

STELCO MARKETING CORPORATION, PETITIONER, VS. HON. COURT OF APPEALS AND STEELWELD CORPORATION OF THE PHILIP-PINES, INC., RESPONDENTS.

G.R. No. 96160. June 17, 1992

Ponente: NARVASA, C.J.

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NARVASA, C.J.:

Stelco Marketing Corporation is engaged in the distribution and sale to the public of structural steel bars.[1] On seven (7) different occasions in September and October, 1980, it sold to RYL Construction, Inc. quantities of steel bars of various sizes and rolls of G.I. wire. These bars and wire were delivered at different places at the indication of RYL Construction, Inc. The aggregate price for the purchases was P126,859.61.

Although the corresponding invoices issued by STELCO stipulated that RYL would pay "COD" (cash on delivery), the latter made no payments for the construction materials thus ordered and delivered despite insistent demands for payment by the former.

On April 4, 1981, RYL gave to Armstrong Industries -- described by STELCO as its "sister corporation" and "manufacturing arm"[2] -- a check drawn against Metrobank in the amount of P126,129.86, numbered 765380 and dated April 4, 1981. That check was a company check of another corporation, Steelweld Corporation of the Philippines, signed by its President, Peter Rafael Limson, and its Vice-President, Artemio Torres.

The check was issued by Limson at the behest of his friend, Romeo Y. Lim, President of RYL. Romeo Lim had asked Limson for financial assistance, and the latter had agreed to give Lim a check only by way of accommodation, "only as guaranty but not to pay for anything." [3] Why the check was made out in the amount of P126,129.86 is not explained. Anyway, the check was actually issued in said amount of P126,129.86, and as already stated, was given by R.Y. Lim to Armstrong Industries,[4] in payment of an obligation. When the latter deposited the check at its bank, it was dishonored because "drawn against insufficient funds." [5] When so deposited, the check bore two (2) indorsements, that of "RYL Construction," followed by that of "Armstrong Industries." [6]

On account of the dishonor of Metrobank Check No. 765380, and on complaint of Armstrong Industries (through a Mr. Young), Rafael Limson and Artemio Torres were charged in the Regional Trial Court of Manila with a violation of Batas Pambansa Bilang 22.[7] They were acquitted in a decision rendered on June 28, 1984 "on the ground that the check in question was not issued by the drawer 'to apply on account for value,' it being merely for accommodation purposes." [8] That judgment however conditioned the acquittal with the following pronouncement:

"This is not however to release Steelweld Corporation from its liability under Sec. 29 of the Negotiable Instruments Law for having issued it for the accommodation of Romeo Lim."

Eleven months or so later -- and some four (4) years after issuance of the check in question -- in May, 1985,

STELCO filed with the Regional Trial Court at Caloocan City a civil complaint[9] against both RYL and STEELWELD for the recovery of the value of the steel bars and wire sold to and delivered to RYL (as already narrated) in the amount of P126,129.86, "plus 18% interest from August 20, 1980 ** (and) 25% of the total amount sought to be recovered as and by way of attorney's fees**."[10] Among the allegations of its complaint was that Metrobank Check No. 765380 above mentioned had been given to it in payment of RYL's indebtedness, duly indorsed by R.Y. Lim.[11] A preliminary attachment was issued by the trial court on the basis of the averments of the complaint but was shortly dissolved upon the filing of a counter-bond by STEELWELD.

RYL could no longer be located and could not be served with summons.[12] It never appeared. Only STEELWELD filed an answer, under date of July 16, 1985.[13] In said pleading, it specifically denied the facts alleged in the complaint, the truth, according to Steelweld, being basically that-

- 1) STELCO "is a complete stranger to it;" it had "not entered into any transaction or business dealing of any kind" with STELCO, the transactions described in the complaint having been solely and exclusively between the plaintiff and RYL Construction;
- 2) the check in question was "only given to a certain R. Lim to be used as collateral for another obligation ** (but) in breach of his agreement (Lim) utilized and negotiated the check for another purpose **;"
- 3) nevertheless, the check "is wholly inoperative since ** Steelweld ** did not issue it for any valuable consideration either to R. Lim or to the plaintiff not to mention also the fact that the said plaintiff failed to comply with the requirements of the law to hold the said defendant (STEELWELD) liable **."

