



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

LAND BANK OF THE PHILIPPINES, **G.R. No. 211537**
Petitioner,

Present:

- versus -

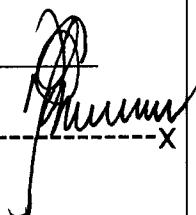
PERALTA, C.J., *Chairperson,*
CAGUIOA, *Working Chairperson,*
REYES, J. JR.,
LAZARO-JAVIER, and
LOPEZ, JJ.

POLILLO PARADISE ISLAND
CORPORATION,

Promulgated:

DEC 10 2019

Respondent.

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DECISION

REYES, J. JR., J.:

Before this Court is a petition for review on *certiorari*,¹ assailing the Order² dated May 24, 2013 and Order³ dated January 20, 2014 of the Regional Trial Court of Infanta, Quezon, Branch 65 (RTC), denying Land Bank of the Philippines's (petitioner) Comment/Opposition to Polillo Paradise Island Corporation's (respondent) Amended Petition for Corporate Rehabilitation.

The Antecedents

The records reveal that respondent obtained a ₱5 Million Short Term Loan Line (STLL) with petitioner in 2000. As a security thereof, two parcels

¹ *Rollo*, pp. 9-21.

² Penned by Presiding Judge Arnelo C. Mesa; *id.* at 27-28.

³ *Id.* at 108-110.

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of land covered by Transfer Certificate of Title (TCT) No. T-18198 and Original Certificate of Title (OCT) No. P-12935. TCT No. T-18198 was registered in the name of Aimee and Chris Almeda while OCT No. P-12935 was registered in the name of Aimee Almeda.⁴ Said loan was used as additional working capital of its hotel business.⁵

On February 13, 2001, petitioner approved the request of respondent for the conversion of its STLL into a 5-year term loan. Not only was such request but also an additional ₱1.2 Million STLL was granted.⁶

Several restructurings were had anent the account of respondent with petitioner. Despite such, however, respondent failed to pay its loan obligation. Thus, on June 24, 2011, petitioner was constrained to file a petition for extrajudicial foreclosure of the mortgaged properties.⁷ Subsequently, the mortgaged properties (subject properties) were sold in the amount of ₱11,161,047.12, wherein petitioner emerged as the highest bidder.⁸ A Certificate of Sale⁹ was issued and registered before the Registry of Deeds on August 22, 2011.

As the respondent failed to redeem said properties within the redemption period, petitioner consolidated its title over the subject properties. Thus, on November 19, 2012, the Register of Deeds of Infanta, Quezon cancelled TCT No. T-18198 and OCT No. P-12935, and in lieu thereof, issued TCT Nos. 067-2012000395 and 067-20122000396, respectively, in the name of petitioner.¹⁰

Allegedly, respondent filed a petition for corporate rehabilitation¹¹ on August 17, 2012. It asserted that its financial viability was greatly affected as the Province of Quezon was devastated by the typhoon and flood, resulting in the cancellation of functions and decline in room occupancy; and by the global crisis in 2008. As the decrease in financial revenues deprived it of enough cash flow to service payment of its debts, respondent insisted that rehabilitation is the only viable option for it to continue its operations and settle its liabilities.

In an Order¹² dated August 25, 2012, the RTC dismissed the petition for lack of merit. It took note that there is nothing left to be rehabilitated considering that the subject properties subject of the foreclosure sale comprise the bulk of respondent's assets.

⁴ Id. at 11.

⁵ Id. at 31.

⁶ Id.

⁷ Id. at 11.

⁸ Id.

⁹ Id. at 116-119.

¹⁰ Id. at 12.

¹¹ Id. at 206-218.

¹² Id. at 224-227.

On October 12, 2012, respondent filed an amended petition¹³ for corporate rehabilitation, invoking the application of Republic Act No. 10142 or the Financial Rehabilitation and Insolvency Act of 2010 (FRIA).

After finding the petition sufficient in form and in substance, the RTC granted the same in an Order¹⁴ dated January 8, 2013 and accordingly issued a Commencement/Suspension Order¹⁵ dated January 11, 2013. Said Order directed the following measures:

Furthermore, a Stay or Suspension Order is likewise issued ordering the following, to wit[:]

1. [S]uspending all actions or proceedings, in court or otherwise, for the enforcement of claims against the debtor;
2. [S]uspending all actions to enforce any judgment, attachment or other provisional remedies against the debtor;
3. [P]rohibiting the debtor from selling, encumbering, transferring or disposing in any manner any of its properties except in the ordinary course of business; and
4. [P]rohibiting the debtor from making any payment of its liabilities outstanding as of the commencement date except as may be provided herein.

SO ORDERED.¹⁶

Alleging that it was not notified of the petition and surprised to receive the January 11, 2013 Order only on January 18, 2013, petitioner filed its Opposition to or Comment on the Amended Petition.¹⁷ Essentially, petitioner alleged that it is no longer a creditor of respondent in view of the consolidation of the ownership of the subject properties in its name following the extrajudicial foreclosure sale; therefore, relieving respondent of any liability arising from the loan it previously obtained from it. As such, the proceedings concerning the sale of the subject properties is no longer covered by the FRIA.

In an Order¹⁸ dated May 24, 2013, the RTC fortified its earlier order and denied petitioner's opposition.

A Motion for Reconsideration was filed by petitioner, which was denied in an Order¹⁹ dated January 20, 2014. Reckoning the *date of the consolidation of ownership in petitioner's name* as the period as to when the

¹³ Id. at 29-42.

