



Republic of the Philippines  
Supreme Court  
Manila

SECOND DIVISION

RCBC SAVINGS BANK,  
Petitioner,

G.R. No. 219037

Present:

CARPIO, *J.*, Chairperson,  
BRION,  
DEL CASTILLO,  
MENDOZA, and  
LEONEN,\* *JJ.*

- versus -

NOEL M. ODRADA,  
Respondent.

Promulgated:

19 Oct 2016

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DECISION

CARPIO, *J.*:

The Case

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

The Facts

In April 2002, respondent Noel M. Odrada (Odrada) sold a second-hand Mitsubishi Montero (Montero) to Teodoro L. Lim (Lim) for One Million Five Hundred Ten Thousand Pesos (₱1,510,000). Of the total consideration, Six Hundred Ten Thousand Pesos (₱610,000) was initially paid by Lim and the balance of Nine Hundred Thousand Pesos (₱900,000)

\* On official leave.

<sup>1</sup> *Rollo*, pp. 9-23. Under Rule 45 of the 1997 Rules of Civil Procedure.

<sup>2</sup> *Id.* at 29-36. Penned by Associate Justice Eduardo B. Peralta, Jr., with Associate Justices Magdangal M. De Leon and Stephen C. Cruz concurring.

<sup>3</sup> *Id.* at 52-53.

was financed by petitioner RCBC Savings Bank (RCBC) through a car loan obtained by Lim.<sup>4</sup> 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.<sup>5</sup>

When RCBC received the documents, RCBC issued two manager's checks dated 12 April 2002 payable to Odrada for Nine Hundred Thousand Pesos (₱900,000) and Thirteen Thousand Five Hundred Pesos (₱13,500).<sup>6</sup> 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 support[s] 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.

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<sup>4</sup> Id. at 29.

<sup>5</sup> Id. at 30.

<sup>6</sup> Id.



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<sup>7</sup>

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.<sup>8</sup> Consequently, Odrada filed a collection suit<sup>9</sup> against Lim and RCBC in the Regional Trial Court of Makati.<sup>10</sup>

In his Answer,<sup>11</sup> 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<sup>12</sup> dated 15 April 2002.<sup>13</sup> He further alleged that the letter was delivered to Odrada prior to the presentation of the manager’s checks to RCBC.<sup>14</sup>

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.

<sup>7</sup> Records, p. 23.

<sup>8</sup> *Rollo*, p. 30.

<sup>9</sup> Civil Case No. 02-453.

<sup>10</sup> Branch 66, Makati City.

<sup>11</sup> Records, pp. 18-21.

<sup>12</sup> *Id.* at 23.

<sup>13</sup> *Id.* at 19.

<sup>14</sup> *Id.*

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.<sup>15</sup>

### **The Regional Trial Court's Ruling**

In its Decision<sup>16</sup> 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.<sup>17</sup> 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.<sup>18</sup> 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.<sup>19</sup> 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.<sup>20</sup>

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 solidarily 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 solidarily pay attorney's fees in the amount of Php 300,000.00.

<sup>15</sup> *Rollo*, p. 30.

<sup>16</sup> *Id.* at 55-62. Penned by Judge Joselito Villarosa.

<sup>17</sup> *Id.* at 59.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 60.

<sup>20</sup> *Id.* at 61.

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.<sup>21</sup>

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.<sup>22</sup> The appellate court held that the effective delivery of the checks to Odrada made RCBC liable for the checks.<sup>23</sup>

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.<sup>24</sup>

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 ₱50,000.00, ₱20,000.00, and ₱20,000.00 respectively.

SO ORDERED.<sup>25</sup>

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<sup>21</sup> Id. at 62.

<sup>22</sup> Id. at 34.

<sup>23</sup> Id.

<sup>24</sup> Act No. 2031 (1911), Sec. 24.

<sup>25</sup> *Rollo*, p. 35.



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

RCBC alone<sup>28</sup> 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.<sup>29</sup>

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.<sup>30</sup>

Odrada failed to file a comment<sup>31</sup> within the period prescribed by this Court.<sup>32</sup>

### **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,

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<sup>26</sup> Id. at 38-50.

<sup>27</sup> Id. at 52-53.

<sup>28</sup> The records show that RCBC was the only party in the original case which filed an appeal to this Court.

<sup>29</sup> *Rollo*, p. 13.

<sup>30</sup> Id. at 19.

<sup>31</sup> Rule 47, Sec. 7: *Effect of failure to file comment*. - When no comment is filed by any of the respondents, the case may be decided on the basis of the record, without prejudice to any disciplinary action which the court may take against the disobedient party.

