

EQUITABLE BANKING CORPORATION, PETITIONER, VS. SPECIAL STEEL PRODUCTS, INC. AND AUGUSTO L. PARDO, RESPONDENTS.

G.R. No. 175350. June 13, 2012

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

A crossed check with the notation “account payee only” can only be deposited in the named payee’s account. It is gross negligence for a bank to ignore this rule solely on the basis of a third party’s oral representations of having a good title thereto.

Before the Court is a Petition for Review on Certiorari of the October 13, 2006 Decision of the Court of Appeals (CA) in CA-G.R. CV No. 62425. The dispositive portion of the assailed Decision reads:

WHEREFORE, premises considered, the May 4, 1998 Decision of the Regional Trial Court of Pasig City, Branch 168, in Civil Case No. 63561, is hereby AFFIRMED.

SO ORDERED.[1]

Factual Antecedents

Respondent Special Steel Products, Inc. (SSPI) is a private domestic corporation selling steel products. Its co-respondent Augusto L. Pardo (Pardo) is SSPI’s President and majority stockholder.[2]

International Copra Export Corporation (Interco) is its regular customer.[3]

Jose Isidoro[4] Uy, alias Jolly Uy (Uy), is an Interco employee, in charge of the purchasing department, and the son-in-law of its majority stockholder.[5]

Petitioner Equitable Banking Corporation (Equitable or bank) is a private domestic corporation engaged in banking[6] and is the depository bank of Interco and of Uy.

In 1991, SSPI sold welding electrodes to Interco, as evidenced by the following sales invoices:

Sales Invoice No. 65042 dated February 14, 1991 for P325,976.34[7]

Sales Invoice No. 65842 dated April 11, 1991 for P345,412.80[8]

Sales Invoice No. 65843 dated April 11, 1991 for P313,845.84[9]

The due dates for these invoices were March 16, 1991 (for the first sales invoice) and May 11, 1991 (for the others). The invoices provided that Interco would pay interest at the rate of 36% per annum in case of delay.

In payment for the above welding electrodes, Interco issued three checks payable to the order of SSPI on July 10, 1991,[10] July 16, 1991,[11] and July 29, 1991.[12] Each check was crossed with the notation “account payee only” and was drawn against Equitable. The records do not identify the signatory for these three checks, or explain how Uy, Interco’s purchasing officer, came into possession of these checks.

The records only disclose that Uy presented each crossed check to Equitable on the day of its issuance and claimed that he had good title thereto.[13] He demanded the deposit of the checks in his personal accounts in Equitable, Account No. 18841-2 and Account No. 03474-0.[14]

Equitable acceded to Uy's demands on the assumption that Uy, as the son-in-law of Interco's majority stockholder,[15] was acting pursuant to Interco's orders. The bank also relied on Uy's status as a valued client.[16] Thus, Equitable accepted the checks for deposit in Uy's personal accounts[17] and stamped "ALL PRIOR ENDORSEMENT AND/OR LACK OF ENDORSEMENT GUARANTEED" on their dorsal portion.[18] Uy promptly withdrew the proceeds of the checks.

In October 1991, SSPI reminded Interco of the unpaid welding electrodes, amounting to P985,234.98.[19] It reiterated its demand on January 14, 1992.[20] SSPI explained its immediate need for payment as it was experiencing some financial crisis of its own. Interco replied that it had already issued three checks payable to SSPI and drawn against Equitable. SSPI denied receipt of these checks.

