

SECOND DIVISION

[G.R. No. 219037, October 19, 2016]

**RCBC SAVINGS BANK, PETITIONER, VS. NOEL M. ODRADA,
RESPONDENT.**

D E C I S I O N

CARPIO, J.:

The Case

Before the Court is a petition for review on certiorari^[1] assailing the 26 March 2014 Decision^[2] and the 18 June 2015 Resolution^[3] of the Court of Appeals in CA-G.R. CV No. 94890.

The Facts

In April 2002, respondent Noel M. Odrada (Odrada) sold a secondhand Mitsubishi Montero (Montero) to Teodoro L. Lim (Lim) for One Million Five Hundred Ten Thousand Pesos (P1,510,000). Of the total consideration, Six Hundred Ten Thousand Pesos (P610,000) was initially paid by Lim and the balance of Nine Hundred Thousand Pesos (P900,000) was financed by petitioner RCBC Savings Bank (RCBC) through a car loan obtained by Lim.^[4] As a requisite for the approval of the loan, RCBC required Lim to submit the original copies of the Certificate of Registration (CR) and Official Receipt (OR) in his name. Unable to produce the Montero's OR and CR, Lim requested RCBC to execute a letter addressed to Odrada informing the latter that his application for a car loan had been approved.

On 5 April 2002, RCBC issued a letter that the balance of the loan would be delivered to Odrada upon submission of the OR and CR. Following the letter and initial down payment, Odrada executed a Deed of Absolute Sale on 9 April 2002 in favor of Lim and the latter took possession of the Montero.^[5]

When RCBC received the documents, RCBC issued two manager's checks dated 12 April 2002 payable to Odrada for Nine Hundred Thousand Pesos (P900,000) and Thirteen Thousand Five Hundred Pesos (P13,500).^[6] After the issuance of the manager's checks and their turnover to Odrada but prior to the checks' presentation, Lim notified Odrada in a letter dated 15 April 2002 that there was an issue regarding the roadworthiness of the Montero. The letter states:

April 15, 2002

Mr. Noel M. Odrada
C/o Kotse Pilipinas
Fronting Ultra, Pasig City

Thru: Shan Mendez;.

Dear Mr. Odrada,

Please be inform[ed] that I am going to cancel or exchange the (1) one unit Montero that you sold to me thru Mr. Shan Mendez because it did not match your representations the way Mr. Shan Mendez explained to me like:

1. You told me that the said vehicle has not experience [d] collision. However, it is hidden, when you open its engine cover there is a trace of a head-on collision. The condenser is smashed,; the fender support is not align[ed], both bumper supports] connecting [the] chassis were crippled and welded, the hood support was repaired, etc.
2. The 4-wheel drive shift is not functioning. When Mr. Mendez was asked about it, he said it would not function until you can reach the speed of 30 miles.
3. During Mr. Mendez['s] representation, he said the odometer has still an original mileage data but found tampered.
4. You represented the vehicle as model 1998 however; it is indicated in the front left A-pillar inscribed at the identification plate [as] model 1997.

Therefore, please show your sincerity by personally inspecting the said vehicle at RCBC, Pacific Bldg. Pearl Drive, Ortigas Center, Pasig City. Let us meet at the said bank at 10:00 A.M., April 17, 2002.

Meanwhile, kindly hold or do not encash the manager's check[s] issued to you by RCBC until you have clarified and satisfied my complaints.

Sincerely yours,

Teodoro L. Lim

Cc: Dario E. Santiago, RCBC loan
Legal^[7]

Odrada did not go to the slated meeting and instead deposited the manager's checks with International Exchange Bank (Ibank) on 16 April 2002 and redeposited them on 19 April 2002 but the checks were dishonored both times apparently upon Lim's instruction to RCBC.^[8] Consequently, Odrada filed a collection suit^[9] against Lim and RCBC in the Regional Trial Court of Makati.^[10]

In his Answer,^[11] Lim alleged that the cancellation of the loan was at his instance, upon discovery of the misrepresentations by Odrada about the Montero's roadworthiness. Lim claimed that the cancellation was not done *ex parte* but through a letter^[12] dated 15 April 2002.^[13] He further alleged that the letter was

delivered to Odrada prior to the presentation of the manager's checks to RCBC.^[14]

On the other hand, RCBC contended that the manager's checks were dishonored because Lim had cancelled the loan. RCBC claimed that the cancellation of the loan was prior to the presentation of the manager's checks. Moreover, RCBC alleged that despite notice of the defective condition of the Montero, which constituted a failure of consideration, Odrada still proceeded with presenting the manager's checks.

It was later disclosed during trial that RCBC also sent a formal notice of cancellation of the loan on 18 April 2002 to both Odrada and Lim.^[15]

The Regional Trial Court's Ruling

In its Decision^[16] dated 1 October 2009, the trial court ruled in favor of Odrada. The trial court held that Odrada was the proper party to ask for rescission.^[17] The lower court reasoned that the right of rescission is implied in reciprocal obligations where one party fails to perform what is incumbent upon him when the other is willing and ready to comply. The trial court ruled that it was not proper for Lim to exercise the right of rescission since Odrada had already complied with the contract of sale by delivering the Montero while Lim remained delinquent in payment.^[18] Since Lim was not ready, willing, and able to comply with the contract of sale, he was not the proper party entitled to rescind the contract.

