

**INSULAR BANK OF ASIA & AMERICA (NOW PHILIPPINE
COMMERCIAL INTERNATIONAL BANK), PETITIONER, VS. HON.
INTERMEDIATE APPELLATE COURT, THE PHILIPPINE AMERICAN
LIFE INSURANCE CO., SPS...**

G.R. No. 74834. November 17, 1988

Ponente: MELENCIO-HERRERA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-74834/>

MELENCIO-HERRERA, J.:

An appeal by certiorari under Rule 45 of the Rules of Court by petitioner, the Insular Bank of Asia and America (IBAA) [now the Philippine Commercial International Bank], from the judgment of the public respondent, then the Intermediate Appellate Court,[*] in CA-G.R. CV No. 03224.

Briefly, the antecedent facts disclose that sometime in 1976 and 1977 respondent spouses Ben S. Mendoza and Juanita M. Mendoza (the Mendozas, for brevity), obtained two (2) loans from respondent Philippine American Life Insurance Co. (Philam Life) in the total amount of P600,000.00 to finance the construction of their residential house at Mandaue City. The said loans, with a 14% nominal interest rate, were to be liquidated in equal amortizations over a period of five (5) years from March 1977 to March 1982.

To secure payment, Philam Life required that amortizations be guaranteed by an irrevocable standby letter of credit of a commercial bank. Thus, the Mendozas contracted with petitioner Insular Bank of Asia and America (IBAA) for the issuance of two (2) irrevocable standby Letters of Credit in favor of Philam Life for the total amount of P600,000.00. The first L/C for P500,000.00 was to expire on 1 October 1981 (Exhibit "7", IBAA), and the second for P100,000.00 on 1 January 1982 (Exhibit "8", IBAA). These two (2) irrevocable standby L/Cs were, in turn, secured by a real estate mortgage for the same amount on the property of Respondent Spouses in favor of IBAA.

On 11 May 1977, the Mendozas executed a promissory note (No. 562/77) in favor of IBAA promising to pay the sum of P100,000.00 plus 19% p.a. interest on 31 May 1979. Again, on 3 June 1977, Respondent Spouses executed another Promissory Note (No. 564/77) binding themselves to pay IBAA P100,000.00 plus 19% p.a. interest on 23 June 1979. Both Notes authorized IBAA "to sell at public or private sale such securities or things for the purpose of applying their proceeds to such payments" of "any particular obligation or obligations" the Mendozas may have to IBAA. (Exhibits "34" and "35" - IBAA, Annex "D", p. 131, Rollo)

The Mendozas failed to pay Philam Life the amortization that fell due on 1 June 1978 so that Philam Life informed IBAA that it was declaring both loans as "entirely due and demandable" and demanded payment of P492,996.30 (Exhibit "H"). However, because IBAA contested the propriety of calling in the entire loan, Philam Life desisted and resumed availing of the L/Cs by drawing on them for five (5) more amortizations.

On 7 September 1979, because the Mendozas defaulted on their amortization due on 1 September 1979, Philam Life again informed IBAA that it was declaring the entire balance outstanding on both loans, including liquidated

damages, "immediately due and payable." Philam Life then demanded the payment of P274,779.56 from IBAA but the latter took the position that, as a mere guarantor of the Mendozas who are the principal debtors, its remaining outstanding obligation under the two (2) standby L/Cs was only P30,100.60. Later, IBAA corrected the latter amount and showed instead an overpayment arrived at as follows:

Limit of Liability P600,000.00

Less:

a) Paymt by Mendozas P280,293.11

b) Paymt by IBAA 372,227.65 652,520.76

Overpayment by IBAA (P 52,520.76)

On 21 April 1980 the Real Estate Mortgage, which secured the two (2) standby L/Cs, was extrajudicially foreclosed by, and sold at public auction for P775,000.00, to petitioner IBAA as the lone and highest bidder (Exhibit "17-Mendoza"). The bid price of P775,000.00 by petitioner IBAA was arrived at as follows:

Principal (unpaid advances under the 2 standby LCs) plus interest & charges P432,386.07

Add:

a) Stipulated Attorney's fees (20%) 86,477.20

b) Principals (clean loans) plus accrued interest under P/Ns Nos. 562/77 and 564/77