Trial ensued upon these issues, after which judgment was rendered on June 26, 1986.[14] The judgment sentenced "the defendant Steelweld Corporation to pay to ** (Stelco Marketing Corporation) the amount of P126,129.86 with legal rate of interest from May 9, 1985, when this case was instituted until fully paid, plus another sum equivalent to 25% of the total amount due as and for attorney's fees**"[15] That disposition was justified in the judgment as follows:[16]

"There is no question, then, that as far as any commercial transaction is concerned between plaintiff and defendant Steelweld no such transaction ever occurred. Ordinarily, under civil law rules, there having been no transaction between them involving the purchase of certain merchandise there would be no privity of contract between them, and plaintiff will have no right to sue the defendant for payment of said merchandise for the simple reason that the defendant did not order them, much less receive them.

But we have here a case where the defendant Steelweld thru its President Peter Rafael Limson admitted to have issued a check payable to cash in favor of his friend Romeo Lim who was the President of RYL Construction by way of accommodation. Under the Negotiable Instruments Law an accommodation party is liable.

'SEC. 29. Liability of an accommodation party. - An accommodation party is one who has signed the instrument as maker, drawer, acceptor, or indorser, without receiving value therefor, and for the purpose of lending his name to some other person. Such a person is liable on the instrument to a holder for value notwithstanding such holder at the time of taking the instrument knew him to be only an accommodation party.'

From this adverse judgment STEELWELD appealed to the Court of Appeals[17] and there succeeded in reversing the judgment. By Decision promulgated on May 29, 1990,[18] the Court of Appeals[19] ordered "the complaint against appellant (STEELWELD) DISMISSED; (and the appellee, STELCO) to pay appellant the sum of P15,000.00 as attorney's fees and cost of litigation, the suit ** (being) a baseless one that dragged appellant in court and caused it to incur attorney's fees and expense of litigation."

STELCO's motion for reconsideration was denied by the Appellate Tribunal's resolution dated November 13,

1990.[20] The Court stressed that -

" ** as far as Steelweld is concerned, there was no commercial transaction between said appellant and appellee. Moreover, there is no evidence that appellee Stelco Marketing became a holder for value. Nowhere in the check itself does the name of Stelco Marketing appear as payee, indorsee or depositor thereof. Finally, appellee's complaint is for the collection of the unpaid accounts for delivery of steel bars and construction materials. It having been established that appellee had no commercial transaction with appellant Stelco, appellee had no cause of action against said appellant."

STELCO appealed to this Court in accordance with Rule 45 of the Rules of Court. In this Court it seeks to make the following points in connection with its plea for the overthrow of the Appellate Tribunal's aforesaid decision, viz.:

- 1) said decision is "not in accord with law and jurisprudence;"
- 2) "STELCO is a 'holder' within the meaning of the Negotiable Instruments Law;"
- 3) "STELCO is a holder in due course of Metrobank Check No. 765380** (and hence) holds the same free from personal or equitable defense;" and
- 4) "Negotiation in breach of faith is a personal defense ** (and hence) not effective as against a holder in due course."

The points are not well taken.

The crucial question is whether or not STELCO ever became a holder in due course of Check No. 765380, a bearer instrument, within the contemplation of the Negotiable Instruments Law. It never did.

STELCO evidently places much reliance on the pronouncement of the Regional Trial Court in Criminal Case No. 66571,[21] that the acquittal of the two (2) accused (Limson and Torres) did not operate "to release Steelweld Corporation from its liability under Sec. 29 of the Negotiable Instruments Law for having issued** (the check) for the accommodation of Romeo Lim." The cited provision reads as follows:

"SECTION 29. Liability of accommodation party. -- An accommodation party is one who has signed the instrument as maker, drawer, acceptor, or indorser, without receiving value therefor, and for the purpose of lending his name to some other person. Such a person is liable on the instrument to a holder for value, notwithstanding such holder, at the time of taking the instrument, knew him to be only an accommodation party."

It is noteworthy that the Trial Court's pronouncement containing reference to said Section 29 did not specify to whom STEELWELD, as accommodation party, is supposed to be liable; and certain it is that neither said pronouncement nor any other part of the judgment of acquittal declared it liable to STELCO.

"A holder in due course," says the law,[22] "is a holder who has taken the instrument under the following conditions:

- (a) That it is complete and regular upon its face;
- (b) That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such was the fact;
- (c) That he took it in good faith and for value;
- (d) That at the time it was negotiated to him, he had no notice of any infirmity in the instrument or defect in the title of the persons negotiating it."