On August 6, 1992, SSPI requested information from Equitable regarding the three checks. The bank refused to give any information invoking the confidentiality of deposits.[21]

The records do not disclose the circumstances surrounding Interco's and SSPI's eventual discovery of Uy's scheme. Nevertheless, it was determined that Uy, not SSPI, received the proceeds of the three checks that were payable to SSPI. Thus, on June 30, 1993 (twenty-three months after the issuance of the three checks), Interco finally paid the value of the three checks to SSPI, plus a portion of the accrued interests. Interco refused to pay the entire accrued interest of P767,345.64 on the ground that it was not responsible for the delay. Thus, SSPI was unable to collect P437,040.35 (at the contracted rate of 36% per annum) in interest income.[22]

SSPI and its president, Pardo, filed a complaint for damages with application for a writ of preliminary attachment against Uy and Equitable Bank. The complaint alleged that the three crossed checks, all payable to the order of SSPI and with the notation "account payee only," could be deposited and encashed by SSPI only. However, due to Uy's fraudulent representations, and Equitable's indispensable connivance or gross negligence, the restrictive nature of the checks was ignored and the checks were deposited in Uy's account. Had the defendants not diverted the three checks in July 1991, the plaintiffs could have used them in their business and earned money from them. Thus, the plaintiffs prayed for an award of actual damages consisting of the unrealized interest income from the proceeds of the checks for the two-year period that the defendants withheld the proceeds from them (from July 1991 up to June 1993).[23]

In his personal capacity, Pardo claimed an award of P3 million as moral damages from the defendants. He allegedly suffered hypertension, anxiety, and sleepless nights for fear that the government would charge him for tax evasion or money laundering. He maintained that defendants' actions amounted to money laundering and that it unfairly implicated his company in the scheme. As for his fear of tax evasion, Pardo explained that the Bureau of Internal Revenue might notice a discrepancy between the financial reports of Interco (which might have reported the checks as SSPI's income in 1991) and those of SSPI (which reported the income only in 1993). Since Uy and Equitable were responsible for Pardo's worries, they should compensate him jointly and severally therefor.[24]

SSPI and Pardo also prayed for exemplary damages and attorney's fees.[25]

In support of their application for preliminary attachment, the plaintiffs alleged that the defendants are guilty of fraud in incurring the obligation upon which the action was brought and that there is no sufficient security for the claim sought to be enforced in this action.[26]

The trial court granted plaintiffs' application.[27] It issued the writ of preliminary attachment on September 20, 1993,[28] upon the filing of plaintiffs' bond for P500,000.00. The sheriff served and implemented the writ against the personal properties of both defendants.[29]

Upon Equitable's motion and filing of a counter-bond, however, the trial court eventually discharged the attachment[30] against it.[31]

Equitable then argued for the dismissal of the complaint for lack of cause of action. It maintained that interest income is due only when it is expressly stipulated in writing. Since Equitable and SSPI did not enter into any contract, Equitable is not liable for damages, in the form of unobtained interest income, to SSPI.[32] Moreover, SSPI's acceptance of Interco's payment on the sales invoices is a waiver or extinction of SSPI's cause of action based on the three checks.[33]

Equitable further argued that it is not liable to SSPI because it accepted the three crossed checks in good faith.[34] Equitable averred that, due to Uy's close relations with the drawer of the checks, the bank had basis to assume that the drawer authorized Uy to countermand the original order stated in the check (that it can only be deposited in the named payee's account). Since only Uy is responsible for the fraudulent conversion of the checks, he should reimburse Equitable for any amounts that it may be made liable to plaintiffs.[35]

The bank counter-claimed that SSPI is liable to it in damages for the wrongful and malicious attachment of Equitable's personal properties. The bank maintained that SSPI knew that the allegation of fraud against the bank is a falsehood. Further, the bank is financially capable to meet the plaintiffs' claim should the latter receive a favorable judgment. SSPI was aware that the preliminary attachment against the bank was unnecessary, and intended only to humiliate or destroy the bank's reputation.[36]

Meanwhile, Uy answered that the checks were negotiated to him; that he is a holder for value of the checks and that he has a good title thereto.[37] He did not, however, explain how he obtained the checks, from whom he obtained his title, and the value for which he received them. During trial, Uy did not present any evidence but adopted Equitable's evidence as his own.

