damages, attorney's fees in the amount of P25,000.00[22] must also be awarded against SBTC and in favor of RCBC.

WHEREFORE, the assailed Decision dated March 29, 2005 and Resolution dated December 12, 2005 of the Court of Appeals in CA-G.R. CV No. 67387 is hereby AFFIRMED with MODIFICATION. Security Bank and Trust Company is ordered to pay Rizal Commercial Banking Corporation: (1) the remaining P4,000,000.00, with legal interest thereon at six percent (6%) per annum from the time of filing of the complaint on February 13, 1981 to the date of finality of this Decision; (2) exemplary damages of P50,000.00; and (3) attorney's fees of P25,000.00.

No pronouncement as to costs.

SO ORDERED.

Corona[*], Carpio Morales, Tinga, and Leonardo-De Castro, JJ., concur.

[*] Additional member in lieu of Associate Justice Presbitero J. Velasco, Jr. who is abroad on official business.

[**] Additional member in lieu of Associate Justice Arturo D. Brion who took no part due to his being a former partner of one of the parties' counsel.

[1] Rollo (G.R. No. 170987), pp. 36-48. Penned by Associate Justice Magdangal M. De Leon, with Associate Justices Salvador J. Valdez, Jr. and Mariano C. Del Castillo concurring.

[2] Id. at 49-50. Penned by Associate Justice Magdangal M. De Leon, with Associate Justices Juan Q. Enriquez, Jr. and Mariano C. Del Castillo concurring.

[3] Id. at 37.

[4] Id.

[5] Records, pp. 1-5.

[6] Rollo (G.R. No. 170987), p. 38.

[7] CA rollo, pp. 93-96. Penned by Acting Presiding Judge Salvador S. Abad Santos.

[8] Id. at 96.

[9] Rollo (G.R. No. 170984), p. 88.

[10] Id. at 256-258.

[11] Id. at 178.

[12] Id. at 264-269.

[13] Equitable PCI Bank v. Ong, G.R. No. 156207, September 15, 2006, 502 SCRA 119, 132.

[14] The Negotiable Instruments Law (Act No. 2031),

Sec. 187. Certification of check; effect of. - Where a check is certified by the bank on which it is drawn, the certification is equivalent to an acceptance.

[15] International Corporate Bank v. Gueco, G.R. No. 141968, February 12, 2001, 351 SCRA 516, 528.

[16] Security Bank & Trust Company v. Triumph Lumber and Construction Corporation, G.R. No. 126696, January 21, 1999, 301 SCRA 537, 557.

[17] Rollo, (G.R. No. 170984), p. 218.

[18] The Negotiable Instruments Law (Act No. 2031),

Sec. 61. Liability of drawer. - The drawer by drawing the instrument admits the existence of the payee and his then capacity to indorse; and engages that, on due presentment, the instrument will be accepted, or paid, or both, according to its tenor....

[19] ART. 2200. Indemnification for damages shall comprehend not only the value of the loss suffered, but also that of the profits which the obligee failed to obtain.

[20] ART. 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six percent per annum.

[21] See Bank of the Philippine Islands v. Roxas, G.R. 16783, October 15, 2007, 536 SCRA 168, 172.

[22] Civil Code, Art. 2208. In the absence of stipulation, attorney's fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

(1) When exemplary damages are awarded;

x x x x

In all cases, the attorney's fees and expenses of litigation must be reasonable.

Bank of the Philippine Islands v. Roxas, supra.

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