

## THIRD DIVISION

[ G.R. No. 109087, May 09, 2001 ]

**RODZSEN SUPPLY CO. INC., PETITIONER, VS. FAR EAST BANK & TRUST CO., RESPONDENT.**

### DECISION

**PANGANIBAN, J.:**

When both parties to a transaction are mutually negligent in the performance of their obligations, the fault of one cancels the negligence of the other. Thus, their rights and obligations may be determined equitably. No one shall enrich oneself at the expense of another.

#### The Case

Before us is a Petition for Review on *Certiorari*<sup>[1]</sup> under Rule 45 of the Rules of Court, assailing the January 21, 1993 Decision<sup>[2]</sup> of the Court of Appeals<sup>[3]</sup> (CA) in CA-GR CV No. 26045. The challenged Decision affirmed with modification the ruling of the Regional Trial Court of Bacolod City in Civil Case No. 2296. The CA ruled as follows:

"WHEREFORE, the decision under appeal should be, as it is hereby affirmed in all its aspects, except for the deletion of paragraph 2 of its dispositive portion, which paragraph shall be replaced by a new paragraph which shall read as follows:

'2. ordering the defendant to pay the plaintiff the sum equivalent to 10% of the total amount due and collectible, as attorney's fees; and'

"No pronouncement as to costs."<sup>[4]</sup>

On the other hand, the trial court had rendered this judgment:

"1. Ordering the defendant to pay the plaintiff the sum of P76,000.00, representing the principal amount being claimed in this action, plus interest thereon at the rate of 12% per annum counted from October 1979 until fully paid;

"2. Ordering the defendant to pay the plaintiff the sum equivalent to 25% of the total amount due and collectible; and

"3. Ordering the defendant to pay the costs of the suit."<sup>[5]</sup>

#### The Facts

The factual and procedural antecedents of the case are summarized by the Court of Appeals as follows:

"In the complaint from which the present proceedings originated, it is alleged that on January 15, 1979, defendant Rodzssen Supply, Inc. opened with plaintiff Far East Bank and Trust Co. a 30-day domestic letter of credit, LC No. 52/0428/79-D, in the amount of P190,000.00 in favor of Ekman and Company, Inc. (Ekman) for the purchase from the latter of five units of hydraulic loaders, to expire on February 15, 1979; that subsequent amendments extended the validity of said LC up to October 16, 1979; that on March 16, 1979, three units of the hydraulic loaders were delivered to defendant for which plaintiff on March 26, 1979, paid Ekman the sum of P114,000.00, which amount defendant paid plaintiff before the expiry date of the LC; that the shipment of the remaining two units of hydraulic loaders valued at P76,000.00 sent by Ekman was 'readily received by the defendant' before the expiry date [of] subject LC; that upon Ekman's presentation of the documents for the P76,000.00 'representing final negotiation' on the LC before the expiry date, and 'after a series of negotiations', plaintiff paid to Ekman the amount of P76,000.00; and that upon plaintiff's demand on defendant to pay for said amount (P76,000.00), defendant 'refused to pay ... without any valid reason'. Plaintiff prays for judgment ordering defendant to pay the abovementioned P76,000.00 plus due interest thereon, plus 25% of the amount of the award as attorney's fees.

"In the Answer, defendant interposed, *inter alia*, by way of special and affirmative defenses that plaintiff ha[d] no cause of action against defendant; that there was a breach of contract by plaintiff who in bad faith paid Ekman, knowing that the two units of hydraulic loaders had been delivered to defendant after the expiry date of subject LC; and that in view of the breach of contract, defendant offered to return to plaintiff the two units of hydraulic loaders, 'presently still with the defendant' but plaintiff refused to take possession thereof.

"The trial court's ruling that plaintiff [was] entitled to recover from defendant the amount of P76,000.00 was based on its following findings/conclusions: (1) under the contract of sale of the five loaders between Ekman and defendant, upon Ekman's delivery to, and acceptance by, defendant of the two remaining units of the five loaders, defendant became liable to Ekman for the payment of said two units. However, as defendant did not pay Ekman, the latter pressed plaintiff for the payment of said two loaders in the amount of P76,000.00. In the honest belief that it was still under obligation to Ekman for said amount, considering that Ekman had presented all the necessary documents, plaintiff voluntarily paid the said amount to Ekman. Plaintiff's x x x voluntary and lawful act of payment g[a]ve rise to a quasi-contract between plaintiff and defendant; and if defendant should escape liability for said amount, the result would be to allow defendant to enrich itself at plaintiff's expense x x x.

"x x x. While defendant, indeed offered to return the two loaders to plaintiff, x x x this offer was made 3 years after defendant's receipt of the goods, when plaintiff pressed for payment. By said voluntary acceptance of the two loaders, estoppel works against defendant who should have refused delivery of, and/or immediately offered to return, the goods.

"Accordingly, judgment was rendered in favor of the plaintiff and against the defendant x x x."<sup>[6]</sup>

### **The CA Ruling**

The CA rejected petitioner's imputation of bad faith and negligence to respondent bank for paying for the two hydraulic loaders, which had been delivered after the expiration of the subject letter of credit. The appellate court pointed out that petitioner received the equipment after the letter of credit had expired. "To absolve defendant from liability for the price of the same," the CA explained, "is to allow it to get away with its unjust enrichment at the expense of the plaintiff."

Hence, this Petition.<sup>[7]</sup>

### **Issues**

Petitioner presents the following issues for resolution:

"1. Whether or not it is proper for a banking institution to pay a letter of credit which has long expired or been cancelled.

"2. Whether or not respondent courts were correct in their conclusion that there was a consummated sale between petitioner and Ekman Co.

"3. Whether or not Respondent Court of Appeals was correct in evading the issues raised in the appeal that under the trust receipt, petitioner was merely the depository of private respondent with respect to the goods covered by the trust receipt."<sup>[8]</sup>

### **The Court's Ruling**

We affirm the Court of Appeals, but lower the interest rate to only 6 percent and delete the award of attorney's fees.

### **First Issue:**

#### **Efficacy of Letter of Credit**

Petitioner asserts that respondent bank was negligent in paying for the two hydraulic loaders, when it no longer had any obligation to do so in view of the expiration and cancellation of the Letter of Credit.

Petitioner Rodzssen Supply Inc. applied for and obtained an irrevocable 30-day domestic Letter of Credit from Far East Bank and Trust Company Inc. on January 15, 1979, in favor of Ekman and Company Inc., in order to finance the purchase of five units of hydraulic loaders in the amount of P190,000. Originally set to expire on February 15, 1979, the subject Letter of Credit was amended several times to extend its validity until October 16, 1979.

The Letter of Credit expressly restricted the negotiation to respondent bank and specifically instructed Ekman and Company Inc. to tender the following documents: (1) delivery receipt duly acknowledged by the buyer, (2) accepted draft, and (3) duly signed commercial invoices. Likewise, the instrument contained a provision with regard to its expiration date.<sup>[9]</sup>