Ruling of the Regional Trial Court [38]

The RTC clarified that SSPI's cause of action against Uy and Equitable is for quasi-delict. SSPI is not seeking to enforce payment on the undelivered checks from the defendants, but to recover the damage that it sustained from the wrongful non-delivery of the checks.[39]

The crossed checks belonged solely to the payee named therein, SSPI. Since SSPI did not authorize anyone to receive payment in its behalf, Uy clearly had no title to the checks and Equitable had no right to accept the said checks from Uy. Equitable was negligent in permitting Uy to deposit the checks in his account without verifying Uy's right to endorse the crossed checks. The court reiterated that banks have the duty to scrutinize the checks deposited with it, for a determination of their genuineness and regularity. The law holds banks to a high standard because banks hold themselves out to the public as experts in the field. Thus, the trial court found Equitable's explanation regarding Uy's close relations with the drawer unacceptable.[40]

Uy's conversion of the checks and Equitable's negligence make them liable to compensate SSPI for the actual damage it sustained. This damage consists of the income that SSPI failed to realize during the delay.[41] The trial court then equated this unrealized income with the interest income that SSPI failed to collect from Interco. Thus, it ordered Uy and Equitable to pay, jointly and severally, the amount of P437,040.35 to SSPI as actual damages.[42]

It also ordered the defendants to pay exemplary damages of P500,000.00, attorney's fees amounting to P200,000.00, as well as costs of suit.[43]

The trial court likewise found merit in Pardo's claim for moral damages. It found that Pardo suffered anxiety, sleepless nights, and hypertension in fear that he would face criminal prosecution. The trial court awarded Pardo the amount of P3 million in moral damages.[44]

The dispositive portion of the trial court's Decision reads:

WHEREFORE, judgment is hereby rendered in favor of plaintiffs Special Steel Products, Inc., and Augusto L. Pardo and against defendants Equitable Banking Corporation [and] Jose Isidoro Uy, alias "Jolly Uy," ordering defendants to jointly and severally pay plaintiffs the following:

- P437,040.35 as actual damages;
- P3,000,000.00 as moral damages to Augusto L. Pardo;
- P500,000.00 as exemplary damages;
- P200,000.00 as attorney's fees; and
- Costs of suit.

Defendant EBC's counterclaim is hereby DISMISSED for lack of factual and legal basis.

Likewise, the crossclaim filed by defendant EBC against defendant Jose Isidoro Uy and the crossclaim filed by defendant Jose Isidoro Uy against defendant EBC are hereby DISMISSED for lack of factual and legal basis.

SO ORDERED.

Pasig City, May 4, 1998.[45]

The trial court denied Equitable's motion for reconsideration in its Order dated November 19, 1998.[46]

Only Equitable appealed to the CA,[47] reiterating its defenses below.

Appealed Ruling of the Court of Appeals[48]

The appellate court found no merit in Equitable's appeal.

It affirmed the trial court's ruling that SSPI had a cause of action for quasi-delict against Equitable.[49] The CA noted that the three checks presented by Uy to Equitable were crossed checks, and strictly made payable to SSPI only. This means that the checks could only be deposited in the account of the named payee.[50] Thus, the CA found that Equitable had the responsibility of ensuring that the crossed checks are deposited in SSPI's account only. Equitable violated this duty when it allowed the deposit of the crossed checks in Uy's account.[51]

The CA found factual and legal basis to affirm the trial court's award of moral damages in favor of Pardo.[52]

It likewise affirmed the award of exemplary damages and attorney's fees in favor of SSPI.[53]

Issues

1. Whether SSPI has a cause of action against Equitable for quasi-delict;
2. Whether SSPI can recover, as actual damages, the stipulated 36% per annum interest from Equitable;
3. Whether speculative fears and imagined scenarios, which cause sleepless nights, may be the basis for the award of moral damages; and

4. Whether the attachment of Equitable's personal properties was wrongful.

Our Ruling

SSPI's cause of action

This case involves a complaint for damages based on quasi-delict. SSPI asserts that it did not receive prompt payment from Interco in July 1991 because of Uy's wilful and illegal conversion of the checks payable to SSPI, and of Equitable's gross negligence, which facilitated Uy's actions. The combined actions of the defendants deprived SSPI of interest income on the said moneys from July 1991 until June 1993. Thus, SSPI claims damages in the form of interest income for the said period from the parties who wilfully or negligently withheld its money from it.