255,364.95

c) Expenses of foreclosure 772.20

T O T A L P775,000.42

=====

On a date that does not appear of record, Philam Life filed suit against Respondent Spouses and IBAA before the Regional Trial Court of Manila, Branch XXXXI, for the recovery of the sum of P274,779.56, the amount allegedly still owing under the loan. After trial, said Court rendered a Decision finding that IBAA had paid Philam Life only P342,127.05 and not P372,227.65, as claimed by IBAA, because of a stale IBAA Manager's check in the amount of P30,100.60, which had to be deducted. With this deduction, the Trial Court arrived at the following computation:

Limit of Liability of IBAA P600,000.00

Less:

a) Paymt by Mendozas P280,293.11

b) Paymt by IBAA 342,127.05 622,420.16

Overpayment by IBAA P 22,420.16

=====

Thus, the Trial Court ruled:

"ACCORDINGLY, judgment is hereby rendered ordering:

"(1)

Defendants-spouses Ben S. Mendoza and Juanita M. Mendoza to pay plaintiff Philippine American Life Insurance Company the sum of P322,000.00 plus 2% per month as penalty interest from September 12, 1979 until the whole amount is fully paid, P10,000 as attorney's fees, and costs.

"(2)

Plaintiff Philippine American Life Insurance Company to refund the sum of P22,420.16 to the defendant Insular Bank of Asia and America plus legal interest from March 31, 1980 until the whole amount is fully paid; and

"(3)

Dismissal of the counterclaim and crossclaim filed by the defendants-spouses against the plaintiff and the defendant IBAA, as well as the counterclaim filed by defendant IBAA against the plaintiff." (pp. 28-29, Rollo)

In so deciding, the Trial Court took the position that IBAA, "as surety," was discharged of its liability to the extent of the payment made by the Mendozas, as the principal debtors, to the creditor, Philam Life.

Both Philam Life and Respondent Spouses appealed to respondent Appellate Court, which reversed the Trial Court and ruled instead that IBAA's liability was not reduced by virtue of the payments made by the Mendozas. Accordingly, the Appellate Court decreed:

"WHEREFORE, premises considered, judgment is hereby rendered ordering:

- Defendants-appellant spouses Ben S. Mendoza and Juanita M. Mendoza and defendant-appellee IBAA to pay jointly and severally plaintiff-appellant Philamlife, the sum of P222,000.00 plus 2% per month as penalty interest from September 12, 1979 until the whole amount is fully paid; plus P25,000.00, as attorney's fees, and costs; however, defendant-appellee IBAA shall only be liable up to the amount of P296,294.05;

- Dismissal of the claim by the IBAA for a refund of P22,420.16 from the Phil-American Life Insurance Co.; and

- Dismissal of the counterclaim and cross-claim filed by the defendant-spouses against the plaintiff and the defendant IBAA, as well as the counterclaim filed by defendant IBAA against the plaintiff.

"No special pronouncement as to costs in this instance." (p. 51, Rollo).

Availing of the instant Petition, IBAA seeks a reversal of the aforesaid judgment and the affirmance instead of that of the Trial Court. We resolved to give due course.

The issues addressed, as posited by IBAA, are:

"1.

Whether or not the partial payments made by the principal obligors (respondent MENDOZAS) would have the corresponding effect of reducing the liability of the petitioner as guarantor or surety under the terms of the standby LCs in question.

"2.

Whether or not respondent Intermediate Appellate Court is correct in disregarding a documentary evidence (O.R. No. 74323, Exhbt. 28-IBAA) showing the amount paid by petitioner and which was admitted as evidence without objection on the part of the counsel for the respondent PhilAm.

"3.

Whether or not the Intermediate Appellate Court is correct in passing sub-silencio the following points raised by the petitioner in its Brief to sustain the decision of the Trial Court on some other grounds.

a. Effective rate of interest imposed by respondent Philam exceeded the allowable ceiling;

b.

Respondent Philam has no right to call in at one time the two standby letters of credit;

c. Respondent Philam failed to follow the condition in the two (2) standby letters of credit;

which could have otherwise altered the result of the Decision.

"4.

Whether or not the award of attorney's fees to respondent Philam is proper in so far as petitioner is affected."
(p. 15, Rollo)

The pivotal issue is the first one. IBAA stresses that it has no more liability to Philam Life under the two (2) standby Letters of Credit and, instead, is entitled to a refund. Whereas Philam Life and the Mendoza spouses separately maintain that IBAA's obligation under said two (2) L/Cs is original and primary and is not reduced by the direct payments made by the Mendozas to Philam Life.

- In construing the terms of a Letter of Credit, as in other contracts, it is the intention of the parties that must govern.

