

## SECOND DIVISION

[ G.R. No. 148019, July 26, 2004 ]

**RURAL BANK OF STA. CATALINA, INC., REPRESENTED BY THE  
PHILIPPINE DEPOSIT INSURANCE CORPORATION, IN ITS  
CAPACITY AS LIQUIDATOR, PETITIONER, VS. LAND BANK OF  
THE PHILIPPINES, RESPONDENT.**

### DECISION

**CALLEJO, SR., J.:**

Before us is a petition for review on *certiorari* of the Decision<sup>[1]</sup> of the Court of Appeals in CA-G.R. CV No. 62511 affirming the Decision<sup>[2]</sup> of the Regional Trial Court of Vigan, Ilocos Sur, Branch 20 in Civil Case No. 4786-V.

On September 11, 1996, the respondent, Land Bank of the Philippines, filed a complaint against the petitioner, Sta. Catalina Rural Bank, Inc., in the Regional Trial Court of Vigan, Ilocos Sur, Branch 20, for the collection of the sum of ₱2,809,280.25, capitalized and accrued interests, penalties and surcharges, and for such other equitable reliefs. On motion of the respondent bank, the trial court issued an Order on January 23, 1997 declaring the petitioner bank in default for its failure to file its answer to the complaint.<sup>[3]</sup> Despite its receipt of the copy of the said order, the petitioner bank failed to file a motion to set aside the order of default. The respondent bank, thereafter, adduced testimonial and documentary evidence on July 9 and 24, 1997, thus:

The plaintiff presented two (2) witnesses to substantiate its allegations in the complaint. First witness, Mr. Mervin Sison, the Chief Loans and Creditor of the Land Bank of the Philippines, Vigan Branch, testified that he knows of the Rediscounting Line Agreements entered into by and between the plaintiff and the defendant, through its president, Mr. Melchor P. Ines. Said agreements were identified by him in court with the first one dated November 28, 1990, for ONE MILLION PESOS (₱1,000,000.00) (Exh. "A"), and the second one dated September 11, 1991, for THREE MILLION FIVE HUNDRED THOUSAND PESOS (₱3,500,000.00) (Exh. "B"). In case of defendant's default, the availments shall be subject to three per cent (3%) penalty per month from due date of note as agreed upon in paragraph IV, No. 10 of the Rediscounting Line Agreements. On August 13, 1991, during the effectivity of the first Rediscounting Line Agreement, defendant made Availment No. 20 in the principal amount of TWO HUNDRED NINETY-FOUR THOUSAND and FOUR HUNDRED FORTY PESOS (₱294,440.00) subject to a 14% interest per annum and with a term of one hundred eighty (180) days and proved by Payment Order and Discount Sheet dated August 13, 1991 (Exhs. "C" and "C-2"). On August 22, 1991, during the effectivity of the first Rediscounting Line Agreement,

defendant made Availment No. 21 in the principal amount of TWO HUNDRED ONE THOUSAND and SIX HUNDRED TWENTY PESOS (P201,620.00) again subject to 14% interest per annum and with the term of one hundred eighty (180) days and evidenced by Payment Order and Discount Sheet dated August 22, 1991 (Exhs. "D" and "D-2"). On September 13, 1991, during the effectivity of the second Rediscounting Line Agreement, defendant again made Availment No. 22 in the principal amount of SEVEN HUNDRED TWENTY-TWO THOUSAND and ONE HUNDRED SIXTY PESOS (P722,160.00) subject to 14% interest per annum and again with a term of one hundred eighty (180) days as evidenced by Payment Order, Discount Sheet and Deed of Assignment, all dated September 13, 1991 (Exhs. "E," "E-2" and "E-3"). On September 25, 1991, and during the effectivity of the second Rediscounting Line Agreement, the defendant made Availment No. 23 in the principal amount of EIGHT HUNDRED SIXTY-ONE THOUSAND and SEVEN HUNDRED THIRTY PESOS (P861,730.00) again subject to 14% per annum interest and with a term of one hundred eighty (180) days and evidenced by Payment Order, Discount Sheet and Deed of Assignment dated September 25, 1991 (Exhs. "F," "F-2," and "F-3"). On October 23, 1991, and during the effectivity of the second Rediscounting Line Agreement, defendant again made Availment No. 24 in the principal amount of TWO HUNDRED ONE THOUSAND and FOUR HUNDRED FIFTY PESOS (P201,450.00) now subject to 6% interest per annum and with a term of one hundred eighty (180) days, as evidenced by Payment Order, Discount Sheet and Deed of Assignment, dated October 23, 1991 (Exhs. "G," "G-2" and "G-3"). On October 30, 1991, defendant made Availment Numbers 25 and 26 in the corresponding amounts of ONE HUNDRED THIRTY-SIX THOUSAND and SIX HUNDRED EIGHTY PESOS (P136,680.00) and ONE HUNDRED SIXTY-SEVEN THOUSAND and SEVEN HUNDRED FIVE PESOS (P167,705.00), respectively, both subject to 14% interest per annum and with a term of one hundred eighty (180) days as evidenced by Payment Orders, Discount Sheets and Deeds of Assignments, all dated October 30, 1991 (Exhs. "H," "H-2," "H-3," "I," "I-2" and "I-3"). On November 11, 1991, during the effectivity of the second Rediscounting Line Agreement, defendant again made Availment No. 27 in the principal amount of TWO HUNDRED FIVE THOUSAND and EIGHT HUNDRED SEVENTY PESOS (P205,870.00) subject to 14% interest per annum and with a term of one hundred eighty (180) days as evidenced by Payment Order, Discount Sheet and Deed of Assignment, dated November 11, 1991 (Exhs. "J," "J-2" and "J-3"). On December 16, 1991, during the effectivity of the second Rediscounting Line [Agreement], defendant made Availment No. 28 in the principal amount of ONE HUNDRED FIFTY-FOUR THOUSAND and FOUR HUNDRED TWO PESOS (P154,402.00) subject to 14% interest per annum and with a term of one hundred eighty (180) days as evidenced by Payment Order, Discount Sheet and Deed of Assignment, dated December 16, 1991 (Exhs. "K," "K-2" and "K-3").