Equitable argues that SSPI cannot assert a right against the bank based on the undelivered checks.[54] It cites provisions from the Negotiable Instruments Law and the case of *Development Bank of Rizal v. Sima Wei*[55] to argue that a payee, who did not receive the check, cannot require the drawee bank to pay it the sum stated on the checks.

Equitable's argument is misplaced and beside the point. SSPI's cause of action is not based on the three checks. SSPI does not ask Equitable or Uy to deliver to it the proceeds of the checks as the rightful payee. SSPI does not assert a right based on the undelivered checks or for breach of contract. Instead, it asserts a cause of action based on quasi-delict. A quasi-delict is an act or omission, there being fault or negligence, which causes damage to another. Quasi-delicts exist even without a contractual relation between the parties. The courts below correctly ruled that SSPI has a cause of action for quasi-delict against Equitable.

The checks that Interco issued in favor of SSPI were all crossed, made payable to SSPI's order, and contained the notation "account payee only." This creates a reasonable expectation that the payee alone would receive the proceeds of the checks and that diversion of the checks would be averted. This expectation arises from the accepted banking practice that crossed checks are intended for deposit in the named payee's account only and no other.[56] At the very least, the nature of crossed checks should place a bank on notice that it should exercise more caution or expend more than a cursory inquiry, to ascertain whether the payee on the check has authorized the holder to deposit the same in a different account. It is well to remember that "[t]he 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 [sic] 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."[57]

Equitable did not observe the required degree of diligence expected of a banking institution under the existing factual circumstances.

The fact that a person, other than the named payee of the crossed check, was presenting it for deposit should have put the bank on guard. It should have verified if the payee (SSPI) authorized the holder (Uy) to present the same in its behalf, or indorsed it to him. Considering however, that the named payee does not have an account with Equitable (hence, the latter has no specimen signature of SSPI by which to judge the genuineness of its indorsement to Uy), the bank knowingly assumed the risk of relying solely on Uy's word that he had a good title

to the three checks. Such misplaced reliance on empty words is tantamount to gross negligence, which is the “absence of or failure to exercise even slight care or diligence, or the entire absence of care, evincing a thoughtless disregard of consequences without exerting any effort to avoid them.”[58]

Equitable contends that its knowledge that Uy is the son-in-law of the majority stockholder of the drawer, Interco, made it safe to assume that the drawer authorized Uy to countermand the order appearing on the check. In other words, Equitable theorizes that Interco reconsidered its original order and decided to give the proceeds of the checks to Uy.[59] That the bank arrived at this conclusion without anything on the face of the checks to support it is demonstrative of its lack of caution. It is troubling that Equitable proceeded with the transaction based only on its knowledge that Uy had close relations with Interco. The bank did not even make inquiries with the drawer, Interco (whom the bank considered a “valued client”), to verify Uy’s representation. The banking system is placed in peril when bankers act out of blind faith and empty promises, without requiring proof of the assertions and without making the appropriate inquiries. Had it only exercised due diligence, Equitable could have saved both Interco and the named payee, SSPI, from the trouble that the bank’s mislaid trust wrought for them.

Equitable’s pretension that there is nothing under the circumstances that rendered Uy’s title to the checks questionable is outrageous. These are crossed checks, whose manner of discharge, in banking practice, is restrictive and specific. Uy’s name does not appear anywhere on the crossed checks. Equitable, not knowing the named payee on the check, had no way of verifying for itself the alleged genuineness of the indorsement to Uy. The checks bear nothing on their face that supports the belief that the drawer gave the checks to Uy. Uy’s relationship to Interco’s majority stockholder will not justify disregarding what is clearly ordered on the checks.

