

THIRD DIVISION

[G.R. NO. 125851, July 11, 2006]

ALLIED BANKING CORPORATION, PETITIONER, VS. COURT OF APPEALS, G.G. SPORTSWEAR MANUFACTURING CORPORATION, NARI GIDWANI, SPOUSES LETICIA AND LEON DE VILLA AND ALCRON INTERNATIONAL LTD., RESPONDENTS.

DECISION

QUISUMBING, J.:

This petition for review on certiorari assails (a) the July 31, 1996 Decision^[1] of the Court of Appeals, ordering respondent G.G. Sportswear Manufacturing Corp. to reimburse petitioner US \$20,085; and exonerating the guarantors from liability; and (b) the January 17, 1997 Resolution^[2] denying the motion for reconsideration.

The facts are undisputed.

On January 6, 1981, petitioner Allied Bank, Manila (ALLIED) purchased Export Bill No. BDO-81-002 in the amount of US \$20,085.00 from respondent G.G. Sportswear Mfg. Corporation (GGS). The bill, drawn under a letter of credit No. BB640549 covered Men's Valvoline Training Suit that was in transit to West Germany (Uniger via Rotterdam) under Cont. #73/S0299. The export bill was issued by Chekiang First Bank Ltd., Hongkong. With the purchase of the bill, ALLIED credited GGS the peso equivalent of the aforementioned bill amounting to P151,474.52 and the receipt of which was acknowledged by the latter in its letter dated June 22, 1981.

On the same date, respondents Nari Gidwani and Alcron International Ltd. (Alcron) executed their respective Letters of Guaranty, holding themselves liable on the export bill if it should be dishonored or retired by the drawee for any reason.

Subsequently, the spouses Leon and Leticia de Villa and Nari Gidwani also executed a Continuing Guaranty/Comprehensive Surety (surety, for brevity), guaranteeing payment of any and all such credit accommodations which ALLIED may extend to GGS. When ALLIED negotiated the export bill to Chekiang, payment was refused due to some material discrepancies in the documents submitted by GGS relative to the exportation covered by the letter of credit. Consequently, ALLIED demanded payment from all the respondents based on the Letters of Guaranty and Surety executed in favor of ALLIED. However, respondents refused to pay, prompting ALLIED to file an action for a sum of money.

In their joint answer, respondents GGS and Nari Gidwani admitted the due execution of the export bill and the Letters of Guaranty in favor of ALLIED, but claimed that they signed blank forms of the Letters of Guaranty and the Surety, and the blanks were only filled up by ALLIED after they had affixed their signatures. They also added that the documents did not cover the transaction involving the subject export

bill.

On the other hand, the respondents, spouses de Villa, claimed that they were not aware of the existence of the export bill; they signed blank forms of the surety; and averred that the guaranty was not meant to secure the export bill.

Respondent Alcron, for its part, alleged that as a foreign corporation doing business in the Philippines, its branch in the Philippines is merely a liaison office confined to the following duties and responsibilities, to wit: acting as a message center between its office in Hongkong and its clients in the Philippines; conducting credit investigations on Filipino clients; and providing its office in Hongkong with shipping arrangements and other details in connection with its office in Hongkong. Respondent Alcron further alleged that neither its liaison office in the Philippines nor its then representative, Hans-Joachim Schloer, had the authority to issue Letters of Guaranty for and in behalf of local entities and persons. It also invoked laches against petitioner ALLIED.

GGs and Nari Gidwani filed a Motion for Summary Judgment on the ground that since the plaintiff admitted not having protested the dishonor of the export bill, it thereby discharged GGS from liability. But the trial court denied the motion. After the presentation of evidence by the petitioner, only the spouses de Villa presented their evidence. The other respondents did not. The trial court dismissed the complaint.

