

THIRD DIVISION

[G.R. No. 159097, July 05, 2010]

**METROPOLITAN BANK AND TRUST COMPANY, PETITIONER, VS.
RURAL BANK OF GERONA, INC., RESPONDENT.**

DECISION

BRION, J.:

Petitioner Metropolitan Bank and Trust Company (*Metrobank*) filed this Petition for Review on *Certiorari*^[1] under Rule 45 of the Rules of Court to challenge the Court of Appeals (CA) decision dated December 17, 2002^[2] and the resolution dated July 14, 2003^[3] in CA-G.R. CV No. 46777. The CA decision set aside the July 7, 1994 decision^[4] of the Regional Trial Court (RTC) of Tarlac, Branch 65, in Civil Case No. 6028 (a collection case filed by Metrobank against respondent Rural Bank of Gerona, Inc. [*RBG*]), and ordered the remand of the case to include the Central Bank of the Philippines^[5] (*Central Bank*) as a necessary party.

THE FACTUAL ANTECEDENTS

RBG is a rural banking corporation organized under Philippine laws and located in Gerona, Tarlac. In the 1970s, the Central Bank and the RBG entered into an agreement providing that RBG shall facilitate the loan applications of farmers-borrowers under the Central Bank-International Bank for Reconstruction and Development's (*IBRD's*) 4th Rural Credit Project. The agreement required RBG to open a separate bank account where the IBRD loan proceeds shall be deposited. The RBG accordingly opened a special savings account with Metrobank's Tarlac Branch. As the depository bank of RBG, Metrobank was designated to receive the credit advice released by the Central Bank representing the proceeds of the IBRD loan of the farmers-borrowers; Metrobank, in turn, credited the proceeds to RBG's special savings account for the latter's release to the farmers-borrowers.

On September 27, 1978, the Central Bank released a credit advice in Metrobank's favor and accordingly credited Metrobank's demand deposit account in the amount of **P178,652.00**, for the account of RBG. The amount, which was credited to RBG's special savings account represented the approved loan application of farmer-borrower **Dominador de Jesus**. RBG withdrew the P178,652.00 from its account.

On the same date, the Central Bank approved the loan application of another farmer-borrower, **Basilio Panopio**, for **P189,052.00**, and credited the amount to Metrobank's demand deposit account. Metrobank, in turn, credited RBG's special savings account. Metrobank claims that the RBG also withdrew the entire credited amount from its account.

On October 3, 1978, the Central Bank approved **Ponciano Lagman's** loan

application for **P220,000.00**. As with the two other IBRD loans, the amount was credited to Metrobank's demand deposit account, which amount Metrobank later credited in favor of RBG's special savings account. Of the P220,000.00, RBG only withdrew P75,375.00.

On November 3, 1978, more than a month after RBG had made the above withdrawals from its account with Metrobank, **the Central Bank issued debit advices, reversing all the approved IBRD loans.**^[6] The Central Bank implemented the reversal by debiting from Metrobank's demand deposit account the amount corresponding to all three IBRD loans.

Upon receipt of the November 3, 1978 debit advices, Metrobank, in turn, debited the following amounts from RBG's special savings account: P189,052.00, P115,000.00, and P8,000.41. Metrobank, however, claimed that these amounts were insufficient to cover all the credit advices that were reversed by the Central Bank. It demanded payment from RBG which could make partial payments. As of October 17, 1979, Metrobank claimed that RBG had an outstanding balance of P334,220.00. To collect this amount, it filed a **complaint for collection of sum of money** against RBG before the RTC, docketed as Civil Case No. 6028.^[7]

In its July 7, 1994 decision,^[8] the **RTC ruled for Metrobank**, finding that legal subrogation had ensued:

[Metrobank] had allowed releases of the amounts in the credit advices it credited in favor of [RBG's special savings account] which credit advices and deposits were under its supervision. Being faulted in these acts or omissions, the Central Bank [*sic*] debited these amounts against [Metrobank's] demand [deposit] reserve; thus[, Metrobank's] demand deposit reserves diminished correspondingly, [Metrobank as of this time,] suffers prejudice in which case legal subrogation has ensued.^[9]

It thus ordered RBG to pay Metrobank the sum of P334,200.00, plus interest at 14% per annum until the amount is fully paid.

On appeal, the CA noted that this was not a case of legal subrogation under Article 1302 of the Civil Code. Nevertheless, the CA recognized that Metrobank had a right to be reimbursed of the amount it had paid and failed to recover, as it suffered loss in an agreement that involved only the Central Bank and the RBG. It clarified, however, that a determination still had to be made on who should reimburse Metrobank. Noting that no evidence exists why the Central Bank reversed the credit advices it had previously confirmed, **the CA declared that the Central Bank should be impleaded as a necessary party** so it could shed light on the IBRD loan reversals. Thus, the CA set aside the RTC decision, and remanded the case to the trial court for further proceedings after the Central Bank is impleaded as a necessary party.^[10] After the CA denied its motion for reconsideration, Metrobank filed the present petition for review on *certiorari*.