Actual damages

For its role in the conversion of the checks, which deprived SSPI of the use thereof, Equitable is solidarily liable with Uy to compensate SSPI for the damages it suffered.

Among the compensable damages are actual damages, which encompass the value of the loss sustained by the plaintiff, and the profits that the plaintiff failed to obtain.[60] Interest payments, which SSPI claims, fall under the second category of actual damages.

SSPI computed its claim for interest payments based on the interest rate stipulated in its contract with Interco. It explained that the stipulated interest rate is the actual interest income it had failed to obtain from Interco due to the defendants’ tortious conduct.

The Court finds the application of the stipulated interest rate erroneous.

SSPI did not recover interest payments at the stipulated rate from Interco because it agreed that the delay was not Interco’s fault, but that of the defendants’. If that is the case, then Interco is not in delay (at least not after issuance of the checks) and the stipulated interest payments in their contract did not become operational. If Interco is not liable to pay for the 36% per annum interest rate, then SSPI did not lose that income. SSPI cannot lose something that it was not entitled to in the first place. Thus, SSPI’s claim that it was entitled to interest income at the rate stipulated in its contract with Interco, as a measure of its actual damage, is fallacious.

More importantly, the provisions of a contract generally take effect only among the parties, their assigns and heirs.[61] SSPI cannot invoke the contractual stipulation on interest payments against Equitable because it is neither a party to the contract, nor an assignee or an heir to the contracting parties.

Nevertheless, it is clear that defendants’ actions deprived SSPI of the present use of its money for a period of two years. SSPI is therefore entitled to obtain from the tortfeasors the profits that it failed to obtain from July 1991 to

June 1993. SSPI should recover interest at the legal rate of 6% per annum,[62] this being an award for damages based on quasi-delict and not for a loan or forbearance of money.

Moral damages

Both the trial and appellate courts awarded Pardo P3 million in moral damages. Pardo claimed that he was frightened, anguished, and seriously anxious that the government would prosecute him for money laundering and tax evasion because of defendants' actions.[63] In other words, he was worried about the repercussions that defendants' actions would have on him.

Equitable argues that Pardo's fears are all imagined and should not be compensated. The bank points out that none of Pardo's fears panned out.[64]

Moral damages are recoverable only when they are the proximate result of the defendant's wrongful act or omission.[65] Both the trial and appellate courts found that Pardo indeed suffered as a result of the diversion of the three checks. It does not matter that the things he was worried and anxious about did not eventually materialize. It is rare for a person, who is beset with mounting problems, to sift through his emotions and distinguish which fears or anxieties he should or should not bother with. So long as the injured party's moral sufferings are the result of the defendants' actions, he may recover moral damages.

The Court, however, finds the award of P3 million excessive. Moral damages are given not to punish the defendant but only to give the plaintiff the means to assuage his sufferings with diversions and recreation.[66] We find that the award of P50,000.00[67] as moral damages is reasonable under the circumstances.

Equitable to recover amounts from Uy

Equitable then insists on the allowance of their cross-claim against Uy. The bank argues that it was Uy who was enriched by the entire scheme and should reimburse Equitable for whatever amounts the Court might order it to pay in damages to SSPI.[68]

Equitable is correct. There is unjust enrichment when (1) a person is unjustly benefited, and (2) such benefit is derived at the expense of or with damages to another.[69] In the instant case, the fraudulent scheme concocted by Uy allowed him to improperly receive the proceeds of the three crossed checks and enjoy the profits from these proceeds during the entire time that it was withheld from SSPI. Equitable, through its gross negligence and mislaid trust on Uy, became an unwitting instrument in Uy's scheme. Equitable's fault renders it solidarily liable with Uy, insofar as respondents are concerned. Nevertheless, as between Equitable and Uy, Equitable should be allowed to recover from Uy whatever amounts Equitable may be made to pay under the judgment. It is clear that Equitable did not profit in Uy's scheme. Disallowing Equitable's cross-claim against Uy is tantamount to allowing Uy to unjustly enrich himself at the expense of Equitable. For this reason, the Court allows Equitable's cross-claim against Uy.