Second Witness, Ms. Elenita del Castillo, corroborated the testimony of Mr. Sison and she testified that she knows the defendant, being a borrower of the plaintiff bank, and that being one of the accounting staffs of the plaintiff, it is one of her official duties to prepare Statement of

Accounts of various clients of the plaintiff. She even prepared one for the defendant which she presented the original (Exh. "L") during her examination. She explained Exhibit "L" as follows: The first column represents the availment numbers which were from number 20 to 28. The second column represents the corresponding amount availed of which totals TWO MILLION NINE HUNDRED FORTY-SIX THOUSAND FIFTY-SEVEN PESOS and FIFTY CENTAVOS (P2,946,057.50). The third column represents the principal balance which is the unpaid balance of the total amount availed of, which totals to TWO MILLION EIGHT HUNDRED NINE THOUSAND TWO HUNDRED EIGHTY PESOS and TWENTY-FIVE CENTAVOS (P2,809,280.25). The fourth column represents the Capitalized Interest which is the interest from availment date to the date when defendant requested for and was granted the re-structuring of its past due availment on April 30, 1993. Capitalized interests shall form part of the principal and, thus, shall be subject to interest from [the] date of capitalization. The fifth column is the Accrued Interest, which is the interest from [the] date of re-structuring to [the] cut-off date. The sixth column is the Accrued Penalty which is the penalty from due date to cut-off and the seventh column is the Total Amount Due which is the Unpaid Principal, Capitalized Interest, Accrued Interest and Accrued Penalty which has a grand total of FIVE MILLION SEVEN HUNDRED EIGHTY-ONE THOUSAND NINE HUNDRED NINETY-ONE PESOS and THIRTY-NINE CENTAVOS (P5,781,991.39) as of July 23, 1997.<sup>[4]</sup>

In the meantime, on January 14, 1998, the Monetary Board of the Central Bank of the Philippines approved the placement of the petitioner bank's assets under receivership under Section 29 of Republic Act No. 7653,<sup>[5]</sup> as recommended by its Supervision and Management Section dated March 31, 1997. The Philippine Deposit Insurance Corporation (PDIC) was designated as receiver (conservator) of the petitioner, and the latter was prohibited from doing business in the Philippines.<sup>[6]</sup>

Unaware of the action of the Central Bank of the Philippines, the trial court, on April 7, 1998, rendered judgment by default against the petitioner bank, the dispositive portion of which reads:

WHEREFORE, in view of the foregoing, judgment is hereby rendered in favor of the plaintiff and the defendant is hereby ordered:

1. To pay the sum of FIVE MILLION SEVEN HUNDRED EIGHTY-ONE THOUSAND NINE HUNDRED NINETY-ONE PESOS and THIRTY-NINE CENTAVOS (P5,781,991.39) to the plaintiff;
2. To pay interests from 23 July 1997 until its obligations are fully paid at the rate of 14% interest per annum except for Availment Nos. 24 & 25 which are subject to 6% interest per annum;
3. To pay the penalty from 23 July 1997 until its obligations are fully paid at the rate of 3% per month; and
4. For the defendant to pay the cost of litigation.

SO ORDERED.<sup>[7]</sup>