"Letters of credit and contracts for the issuance of such letters are subject to the same rules of construction as are ordinary commercial contracts. They are to receive a reasonable and not a technical construction and although usage and custom cannot control express terms in letters of credit, they are to be construed with reference to all the surrounding facts and circumstances, to the particular and often varying terms in which they may be expressed, the circumstances and intention of the parties to them, and the usages of the particular trade of business contemplated." (International Banking Corp. vs. Irving National Bank, CCA N.Y. 283 F. 103,

affirming DC 274 F. 122; *Old Colony Trust Co. vs. Lawyers' Title and Trust Co.*, CCA, NY, 297 F. 152, cited in Vol. 72, CJS sec. 178, pp. 387-388).

The terms of the subject Irrevocable Standby Letters of Credit read, in part, as follows:

"This credit secures the payment of any obligation of the accountee to you under that Loan Agreement hereto attached as Annex 'A' and made a part hereof, including those pertaining to (a) surcharges on defaulted installments, (b) increased interest charges (in the event the law should authorize this increase), and (c) liabilities connected with taxes stipulated to be for Accountee's account; provided, however, that our maximum liabilities hereunder shall not exceed the amount of P500,000.00 (P100,000.00 for the other LC).

"Each drawing under this credit shall be available at any time after one (1) day from due date of the obligations therein secured. Each drawing under this credit shall be accomplished by your signed statement in duplicate that the amount drawn represents payment due and unpaid by the accountee." (pp. 11-12, Decision, pp. 38-39, Rollo). [Italics ours].

Unequivocally, the subject standby Letters of Credit secure the payment of any obligation of the Mendozas to Philam Life including all interests, surcharges and expenses thereon but not to exceed P600,000.00. But while they are a security arrangement, they are not converted thereby into contracts of guaranty. That would make them *ultra vires* rather than a letter of credit, which is within the powers of a bank (Section 74[e], RA 337, General Banking Act).[1] The standby L/Cs are, "in effect an absolute undertaking to pay the money advanced or the amount for which credit is given on the faith of the instrument." (*Scribner v. Rutherford*, 22 N.W. 670, 65 Iowa 551; *Duval v. Trask*, 12 Mass. 154, cited in 38 CJS, Sec. 7, p. 1142). They are primary obligations and not accessory contracts. Being separate and independent agreements, the payments made by the Mendozas cannot be added in computing IBAA's liability under its own standby letters of credit. Payments made by the Mendozas directly to Philam Life are in compliance with their own prestation under the loan agreements. And although these payments could result in the reduction of the actual amount which could ultimately be collected from IBAA, the latter's separate undertaking under its L/Cs remains.

Both the Trial Court and the Appellate Court found, as a fact, that there still remains a balance on the loan. Pursuant to its absolute undertaking under the L/Cs, therefore, IBAA cannot escape the obligation to pay Philam Life for this unexpended balance. The Appellate Court found it to be P222,000.00, arrived at by the Trial Court and adopted by the Appellate Court, as follows:

"x x x In the summary of application of payments (Exhibit 'KK') the plaintiff applied P1,918.00 as commitment fee, P4,397.66 as surcharges, P199,683.40 as interests, and P320,000.00 on the principal. The P58,000.00 which is covered by OR No. 74396 was also applied 'against the total loan.' Since plaintiff applied P378,000.00 against the total indebtedness of P600,000.00 there still remains an outstanding balance on the principal P322,000.00 (should be P222,000.00) aside from the agreed penalty interest until the whole amount is fully paid. x x x" (Decision, Trial Court, p. 50, Rollo).

The amount of P222,000.00, therefore, considered as "any obligation of the accountee" under the L/Cs will still have to be paid by IBAA under the explicit terms thereof, which IBAA had itself supplied. Letters of credit are strictly construed to the end that the rights of those directly parties to them may be preserved and their interest safeguarded (*Moss vs. Old Colony Trust Co.*, 140 N.E. 803, 246 Mass. 138, 152). Like any other writing, it will be construed most strongly against the writer and so as to be reasonable and consistent with honest intentions. On the whole, the construction will be generally a strict one (*Lamborn vs. National Park Bank of New York*, 208 N.Y.S. 428, 212 App. Div. 25, affirming *Id.*, 204 N.Y.S. 557, 123 Misc. 211, affirmed *Id.*, 148 N.E. 664, 240 N.Y. 520). As found by the Appellate Court, however, the amount payable should not exceed P296,294.05 (P600,000.00 less P303,705.95, the total amount found by the Appellate Court to have been paid by IBAA to

Philam Life).