Preliminary attachment

Equitable next assails as error the trial court's dismissal of its counter-claim for wrongful preliminary attachment. It maintains that, contrary to SSPI's allegation in its application for the writ, there is no showing whatsoever that Equitable was guilty of fraud in allowing Uy to deposit the checks. Thus, the trial court should not have issued the writ of preliminary attachment in favor of SSPI. The wrongful attachment compelled Equitable to incur expenses for a counter-bond, amounting to P30,204.26, and caused it to sustain damage, amounting to P5 million, to its goodwill and business credit.[70]

SSPI submitted the following affidavit in support of its application for a writ of preliminary attachment:

I, Augusto L. Pardo, of legal age, under oath hereby depose and declare:

1. I am one of the plaintiffs in the above-entitled case; the other plaintiff is our family corporation, Special Steel Products, Inc., of which I am the president and majority stockholder; I caused the preparation of the foregoing Complaint, the allegations of which I have read, and which I hereby affirm to be true and correct out of my own personal knowledge;
2. The corporation and I have a sufficient cause of action against defendants Isidoro Uy alias Jolly Uy and Equitable Banking Corporation, who are guilty of fraud in incurring the obligation upon which this action is brought, as particularly alleged in the Complaint, which allegations I hereby adopt and reproduce herein;
3. There is no sufficient security for our claim in this action and that the amount due us is as much as the sum for which the order is granted above all legal counterclaims;
4. We are ready and able to put up a bond executed to the defendants in an amount to be fixed by the Court[,] conditioned on the payment of all costs[,] which may be adjudged to defendants[,] and all damages[,] which they may sustain by reason of the attachment of the court, should [the court] finally adjudge that we are not entitled thereto.[71]

The complaint (to which the supporting affidavit refers) cites the following factual circumstances to justify SSPI's application:

6. x x x Yet, notwithstanding the fact that SPECIAL STEEL did not open an account with EQUITABLE BANK as already alleged, thru its connivance with defendant UY in his fraudulent scheme to defraud SPECIAL STEEL, or at least thru its gross negligence EQUITABLE BANK consented to or allowed the opening of Account No. 18841-2 at its head office and Account No. 03474-0 at its Ermita Branch in the name of SPECIAL STEEL without the latter's knowledge, let alone authority or consent, but obviously on the bases of spurious or falsified documents submitted by UY or under his authority, which documents EQUITABLE BANK did not bother to verify or check their authenticity with SPECIAL STEEL.[72]

x x x x

9. On August 6, 1992, plaintiffs, thru counsel, wrote EQUITABLE BANK about the fraudulent transactions involving the aforesaid checks, which could not have been perpetrated without its indispensable participation and cooperation, or gross negligence, and therein solicited its cooperation in securing information as to the anomalous and irregular opening of the false accounts maintained in SPECIAL STEEL's name, but EQUITABLE BANK malevolently shirking from its responsibility to prevent the further perpetration of fraud, conveniently, albeit unjustifiably, invoked the confidentiality of the deposits and refused to give any information, and accordingly denied SPECIAL STEEL's valid request, thereby knowingly shielding the identity of the ma[le]factors involved [in] the unlawful and fraudulent transactions.[73]

The above affidavit and the allegations of the complaint are bereft of specific and definite allegations of fraud against Equitable that would justify the attachment of its properties. In fact, SSPI admits its uncertainty whether Equitable's participation in the transactions involved fraud or was a result of its negligence. Despite such uncertainty with respect to Equitable's participation, SSPI applied for and obtained a preliminary attachment of Equitable's properties on the ground of fraud. We believe that such preliminary attachment was wrongful. "[A] writ of preliminary attachment is too harsh a provisional remedy to be issued based on mere abstractions of fraud. Rather, the rules require that for the writ to issue, there must be a recitation of clear and concrete factual circumstances manifesting that the debtor practiced fraud upon the creditor at the time of the execution of their agreement in that said debtor had a preconceived plan or intention not to pay the creditor." [74] No proof was adduced tending to show that Equitable had a preconceived plan not to pay SSPI or had knowingly participated in

Uy's scheme.