<sup>32</sup> Counsel for Odrada failed to file comment on the petition within the period prescribed in the Resolution dated 30 September 2015, which period expired on 22 November 2015.

the parties may reciprocally demand performance.<sup>33</sup> Performance may be done through delivery, actual or constructive. Through delivery, ownership is transferred to the vendee.<sup>34</sup> 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.”<sup>35</sup> 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.”<sup>36</sup> 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.<sup>37</sup>

In this case, Odrada and Lim entered into a contract of sale of the Montero. Following the initial downpayment and execution of the deed of sale, the Montero was delivered by Odrada to Lim and the latter took possession of the Montero. Notably, under the law, Odrada’s warranties against hidden defects continued even after the Montero’s delivery. Consequently, a misrepresentation as to the Montero’s roadworthiness constitutes a breach of warranty against hidden defects.

In *Supercars Management & Development Corporation v. Flores*,<sup>38</sup> we held that a breach of warranty against hidden defects occurred when the vehicle, after it was delivered to respondent, malfunctioned despite repairs by petitioner.<sup>39</sup> In the present case, when Lim acquired possession, he discovered that the Montero was not roadworthy. The engine was misaligned, the automatic transmission was malfunctioning, and the brake rotor disks needed refacing.<sup>40</sup> However, during the proceedings in the trial court, Lim’s testimony was stricken off the record because he failed to appear during cross-examination.<sup>41</sup> In effect, Lim was not able to present clear preponderant evidence of the Montero’s defective condition.

<sup>33</sup> CIVIL CODE, Art. 1475.

<sup>34</sup> CIVIL CODE, Art. 1478.

<sup>35</sup> CIVIL CODE, Art. 1547 (2).

<sup>36</sup> CIVIL CODE, Art. 1485.

<sup>37</sup> CIVIL CODE, Art. 1561.

<sup>38</sup> 487 Phil. 259 (2004).

<sup>39</sup> Id. at 268.

<sup>40</sup> Records, pp. 27-29.

<sup>41</sup> Id. at 213.

### *RCBC May Refuse to Pay Manager's Checks*

We address the legal question of whether or not the drawee bank of a manager's check has the option of refusing payment by interposing a personal defense of the purchaser of the manager's check who delivered the check to a third party.

In resolving this legal question, this Court will examine the nature of a manager's check and its relation to personal defenses under the Negotiable Instruments Law.<sup>42</sup>

Jurisprudence defines a manager's check as a check drawn by the bank's manager upon the bank itself and accepted in advance by the bank by the act of its issuance.<sup>43</sup> It is really the bank's own check and may be treated as a promissory note with the bank as its maker.<sup>44</sup> Consequently, upon its purchase, the check becomes the primary obligation of the bank and constitutes its written promise to pay the holder upon demand.<sup>45</sup> It is similar to a cashier's check<sup>46</sup> both as to effect and use in that the bank represents that the check is drawn against sufficient funds.<sup>47</sup>

As a general rule, the drawee bank is not liable until it accepts.<sup>48</sup> Prior to a bill's acceptance, no contractual relation exists between the holder<sup>49</sup> and the drawee. Acceptance, therefore, creates a privity of contract between the holder and the drawee so much so that the latter, once it accepts, becomes the party primarily liable on the instrument.<sup>50</sup> Accordingly, acceptance is the act which triggers the operation of the liabilities of the drawee (acceptor) under Section 62<sup>51</sup> of the Negotiable Instruments Law. Thus, once he accepts, the drawee admits the following: (a) existence of the drawer; (b) genuineness of the drawer's signature; (c) capacity and authority of the drawer to draw the instrument; and (d) existence of the payee and his then capacity to endorse.

<sup>42</sup> Act No. 2031 (1911).

<sup>43</sup> *Rizal Commercial Banking Corporation v. Hi-Tri Development Corporation*, 687 Phil. 481 (2012); *Bank of the Philippine Islands v. Roxas*, 562 Phil. 161 (2007); *Bank of the Philippine Islands v. Court of Appeals*, 383 Phil. 538 (2000); *Tan v. Court of Appeals*, G.R. No. 108555, 20 December 1994, 239 SCRA 310.

<sup>44</sup> *Id.*

<sup>45</sup> *Tan v. Court of Appeals*, G.R. No. 108555, 20 December 1994, 239 SCRA 310.

<sup>46</sup> For purposes of brevity and applying the previous rulings of this Court when the Court refers to a manager's check, cashier's checks are also included.

<sup>47</sup> *Bank of the Philippine Islands v. Court of Appeals*, 383 Phil. 538 (2000).

<sup>48</sup> Act No. 2031 (1911), Sec. 127.