- The second issue as to whether or not documentary evidence was disregarded by the Appellate Court regarding the amount actually paid by IBAA to Philam Life, or P303,705.95 (not P342,127.05 as found by the Trial Court), questions a finding of fact, which should be accorded not only respect but even finality. It is not the function of this Court to analyze or weigh such evidence all over again, its jurisdiction being limited to reviewing errors of law that might have been committed by lower Courts.

- The third issue faults respondent Appellate Court with having passed sub-silencio over certain points raised by petitioner IBAA in his Brief sustaining the Decision of the Trial Court. It is accepted judicial practice, however, that Courts are not required to resolve all issues raised in pleadings unless necessary for the resolution of the case. Apparently, respondent Appellate Court deemed it unnecessary to pass upon those points. Be that as it may, suffice it to state:

a) It is a matter of common knowledge in lending procedures that the nominal interest is different from the effective rate of interest and that the discounting interest scheme as well as the principal amortization scheme are practices commonly resorted to by lending institutions. If IBAA disagreed with the computation scheme adopted by Philam Life, which could have been detected in the early stages of the controversy, IBAA could have interposed its objections.

b) The right to call in at one time the two standby L/Cs was specifically provided for in the Loan Agreement, which was specifically made an integral part of the L/Cs. Section 8 thereof read:

"x x x 8. The Lender shall have the right to declare the entire balance of the loans and all obligations of the borrower to the lender as immediately due and payable in case the borrower fails for any reason to comply with any payment or other obligations of the Lender." (p. 248, Rollo)

c) The omission by Philam Life to draw the required drafts on the standby L/Cs can be explained by the fact that all the drafts were pre-prepared, pre-dated and pre-accepted by the Mendozas. Philam Life, therefore, could not have complied to the letter with the provision in the L/Cs that drawings therefrom were to be made by drafts for each due and unpaid amortization. Besides, the acceleration of the entire balance of the loan was sufficient notice of dishonor of the pre-drawn and pre-accepted drafts.

- Coming now to the award of attorney's fees of P25,000.00, the same appears reasonable under the circumstances of the case specially considering that in the foreclosure of the mortgage in its favor IBAA charged the Mendozas attorney's fees in the amount of P86,477.20, supra.

As to the liability of the Mendozas to IBAA, it bears recalling that the Mendozas, upon their application for the opening and issuance of the Irrevocable Standby Letters of Credit in favor of Philam Life, had executed a Real Estate Mortgage as security to IBAA for any payment that the latter may remit to Philam Life on the strength of said Letters of Credit; and that IBAA had recovered from the Mendozas the amount of P432,386.07 when it foreclosed on the mortgaged property of said spouses in the concept of "principal (unpaid advances under the 2 standby LCs plus interest and charges)." In addition, IBAA had recovered P255,364.95 representing its clean loans to the Mendozas plus accrued interest besides the fact that it now has the foreclosed property. As between IBAA and the Mendozas, therefore, there has been full liquidation. The remaining obligation of P222,000.00 on the loan of the Mendozas, therefore, is now IBAA's sole responsibility to pay to Philam Life; by virtue of its absolute and irrevocable undertaking under the standby L/Cs. Specially so, since the Promissory Notes executed by the Mendozas in favor of IBAA authorized the sale of the mortgaged security "for the purpose of applying their proceeds to x x x payments" of their obligations to IBAA.

WHEREFORE, the Decision of respondent Intermediate Appellate Court, dated 20 December 1985, is hereby MODIFIED. Petitioner IBAA (now the Philippine Commercial International Bank) shall pay Philippine American

Life Insurance Company the sum of P222,000.00 plus 2% per month as penalty interest from 12 September 1979 until the whole amount is fully paid, but in no case to exceed P296,294.05, plus P25,000.00 as attorney's fees. No costs.

SO ORDERED.

Paras, Sarmiento, and Regalado, JJ., concur.

Padilla, J., no part in the deliberations.

[*] Penned by Justice Ramon B. Britanico and concurred in by Justices Porfirio V. Sison, Abdulwahid A. Bidin and Marcelino R. Veloso.

[1] "Section 74. No bank or banking institution shall enter directly or indirectly, into any contract of guaranty or surety, or shall guarantee the interest or principal of any obligation of any person, co-partnership, association, corporation or other entity. The provisions of this section shall, however, not apply to the following:

(a) x x x

(e) letters of credit transaction, including standby arrangements;

x x x "

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.