That the plaintiffs eventually obtained a judgment in their favor does not detract from the wrongfulness of the preliminary attachment. While "the evidence warrants [a] judgment in favor of [the] applicant, the proofs may nevertheless also establish that said applicant's proffered ground for attachment was inexistent or specious, and hence, the writ should not have issued at all x x x." [75]

For such wrongful preliminary attachment, plaintiffs may be held liable for damages. However, Equitable is entitled only to such damages as its evidence would allow, [76] for the wrongfulness of an attachment does not automatically warrant the award of damages. The debtor still has the burden of proving the nature and extent of the injury that it suffered by reason of the wrongful attachment. [77]

The Court has gone over the records and found that Equitable has duly proved its claim for, and is entitled to recover, actual damages. In order to lift the wrongful attachment of Equitable's properties, the bank was compelled to pay the total amount of P30,204.26 in premiums for a counter-bond. [78] However, Equitable failed to prove that it sustained damage to its "goodwill and business credit" in consequence of the alleged wrongful attachment. There was no proof of Equitable's contention that respondents' actions caused it public embarrassment and a bank run.

WHEREFORE, premises considered, the Petition is **PARTIALLY GRANTED**. The assailed October 13, 2006 Decision of the Court of Appeals in CA-G.R. CV No. 62425 is **MODIFIED** by:

1. **REDUCING** the award of actual damages to respondents to the rate of 6% per annum of the value of the three checks from July 1991 to June 1993 or a period of twenty-three months;
2. **REDUCING** the award of moral damages in favor of Augusto L. Pardo from P3,000,000.00 to P 50,000.00; and
3. **REVERSING** the dismissal of Equitable Banking Corporation's cross-claim against Jose Isidoro Uy, alias Jolly Uy. Jolly Uy is hereby **ORDERED** to **REIMBURSE** Equitable Banking Corporation the amounts that the latter will pay to respondents.

Additionally, the Court hereby **REVERSES** the dismissal of Equitable Banking Corporation's counterclaim for damages against Special Steel Products, Inc. This Court **ORDERS** Special Steel Products, Inc. to **PAY** Equitable Banking Corporation actual damages in the total amount of P30,204.36, for the wrongful preliminary attachment of its properties.

The rest of the assailed Decision is **AFFIRMED**.

SO ORDERED.

Leonardo-De Castro, [*] (Acting Chairperson), Bersamin, Villarama, Jr., and Perlas-Bernabe, [**] JJ., concur.

[*] Per Special Order No. 1226 dated May 30, 2012.

[**] Per Special Order No. 1227 dated May 30, 2012.

[1] Rollo, p. 47.

[2] Records, p. 247.

[3] Id. at 248.

[4] Also referred to in the records as Isidro.

[5] RTC Decision, p. 2; rollo, p. 50.

[6] Records, p. 247.

[7] Id. at 301.

[8] Id. at 306.

[9] Id. at 307.

[10] Check No. 032909 for P422,788.98; id. at 298.

[11] Check No. 032974 for P313,845.84; id. at 299.

[12] Check No. 033060 for P441,505.30; id. at 300.

[13] The dorsal portions of the check contained a stamp, which read “Special Steel Product By: ____” and the blank portion had the initials “TM.” For clarity, Equitable does not claim that it accepted the checks on the bases of these indorsements hence its authenticity was not in issue. Equitable maintains that it proceeded on the assumption that Uy was acting on behalf of the drawer, Interco.

[14] Records, pp. 91, 428-429.

[15] Id. at 44 and 478.

[16] Id.

[17] Id. at 479.

[18] Id. at 298-300.

[19] Id. at 308-309, 311.

[20] Id. at 312.

[21] Id. at 117-118, 250.