The trial court ruled that the defective condition of the Montero was not a supervening event that would justify the dishonor of the manager's checks. The trial court reasoned that a manager's check is equivalent to cash and is really the bank's own check. It may be treated as a promissory note with the bank as maker. Hence, the check becomes the primary obligation of the bank which issued it and constitutes a written promise to pay on demand.^[19] Being the party primarily liable, the trial court ruled that RCBC was liable to Odrada for the value of the manager's checks.

Finally, the trial court found that Odrada suffered sleepless nights, humiliation, and was constrained to hire the services of a lawyer meriting the award of damages.^[20]

The dispositive portion of the Decision reads:

WHEREFORE, premises considered, judgment is hereby rendered:

- (a) Directing defendant RCBC to pay plaintiff the amount of Php 913,500.00 representing the cash equivalent of the two (2) manager's checks, plus 12% interest from the date of filing of the case until fully paid;
- (b) Directing defendants to solidarity pay moral damages in the amount of Php 500,000.00 and exemplary damages in the amount of Php 500,000.00;
- (c) Directing defendants to solidarity pay attorney's fees in the amount of Php 300,000.00.

Finally, granting the cross-claim of defendant RCBC, Teodoro L. Lim is hereby directed to indemnify RCBC Savings Bank for the amount adjudged for it to pay plaintiff.

SO ORDERED.^[21]

RCBC and Lim appealed from the trial court's decision.

The Court of Appeals' Ruling

In its assailed 26 March 2014 Decision, the Court of Appeals dismissed the appeal and affirmed the trial court's 1 October 2009 Decision.

The Court of Appeals ruled that the two manager's checks, which were complete and regular, reached the hands of Lim who deposited the same in his bank account with Ibank. RCBC knew that the amount reflected on the manager's checks represented Lim's payment for the remaining balance of the Montero's purchase price. The appellate court held that when RCBC issued the manager's checks in favor of Odrada, RCBC admitted the existence of the payee and his then capacity to endorse, and undertook that on due presentment the checks which were negotiable instruments would be accepted or paid, or both according to its tenor.^[22] The appellate court held that the effective delivery of the checks to Odrada made RCBC liable for the checks.^[23]

On RCBC's defense of want of consideration, the Court of Appeals affirmed the finding of the trial court that Odrada was a holder in due course. The appellate court ruled that the defense of want of consideration is not available against a holder in due course.^[24]

Lastly, the Court of Appeals found that the award of moral and exemplary damages and attorney's fees was excessive. Hence, modification was proper.

The dispositive portion of the Decision reads:

WHEREFORE, the impugned Decision of the court a quo in Civil Case No. 02-453 is hereby AFFIRMED with MODIFICATION insofar as the reduction of awards for moral, exemplary damages and attorney's fees to P50,000.00, P20,000.00, and P20,000.00 respectively.

SO ORDERED.^[25]

RCBC and Lim filed a motion for reconsideration^[26] on 28 April 2014. In its 18 June 2015 Resolution, the Court of Appeals denied the motion for lack of merit.^[27]

RCBC alone^[28] filed this petition before the Court. Thus, the decision of the Court of Appeals became final and executory as to Lim.

The Issues

RCBC presented the following, issues in this petition:

A. The court a quo gravely erred in finding that as between Odrada as seller and Lim as buyer of the vehicle, only the former has the right to rescind the contract of sale finding failure to perform an obligation under the contract of sale on the part of the latter only despite the contested roadworthiness of the vehicle, subject matter of the sale.

1. Whether or not the court a quo erred in holding that Lim cannot cancel the auto loan despite the failure in consideration due to the contested roadworthiness of the vehicle delivered by Odrada to him.^[29]

B. The court a quo gravely erred when it found that Odrada is a holder in due course of the manager's checks in question despite being informed of the cancellation of the auto loan by the borrower, Lim.

1. Whether or not Lim can validly countermand the manager's checks in the hands of a holder who does not hold the same in due course.^[30]

Odrada failed to file a comment^[31] within the period prescribed by this Court.^[32]

The Ruling of this Court

We grant the petition.

Under the law on sales, a contract of sale is perfected the moment there is a meeting of the minds upon the thing which is the object of the contract and upon the price which is the consideration. From that moment, the parties may reciprocally demand performance.^[33] Performance may be done through delivery, actual or constructive. Through delivery, ownership is transferred to the vendee.^[34] However, the obligations between the parties do not cease upon delivery of the subject matter. The vendor and vendee remain concurrently bound by specific obligations. The vendor, in particular, is responsible for an implied warranty against hidden defects.

Article 1547 of the Civil Code states: "In a contract of sale, unless a contrary intention appears, there is an implied warranty that the thing shall be free from any hidden faults or defects."^[35] Article 1566 of the Civil Code provides that "the vendor is responsible to the vendee for any hidden faults or defects in the thing sold, even though he was not aware thereof."^[36] As a consequence, the law fixes the liability of the vendor for hidden defects whether known or unknown to him at the time of the sale.

The law defines a hidden defect as one which would render the thing sold unfit for the use for which it is intended, or would diminish its fitness for such use to such an extent that, had the vendee been aware thereof, he would not have acquired it or would have given a lower price for it.^[37]