

THIRD DIVISION

[G.R. No. 179015, June 13, 2012]

**UNITED COCONUT PLANTERS BANK, PETITIONER, VS. PLANTERS
PRODUCTS, INC., JANET LAYSON AND GREGORY GREY,
RESPONDENTS.**

DECISION

ABAD, J.:

This case is about the liability of the bank for a transaction entered into by its branch manager in connivance with a client.

The Facts and the Case

Respondent Planters Products, Incorporated (PPI), a fertilizer manufacturer, entered into an arrangement with respondent Janet Layson for the delivery of fertilizers to her, payable from the proceeds of the loan that petitioner United Coconut Planters Bank (UCPB) extended to her. On February 11, 1980 Layson executed a document called "*pagares*," written on the dorsal side of a UCPB promissory note.^[1] The *pagares* stated that Layson had an approved loan with UCPB-Iloilo Branch for P200,000.00. The second portion of the *pagares*, signed by that branch's manager respondent Gregory Grey, stated that the "assignment has been duly accepted and payment duly guaranteed within 60 days from PPI's Invoice." Specifically, the *pagares* said:

I/We irrevocably assign the proceeds of this Promissory Note to Planters Products, Inc., for the account of Janet Layson as payment for my fertilizer/agchemicals withdrawals covered by Invoice Nos. _____ for application to my fertilizer line.

I/We hereby attest and affirm that I/We have an approved loan with United Coconut Planters Bank, Iloilo Branch, in the amount of Pesos "TWO HUNDRED THOUSAND (P200,000.00) which is allotted for fertilizer.

Sgd.
JANET LAYSON
Feb. 11, 1980

Assignment accepted and payment unconditionally guaranteed within sixty (60) days from Planters Products, Inc. Invoice date up to Pesos: Two Hundred Thousand (P200,000.00) only.

Sgd.
GREGORY GREY

Subsequently, Layson executed a third document "Letter Guarantee by the Dealer," stating that she binds herself to pay PPI the face value of the *pagares* in case UCPB did not pay the same at maturity. But contrary to her undertakings, on the following day, February 12, 1980, Layson withdrew with branch manager Grey's connivance the P200,000.00 loan that UCPB granted her.

On the strength of the three documents, PPI delivered quantities of fertilizers to Layson. Layson and Grey duplicated their transactions with PPI on February 18 and 27, 1980 covering two loans of P100,000.00 each.

On April 28, 1980 PPI presented the documents of the financed transactions to UCPB for collection. But the bank denied the claim on the ground that it neither authorized the transactions nor the execution of the documents which were not part of its usual banking transactions. UCPB claimed that branch manager Grey exceeded his authority in guaranteeing payment of Layson's purchases on credit. The *pagares*, said UCPB, were illegal and void since banking laws prohibit bank officers from guaranteeing loans of bank clients.

Consequently, in April 1980 PPI sued Layson, UCPB, and Grey for breach of contract with damages before the Regional Trial Court (RTC) of Makati.^[2] Grey died while the case was on trial. Although the RTC ordered Grey's substitution by any of his heirs, no one came to substitute him. Trial proceeded without prejudice to the claims against his estate.

On April 28, 1999 the RTC rendered a decision, absolving UCPB from liability for the value of the fertilizer products that PPI sold to Layson on credit. Since Grey acted in excess of his authority in guaranteeing the payment of the *pagares* and in involving himself in the transaction, UCPB cannot be bound by the same. Further, the promissory notes, on the dorsal side of which appeared the *pagares*, were not in negotiable form. They had neither a fixed date of maturity nor a fixed amount of obligation. The *pagares* is also void under the Civil Code because the prestation, Grey's act of guaranteeing the loan, is prohibited under Section 83 of the General Banking Act.

The court held Layson liable to PPI a) for P399,966.25 with 6% interest from the time it filed its complaint until fully paid and b) for attorney's fees of P30,000.00. Since Grey impliedly admitted^[3] having no authority on his own to grant Layson the credit accommodation and UCPB's guarantee to pay for the fertilizers she bought, the court found him subsidiarily liable for the principal amount. PPI appealed the decision to the Court of Appeals (CA).

On March 22, 2007 the CA rendered a decision, reversing that of the RTC and declaring UCPB jointly and severally liable with Layson for the latter's obligation to PPI to the extent of P200,000.00 covering the February 11, 1980 credit accommodation. The court deleted the award for attorney's fees. As regard to the second and third *pagares*, the CA ruled that PPI failed to prove the subsequent assignments. Essentially, the CA ruled that Layson's *pagares* were in the nature of assignment of credit, consisting in the proceeds of the loan that UCPB granted her. Since UCPB, acting through Grey, undertook to deliver those proceeds to PPI in