[22] Id. at 251.

[23] Id. at 120.

[24] Id. at 251-252.

[25] Id. at 252.

[26] Id. at 15.

[27] Id. at 16.

[28] Id. at 32.

[29] Id. at 30.

[30] Id. at 40-42.

[31] Id. at 57-70.

[32] Id. at 46-47.

[33] Id. at 47.

[34] Id. at 45.

[35] Id. at 51.

[36] Id. at 48-51.

[37] Id. at 91-92.

[38] Rollo, pp. 49-58; penned by Judge Benjamin V. Pelayo.

[39] RTC Decision, pp. 6-7; rollo, pp. 54-55.

[40] Id. at 7-8; id. at 55-56.

[41] Id. at 9; id. at 57.

[42] Id. at 10; id. at 58.

[43] Id. at 10; id. at 58.

[44] Id. at 9-10; id. at 57-58.

[45] Id. at 10; id. at 58.

[46] Rollo, pp. 59-60.

[47] CA rollo, pp. 12-33.

[48] Rollo, pp. 35-48; penned by Associate Justice Vicente Q. Roxas and concurred in by Associate Justices Josefina Guevara-Salonga and Apolinario D. Bruselas, Jr.

[49] CA Decision, pp. 8-9; rollo, pp. 42-43.

[50] Id. at 9-10; id. at 43-44.

[51] Id. at 10; id. at 44.

[52] Id. at 12-13; id. at 46-47.

[53] Id. at 13; id. at 47.

[54] Petitioner's Memorandum, pp. 17-18, 10-12; rollo, pp. 121-122, 114-116.

[55] G.R. No. 85419, March 9, 1993, 219 SCRA 736.

[56] Associated Bank v. Court of Appeals, G.R. No. 89802, May 7, 1992, 208 SCRA 465, 468-469.

[57] Security Bank and Trust Company v. Rizal Commercial Banking Corporation, G.R. Nos. 170984 & 170987, January 30, 2009, 577 SCRA 407, 416-417.

[58] Metropolitan Bank and Trust Company v. BA Finance Corporation, G.R. No. 179952, December 4, 2009, 607 SCRA 620, 635.

[59] Petitioner's Memorandum, p. 21; rollo, p. 125.

[60] Civil Code, Art. 2200; Cantemprate v. CRS Realty Development Corporation, G.R. No. 171399, May 8, 2009, 587 SCRA 492, 514-515.

[61] Civil Code, Art. 1311.

[62] Security Bank and Trust Company v. Rizal Commercial Banking Corporation, *supra* note 57.

[63] Records, p. 251.

[64] Petitioner's Memorandum, p. 14; rollo, p. 118.

[65] Civil Code, Art. 2217.

[66] Lorzano v. Tabayag, G.R. No. 189647, February 6, 2012.

[67] Go v. Metropolitan Bank and Trust Company, G.R. No. 168842, August 11, 2010, 628 SCRA 107, 112 and 118.

[68] Petitioner's Memorandum, p. 128.

[69] Allied Banking Corporation v. Lim Sio Wan, G.R. No. 133179, March 27, 2008, 549 SCRA 504, 524, citing *Tamio v. Ticson*, 485 Phil. 434, 443 (2004).

[70] Petitioner's Memorandum, pp. 22-23; rollo, pp. 126-127.

[71] Records, p. 15.

[72] *Id.* at 2-3.

[73] *Id.* at 4.

[74] *Tanchan v. Allied Banking Corporation*, G. R. No. 164510, November 25, 2008, 571 SCRA 512, 532. (Emphasis supplied)

[75] *Carlos v. Sandoval*, 508 Phil. 260, 286 (2005), citing *Philippine Charter Insurance Corporation v. Court of Appeals*, 259 Phil. 74, 80 (1989).

[76] *Yu v. Ngo Yet Te*, G.R. No. 155868, February 6, 2007, 514 SCRA 423, 435.

[77] *Id.*.

[78] Records, pp. 432-433.

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