THE PETITION FOR REVIEW ON CERTIORARI

Metrobank disagrees with the CA's ruling to implead the Central Bank as a necessary party and to remand the case to the RTC for further proceedings. It argues that the inclusion of the Central Bank as party to the case is unnecessary since RBG has already admitted its liability for the amount Metrobank failed to recover. In two letters,^[11] RBG's President/Manager made proposals to Metrobank for the repayment of the amounts involved. Even assuming that no legal subrogation took place, Metrobank claims that RBG's letters more than sufficiently proved its liability.

Metrobank additionally contends that a remand of the case would unduly delay the proceedings. The transactions involved in this case took place in 1978, and the case was commenced before the RTC more than 20 years ago. The RTC resolved the complaint for collection in 1994, while the CA decided the appeal in 2002. To implead Central Bank, as a necessary party in the case, means a return to square one and the restart of the entire proceedings.

THE COURT'S RULING

The petition is impressed with merit.

A basic first step in resolving this case is to determine who the liable parties are on the IBRD loans that the Central Bank extended. The Terms and Conditions of the IBRD 4th Rural Credit Project^[12] (*Project Terms and Conditions*) executed by the Central Bank and the RBG shows that the farmers-borrowers to whom credits have been extended, are primarily liable for the payment of the borrowed amounts. The loans were extended through the RBG which also took care of the collection and of the remittance of the collection to the Central Bank. RBG, however, was not a mere conduit and collector. While the farmers-borrowers were the principal debtors, RBG assumed liability under the Project Terms and Conditions by solidarily binding itself with the principal debtors to fulfill the obligation.

How RBG profited from the transaction is not clear from the records and is not part of the issues before us, but if it delays in remitting the amounts due, the Central Bank imposed a 14% per annum penalty rate on RBG until the amount is actually remitted. The Central Bank was further authorized to deduct the amount due from RBG's demand deposit reserve should the latter become delinquent in payment. On these points, paragraphs 5 and 6 of the Project Terms and Conditions read:

5. Collection received representing repayments of borrowers shall be immediately remitted to the Central Bank, otherwise[,] the Rural Bank/SLA shall be charged a penalty of fourteen [percent] (14%) p.a. until date of remittance.

6. In case the rural bank becomes delinquent in the payment of amortizations due[,] the Central Bank is authorized to deduct the corresponding amount from the rural bank's demand deposit reserve^[13] at any time to cover any delinquency. [Emphasis supplied.]

Based on these arrangements, the Central Bank's immediate recourse, therefore should have been against the farmers-borrowers and the RBG; thus, it erred when it deducted the amounts covered by the debit advices from Metrobank's demand deposit account. Under the Project Terms and Conditions, Metrobank had no responsibility over the proceeds of the IBRD loans other than serving as a conduit for their transfer from the Central Bank to the RBG once credit advice has been issued. Thus, we agree with the CA's conclusion that the agreement governed only the parties involved - the Central Bank and the RBG. Metrobank was simply an outsider to the agreement. Our disagreement with the appellate court is in its conclusion that no legal subrogation took place; the present case, in fact, exemplifies the circumstance contemplated under paragraph 2, of Article 1302 of the Civil Code which provides:

Art. 1302. It is presumed that there is legal subrogation:

(1) When a creditor pays another creditor who is preferred, even without the debtor's knowledge;

(2) When a third person, not interested in the obligation, pays with the express or tacit approval of the debtor;

(3) When, even without the knowledge of the debtor, a person interested in the fulfillment of the obligation pays, without prejudice to the effects of confusion as to the latter's share. [Emphasis supplied.]

As discussed, Metrobank was a third party to the Central Bank-RBG agreement, had no interest except as a conduit, and was not legally answerable for the IBRD loans. Despite this, it was Metrobank's demand deposit account, instead of RBG's, which the Central Bank proceeded against, on the assumption perhaps that this was the most convenient means of recovering the cancelled loans. That Metrobank's payment was involuntarily made does not change the reality that it was Metrobank which effectively answered for RBG's obligations.

Was there express or tacit approval by RBG of the payment enforced against Metrobank? After Metrobank received the Central Bank's debit advices in November 1978, it (Metrobank) accordingly debited the amounts it could from RBG's special savings account without any objection from RBG.^[14] RBG's President and Manager, Dr. Aquiles Abellar, even wrote Metrobank, on August 14, 1979, with proposals regarding possible means of settling the amounts debited by Central Bank from Metrobank's demand deposit account.^[15] These instances are all indicative of RBG's approval of Metrobank's payment of the IBRD loans. That RBG's tacit approval came after payment had been made does not completely negate the legal subrogation that had taken place.

Article 1303 of the Civil Code states that subrogation transfers to the person subrogated the credit with all the rights thereto appertaining, either against the debtor or against third persons. As the entity against which the collection was enforced, Metrobank was subrogated to the rights of Central Bank and has a cause of action to recover from RBG the amounts it paid to the Central Bank, plus 14% per annum interest.