To be sure, as regards an accommodation party (such as STEELWELD), the fourth condition, i.e., lack of notice of any infirmity in the instrument or defect in title of the persons negotiating it, has no application. This is because Section 29 of the law above quoted preserves the right of recourse of a "holder for value" against the accommodation party notwithstanding that "such holder, at the time of taking the instrument, knew him to be only an accommodation party." [23]

Now, STELCO theorizes that it should be deemed a "holder for value" of STEELWELD's Check No. 765380 because the record shows it to have been in "actual possession" thereof; otherwise, it "could not have presented, marked and introduced (said check) in evidence ** before the court a quo." "Besides," it adds, the check in question was presented by STELCO to the drawee bank for payment through Armstrong Industries, the manufacturing arm of STELCO and its sister company." [24]

The trouble is, there is no evidence whatever that STELCO's possession of Check No. 765380 ever dated back to any time before the instrument's presentment and dishonor. There is no evidence whatsoever that the check was ever given to it, or indorsed to it in any manner or form in payment of an obligation or as security for an obligation, or for any other purpose before it was presented for payment. On the contrary, the factual finding of the Court of Appeals, which by traditional precept is normally conclusive on this Court, is that STELCO never became a holder for value and that "(n)owhere in the check itself does the name of Stelco Marketing appear as payee, indorsee or depositor thereof." [25]

What the record shows is that: (1) the STEELWELD company check in question was given by its president to R. Y. Lim; (2) it was given only by way of accommodation, to be "used as collateral for another obligation;" (3) in breach of the agreement, however, R.Y. Lim indorsed the check to Armstrong in payment of an obligation; (4) Armstrong deposited the check to its account, after indorsing it; (5) the check was dishonored. The record does not show any intervention or participation by STELCO in any manner or form whatsoever in these transactions, or any communication of any sort between STEELWELD and STELCO, or between either of them and Armstrong Industries, at any time before the dishonor of the check.

The record does show that after the check had been deposited and dishonored, STELCO came into possession of it in some way, and was able, several years after the dishonor of the check, to give it in evidence at the trial of the civil case it had instituted against the drawers of the check (Limson and Torres) and RLY. But, as already pointed out, possession of a negotiable instrument after presentment and dishonor, or payment, is utterly inconsequential; it does not make the possessor a holder for value within the meaning of the law; it gives rise to no liability on the part of the maker or drawer and indorsers.

It is clear from the relevant circumstances that STELCO cannot be deemed a holder of the check for value. It does not meet two of the essential requisites prescribed by the statute. It did not become "the holder of it before it was overdue, and without notice that it had been previously dishonored," and it did not take the check "in good faith and for value." [26]

Neither is there any evidence whatever that Armstrong Industries, to whom R.Y. Lim negotiated the check, accepted the instrument and attempted to encash it in behalf, and as agent of STELCO. On the contrary, the indications are that Armstrong was really the intended payee of the check and was the party actually injured by its dishonor; it was after all its representative (a Mr. Young) who instituted the criminal prosecution of the drawers, Limson and Torres, albeit unsuccessfully.

The petitioner has failed to show any sufficient cause for modification or reversal of the challenged judgment of the Court of Appeals which, on the contrary, appears to be entirely in accord with the facts and the applicable law.

WHEREFORE, the petition is DENIED and the Decision of the Court of Appeals in CA-G.R. CV No. 13418 is AFFIRMED in toto. Costs against petitioner.

SO ORDERED.

Paras, Padilla, and Regalado, JJ., concur.

Nocon, J., on leave.

[1] Rollo, p. 33

[2] Rollo, pp. 12, 17, 112

[3] Rollo, p. 48: Trial Court Decision, p. 3.

[4] Id., p. 55.

[5] Idem.

[6] Id., p. 63

[7] Criminal Case No. 66571, raffled and assigned to Branch 30.

[8] Rollo, pp. 48, 63.

[9] With prayer for the issuance of a writ of preliminary attachment.

[10] Rollo, pp. 32, 38.

[11] Id., p. 36.

[12] Id., p. 60

[13] "with application for damages against the attachment bond."

[14] By Judge Segundino D. Chua, later Associate Justice, Court of Appeals.

[15] Rollo, pp. 46, 50.

[16] Id., p. 49.

[17] The appeal was docketed as CA-G.R. CV No. 13418.

[18] By Lapeña, Jr., J., with the concurrence of Melo (Chairman) and Martinez, JJ.: Rollo, pp. 59-65.

[19] Second Division.

[20] Rollo, p. 66.

[21] SEE footnote 7 and related text.

[22] SEC. 52, Negotiable Instruments Law, Act No. 2031.

[23] SEE Agbayani, Commercial Laws of the Philippines, 1975 ed., Vol. I, citing Prudential Bank and Trust Co. v. Ramesh Trading Co. C.A. 32908-R, Sept. 10, 1964

[24] Rollo, p. 119

[25] SEE footnote 19, supra

[26] SEE footnote 21 and relevant text, *supra*

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