On appeal, the Court of Appeals modified the ruling of the trial court holding respondent GGS liable to reimburse petitioner ALLIED the peso equivalent of the export bill, but it exonerated the guarantors from their liabilities under the Letters of Guaranty. The CA decision reads as follows:

For the foregoing considerations, appellee GGS is obliged to reimburse appellant Allied Bank the amount of P151,474.52 which was the equivalent of GGS's contracted obligation of US\$20,085.00.

The lower court however correctly exonerated the guarantors from their liability under their Letters of Guaranty. A guaranty is an accessory contract. What the guarantors guaranteed in the instant case was the bill which had been discharged. Consequently, the guarantors should be correspondingly released.

WHEREFORE, judgment is hereby rendered ordering defendant-appellee G.G. Sportswear Mfg. Corporation to pay appellant the sum of P151,474.52 with interest thereon at the legal rate from the filing of the complaint, and the costs.

SO ORDERED. ^[3]

The petitioner filed a Motion for Reconsideration, but to no avail. Hence, this appeal, raising a single issue:

Whether or not respondents Nari, De Villa and Alcron are liable under the Letters of Guaranty and the Continuing Guaranty/ comprehensive Surety

notwithstanding the fact that no protest was made after the bill, a foreign bill of exchange, was dishonored.^[4]

The main issue raised before us is: Can respondents, in their capacity as guarantors and surety, be held jointly and severally liable under the Letters of Guaranty and Continuing Guaranty/Comprehensive Surety, in the absence of protest on the bill in accordance with Section 152 of the Negotiable Instruments Law?^[5]

The petitioner contends that part of the Court of Appeals' decision exonerating respondents Nari Gidwani, Alcron International Ltd., and spouses Leon and Leticia de Villa as guarantors and/or sureties. Respondents rely on Section 152 of the Negotiable Instruments Law to support their contention.

Our review of the records shows that what transpired in this case is a discounting arrangement of the subject export bill, between petitioner ALLIED and respondent GGS. Previously, we ruled that in a letter of credit transaction, once the credit is established, the seller ships the goods to the buyer and in the process secures the required shipping documents of title. To get paid, the seller executes a draft and presents it together with the required documents to the issuing bank. The issuing bank redeems the draft and pays cash to the seller if it finds that the documents submitted by the seller conform with what the letter of credit requires. The bank then obtains possession of the documents upon paying the seller. The transaction is completed when the buyer reimburses the issuing bank and acquires the documents entitling him to the goods.^[6] However, in most cases, instead of going to the issuing bank to claim payment, the buyer (or the beneficiary of the draft) may approach another bank, termed the negotiating bank, to have the draft discounted.^[7] While the negotiating bank owes no contractual duty toward the beneficiary of the draft to discount or purchase it, it may still do so. Nothing can prevent the negotiating bank from requiring additional requirements, like contracts of guaranty and surety, in consideration of the discounting arrangement.

In this case, respondent GGS, as the beneficiary of the export bill, instead of going to Chekiang First Bank Ltd. (issuing bank), went to petitioner ALLIED, to have the export bill purchased or discounted. Before ALLIED agreed to purchase the subject export bill, it required respondents Nari Gidwani and Alcron to execute Letters of Guaranty, holding them liable on demand, in case the subject export bill was dishonored or retired for any reason.^[8]

Likewise, respondents Nari Gidwani and spouses Leon and Leticia de Villa executed Continuing Guaranty/Comprehensive Surety, holding themselves jointly and severally liable on any and all credit accommodations, instruments, loans, advances, credits and/or other obligation that may be granted by the petitioner ALLIED to respondent GGS.^[9] The surety also contained a clause whereby said sureties waive protest and notice of dishonor of any and all such instruments, loans, advances, credits and/or obligations.^[10] These letters of guaranty and surety are now the basis of the petitioner's action.

At this juncture, we must stress that obligations arising from contracts have the force of law between the parties and should be complied with in good faith.^[11] Nothing can stop the parties from establishing stipulations, clauses, terms and