<sup>49</sup> Payee or indorsee of a bill or note who is in possession of it, or the bearer thereof.

<sup>50</sup> Act No. 2031 (1911), Sec. 127.

<sup>51</sup> Sec. 62. *Liability of Acceptor.* - The acceptor, by accepting the instrument, engages that he will pay it according to the tenor of his acceptance and admits:

(a) The existence of the drawer, the genuineness of his signature and his capacity and authority to draw the instrument, and

(b) The existence of the payee and his then capacity to indorse.

As can be gleaned in a long line of cases decided by this Court, a manager's check is accepted by the bank upon its issuance. As compared to an ordinary bill of exchange where acceptance occurs after the bill is presented to the drawee, the distinct feature of a manager's check is that it is accepted in advance. Notably, the mere issuance of a manager's check creates a privity of contract between the holder and the drawee bank, the latter primarily binding itself to pay according to the tenor of its acceptance.

The drawee bank, as a result, has the unconditional obligation to pay a manager's check to a holder in due course irrespective of any available personal defenses. However, while this Court has consistently held that a manager's check is automatically accepted, a holder **other than a holder in due course** is still subject to defenses. In *International Corporate Bank v. Spouses Gueco*,<sup>52</sup> which involves a delivered manager's check, the Court still considered whether the check had become stale:

It has been held that, if the check had become stale, it becomes imperative that the circumstances that caused its non-presentment be determined. In the case at bar, there is no doubt that the petitioner bank held on the check and refused to encash the same because of the controversy surrounding the signing of the joint motion to dismiss. We see no bad faith or negligence in this position taken by the bank.<sup>53</sup>

In *International Corporate Bank*, this Court considered whether the holder presented the manager's check within a reasonable time after its issuance – a circumstance required for holding the instrument in due course.<sup>54</sup>

Similarly, in *Rizal Commercial Banking Corporation v. Hi-Tri Development Corporation*,<sup>55</sup> the Court observed that the mere issuance of a manager's check does not *ipso facto* work as an automatic transfer of funds to the account of the payee.<sup>56</sup> In order for the holder to acquire title to the instrument, there still must have been effective delivery. Accordingly, the Court, taking exception to the manager's check automatic transfer of funds to the payee, declared that: "the doctrine that the deposit represented by a manager's check automatically passes to the payee is inapplicable, because the instrument – although accepted in advance remains undelivered."<sup>57</sup> This Court ruled that the holder did not acquire the instrument in due course since title had not passed for lack of delivery.<sup>58</sup>

We now address the main legal question: if the holder of a manager's check is not a holder in due course, can the drawee bank interpose a personal defense of the purchaser?

<sup>52</sup> 404 Phil. 353 (2001).

<sup>53</sup> *Id.* at 368.

<sup>54</sup> Sec. 53. *When person not deemed holder in due course.* - Where an instrument payable on demand is negotiated on an unreasonable length of time after its issue, the holder is not deemed a holder in due course.

<sup>55</sup> 687 Phil. 481 (2012).

<sup>56</sup> *Id.* at 499.

<sup>57</sup> *Id.* at 500.

<sup>58</sup> Notably, under Section 16 of the Negotiable Instruments Law, a complete yet undelivered negotiable instrument gives rise to a personal defense.

Our rulings in *Mesina v. Intermediate Appellate Court*<sup>59</sup> and *United Coconut Planters Bank v. Intermediate Appellate Court*<sup>60</sup> shed light on the matter.

In *Mesina*, Jose Go purchased a manager's check from Associated Bank. As he left the bank, Go inadvertently left the check on top of the desk of the bank manager. The bank manager entrusted the check for safekeeping to another bank official who at the time was attending to a customer named Alexander Lim.<sup>61</sup> After the bank official answered the telephone and returned from the men's room, the manager's check could no longer be found. After learning that his manager's check was missing, Go immediately returned to the bank to give a stop payment order on the check. A third party named Marcelo Mesina deposited the manager's check with Prudential Bank but the drawee bank sent back the manager's check to the collecting bank with the words "payment stopped." When asked how he obtained the manager's check, Mesina claimed it was paid to him by Lim in a "certain transaction."<sup>62</sup>

While this Court acknowledged the general causes and effects of a manager's check, it noted that other factors were needed to be considered, namely the manner by which Mesina acquired the instrument. This Court declared:

Petitioner's allegations hold no water. Theories and examples advanced by petitioner on causes and effects of a cashier's check such as (1) it cannot be countermanded in the hands of a holder in due course and (2) a cashier's check is a bill of exchange drawn by the bank against itself – are general principles which cannot be aptly applied to the case at bar, without considering other things. Petitioner failed to substantiate his claim that he is a holder in due course and for consideration or value as shown by the established facts of the case. Admittedly, petitioner became the holder of the cashier's check as endorsed by Alexander Lim who stole the check. He refused to say how and why it was passed to him. He had therefore notice of the defect of his title over the check from the start.<sup>63</sup>

Ultimately, the notice of defect affected Mesina's claim as a holder of the manager's check. **This Court ruled that the issuing bank could validly refuse payment because Mesina was not a holder in due course.** Unequivocally, the Court declared: **"the holder of a cashier's check who is not a holder in due course cannot enforce such check against the issuing bank which dishonors the same."**<sup>64</sup>

<sup>59</sup> 229 Phil. 495 (1986).

<sup>60</sup> 262 Phil. 397 (1990).

<sup>61</sup> *Mesina v. Intermediate Appellate Court*, supra at 498.

<sup>62</sup> *Mesina v. Intermediate Appellate Court*, supra at 499.

<sup>63</sup> *Mesina v. Intermediate Appellate Court*, supra at 502.

<sup>64</sup> *Mesina v. Intermediate Appellate Court*, supra at 502.

In the same manner, in *United Coconut Planters Bank (UCPB)*,<sup>65</sup> this Court ruled that the drawee bank was legally justified in refusing to pay the holder of a manager's check who did not hold the check in due course. In UCPB, Altiura Investors, Inc. purchased a manager's check from UCPB, which then issued a manager's check in the amount of Four Hundred Ninety Four Thousand Pesos (P494,000) to Makati Bel-Air Developers, Inc. The manager's check represented the payment of Altiura Investors, Inc. for a condominium unit it purchased from Makati Bel-Air Developers, Inc. Subsequently, Altiura Investors, Inc. instructed UCPB to hold payment due to material misrepresentations by Makati Bel-Air Developers, Inc. regarding the condominium unit.<sup>66</sup> Pending negotiations and while the stop payment order was in effect, Makati Bel-Air Developers, Inc. insisted that UCPB pay the value of the manager's check. UCPB refused to pay and filed an interpleader to allow Altiura Investors, Inc. and Makati Bel-Air Developers, Inc. to litigate their respective claims. Makati Bel-Air Developers, Inc. also filed a counterclaim against UCPB in the amount of Five Million Pesos (P5,000,000) based on UCPB's violation of its warranty on its manager's check.<sup>67</sup>

In upholding UCPB's refusal to pay the value of the manager's check, this Court reasoned that Makati Bel-Air Developers, Inc.'s title to the instrument became defective when there arose a partial failure of consideration.<sup>68</sup> We held that UCPB could validly invoke a personal defense of the purchaser against Makati Bel-Air Developers, Inc. because the latter was not a holder in due course of the manager's check:

There are other considerations supporting the conclusion reached by this Court that respondent appellate court had committed reversible error. Makati Bel-Air was a party to the contract of sale of an office condominium unit to Altiura, for the payment of which the manager's check was issued. Accordingly, Makati Bel-Air was fully aware, at the time it had received the manager's check, that there was, or had arisen, at least partial failure of consideration since it was unable to comply with its obligation to deliver office space amounting to 165 square meters to Altiura. Makati Bel-Air was also aware that petitioner Bank had been informed by Altiura of the claimed defect in Makati Bel-Air's title to the manager's check or its right to the proceeds thereof. *Vis-a-vis* both Altiura and petitioner Bank, Makati Bel-Air was not a holder in due course of the manager's check.<sup>69</sup>

The foregoing rulings clearly establish that the drawee bank of a manager's check may interpose personal defenses of the purchaser of the manager's check if the holder is not a holder in due course. In short, the purchaser of a manager's check may validly countermand payment to a holder who is not a holder in due course. Accordingly, the drawee bank may

<sup>65</sup> *United Coconut Planters Bank v. Intermediate Appellate Court*, supra note 60.

<sup>66</sup> *United Coconut Planters Bank v. Intermediate Appellate Court*, supra note 60 at 399.

<sup>67</sup> *United Coconut Planters Bank v. Intermediate Appellate Court*, supra note 60 at 400.

<sup>68</sup> *United Coconut Planters Bank v. Intermediate Appellate Court*, supra note 60 at 403.

<sup>69</sup> *United Coconut Planters Bank v. Intermediate Appellate Court*, supra note 60 at 403.



refuse to pay the manager's check by interposing a personal defense of the purchaser. Hence, the resolution of the present case requires a determination of the status of Odrada as holder of the manager's checks.

In this case, the Court of Appeals gravely erred when it considered Odrada as a holder in due course. Section 52 of the Negotiable Instruments Law defines a holder in due course as one who has taken the instrument under the following conditions:

- (a) That it is complete and regular upon its face;
- (b) That he became the holder of it before it was overdue, and without notice that it has been previously dishonored, if such was the fact;
- (c) That he took it **in good faith and for value**;
- (d) That at the time it was negotiated to him, he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.  
(Emphasis supplied)

To be a holder in due course, the law requires that a party must have acquired the instrument *in good faith and for value*.

Good faith means that the person taking the instrument has acted with due honesty with regard to the rights of the parties liable on the instrument and that at the time he took the instrument, the holder has no knowledge of any defect or infirmity of the instrument.<sup>70</sup> To constitute notice of an infirmity in the instrument or defect in the title of the person negotiating the same, the person to whom it is negotiated must have had actual knowledge of the infirmity or defect, or knowledge of such facts that his action in taking the instrument would amount to bad faith.<sup>71</sup>

Value, on the other hand, is defined as any consideration sufficient to support a simple contract.<sup>72</sup>

In the present case, Odrada attempted to deposit the manager's checks on 16 April 2002, a day after Lim had informed him that there was a serious problem with the Montero. Instead of addressing the issue, Odrada decided to deposit the manager's checks. Odrada's actions do not amount to good faith. Clearly, Odrada failed to make an inquiry even when the circumstances strongly indicated that there arose, at the very least, a partial failure of consideration due to the hidden defects of the Montero. Odrada's action in depositing the manager's checks despite knowledge of the Montero's defects amounted to bad faith. Moreover, when Odrada redeposited the manager's checks on 19 April 2002, he was already formally notified by RCBC the previous day of the cancellation of Lim's auto loan

<sup>70</sup> Act No. 2031 (1911), Sec. 52.

<sup>71</sup> Act No. 2031 (1911), Sec. 56.

<sup>72</sup> Act No. 2031 (1911), Sec. 25.

transaction. Following *UCPB*,<sup>73</sup> RCBC may refuse payment by interposing a personal defense of Lim - that the title of Odrada had become defective when there arose a partial failure or lack of consideration.<sup>74</sup>

RCBC acted in good faith in following the instructions of Lim. The records show that Lim notified RCBC of the defective condition of the Montero before Odrada presented the manager's checks.<sup>75</sup> Lim informed RCBC of the hidden defects of the Montero including a misaligned engine, smashed condenser, crippled bumper support, and defective transmission. RCBC also received a formal notice of cancellation of the auto loan from Lim and this prompted RCBC to cancel the manager's checks since the auto loan was the consideration for issuing the manager's checks. RCBC acted in good faith in stopping the payment of the manager's checks.

Section 58 of the Negotiable Instruments Law provides: "In the hands of any holder other than a holder in due course, a negotiable instrument is subject to the same defenses as if it were non-negotiable. x x x." Since Odrada was not a holder in due course, the instrument becomes subject to personal defenses under the Negotiable Instruments Law. Hence, RCBC may legally act on a countermand by Lim, the purchaser of the manager's checks.

Lastly, since Lim's testimony involving the Montero's hidden defects was stricken off the record by the trial court, Lim failed to prove the existence of the hidden defects and thus Lim remains liable to Odrada for the purchase price of the Montero. Lim's failure to file an appeal from the decision of the Court of Appeals made the decision of the appellate court final and executory as to Lim. RCBC cannot be made liable because it acted in good faith in carrying out the stop payment order of Lim who presented to RCBC the complaint letter to Odrada when Lim issued the stop payment order.

**WHEREFORE**, we **GRANT** the petition. We **REVERSE** and **SET ASIDE** the 26 March 2014 Decision and the 18 June 2015 Resolution of the Court of Appeals in CA-G.R. CV No. 94890 only insofar as RCBC Savings Bank is concerned.

**SO ORDERED.**

  
**ANTONIO T. CARPIO**  
Associate Justice

<sup>73</sup> Supra note 60.

<sup>74</sup> Sec. 28. *Effect of want of consideration.* - Absence or failure of consideration is a matter of defense as against any person not a holder in due course x x x.

<sup>75</sup> Records, pp. 51-52.

**WE CONCUR:**

  
**ARTURO D. BRION**  
Associate Justice

  
**MARIANO C. DEL CASTILLO**  
Associate Justice

  
**JOSE CATRAL MENDOZA**  
Associate Justice

(On official leave)  
**MARVIC M.V.F. LEONEN**  
Associate Justice

**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

  
**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**MARIA LOURDES P. A. SERENO**  
Chief Justice