¹⁴ Penned by Presiding Judge Arnelo C. Mesa; id. at 126.

¹⁵ Id. at 127-129.

¹⁶ Id. at 129.

¹⁷ Id. at 130-135.

¹⁸ Supra note 2.

¹⁹ Supra note 3.

ownership vested, the RTC explained that when such consolidation took place *after* the date of the filing of the amended petition, the same and the proceedings before it are void for being violative of Section 17²⁰ of the FRIA since the ownership of the subject properties still lies with the respondent at the time that said petition was filed. At this point, the RTC emphasized that the effects of the Commencement Order, which prohibits or renders null and void the results of any extrajudicial activity or process to seize property after the commencement date, can be reckoned from the date of the filing of the amended petition. Verily, the RTC maintained that the petitioner is still considered as respondent's creditor within the purview of the law.

Aggrieved, petitioner filed this instant petition, impugning the Orders of the RTC. It asserted that the effects of the Commencement Order should not extend to the foreclosed properties already consolidated in its name, considering that the same took place *prior* to the commencement date.

In its comment,²¹ respondent insisted that the consolidation of ownership in the name of petitioner violated the FRIA because the date of the filing of the petition for corporate rehabilitation on August 17, 2012, the reckoning point of the effects of the Commencement Order, precedes such consolidation.

In its reply,²² petitioner disputed that the date of filing of the petition for corporate rehabilitation is not on August 17, 2012, but on August 22, 2012 as the petition itself bore such mark. Moreover, it alleged that even assuming that the same was filed on August 22, 2012, the reckoning period is on October 18, 2012, which is the date of the filing of the *amended* petition for corporate rehabilitation. Hence, the commencement date took place *prior* to the filing of the petition.

The Issue

Summarily, the issue in this case is whether or not the Commencement Order issued by the RTC has the effect of rendering void the foreclosure sale of the subject properties and the effects thereof.

The Court's Ruling

RA No. 10142 or the FRIA defines rehabilitation as the restoration of the debtor to a condition of successful operation and solvency, if it is shown that its continuance of operation is economically feasible and its creditors can recover by way of the present value of payments projected in the plan,

²⁰ (b) prohibit or otherwise serve as the legal basis rendering null and void the results of any extrajudicial activity or process to seize property, sell encumbered property, or otherwise attempt to collection or enforce a claim against the debtor after commencement date unless otherwise allowed in this Act, subject to the provisions of Section 50 hereof;

²¹ *Rollo*, pp. 176-191.

²² *Id.* at 197-205.

more if the debtor continues as a going concern than if it is immediately liquidated.²³

Thus, corporate rehabilitation contemplates a continuance of corporate life and activities in an effort to restore and reinstate the corporation to its former position of successful operation and solvency, the purpose being to enable the company to gain a new lease on life and allow its creditors to be paid their claims out of its earnings.²⁴

To achieve this end, the rehabilitation court may issue a Commencement Order, which marks the start of the rehabilitation proceedings. The effects of which is stated under Section 17, to wit:

Section 17. *Effects of the Commencement Order.*- Unless otherwise provided for in this Act, the court's issuance of a Commencement Order shall, in addition to the effects of a Stay or Suspension Order described in Section 16 hereof:

(a) vest the rehabilitation with all the powers and functions provided for this Act, such as the right to review and obtain records to which the debtor's management and directors have access, including bank accounts or whatever nature of the debtor subject to the approval by the court of the performance bond filed by the rehabilitation receiver;

(b) prohibit or otherwise serve as the legal basis rendering null and void the results of any extrajudicial activity or process to seize property, sell encumbered property, or otherwise attempt to collect on or enforce a claim against the debtor after commencement date unless otherwise allowed in this Act, subject to the provisions of Section 50 hereof;

(c) serve as the legal basis for rendering null and void any set-off after the commencement date of any debt owed to the debtor by any of the debtor's creditors;

(d) serve as the legal basis for rendering null and void the perfection of any lien against the debtor's property after the commencement date; and

(e) consolidate the resolution of all legal proceedings by and against the debtor to the court: Provided, however, That the court may allow the continuation of cases on other courts where the debtor had initiated the suit.

Attempts to seek legal on other resource against the debtor outside these proceedings shall be sufficient to support a finding of indirect contempt of court.

²³ Section 4(gg), Republic Act No. 10142.

²⁴ *Philippine Asset Growth Two, Inc. v. Fastech Synergy Philippines, Inc.*, 788 Phil. 355, 374 (2016), citing *BPI Family Savings Bank, Inc. v. St. Michael Medical Center, Inc.*, 757 Phil. 251, 264 (2015).

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The FRIA provides that the effects of the Commencement Order shall be reckoned from the date of the filing of the petition for corporate rehabilitation, be it voluntary or involuntary.²⁵

Emphatically, the determination of the *date of the filing of the petition for rehabilitation* is relevant in ascertaining the extent of the legal effects of a Commencement Order. Thus, it becomes imperative to identify the pertinent crucial dates surrounding the petition.

It is undisputed that the Commencement Order was issued on January 11, 2013. As to the date of the filing of the petition, petitioner claimed that the same was filed on August 17, 2012. However, the records reveal otherwise. It is apparent that it was on August 17, 2012 that the petition was prepared by petitioner's counsel, Atty. Rio T. Espiritu; but it was *actually* filed on August 22, 2012, as evidenced by the rubber stamp of the RTC. Moreover, the Notice of *Lis Pendens* annotated in the titles of the subject properties reads that the petition for corporate rehabilitation was filed before the RTC on August 22, 2012. In deliberately stating an erroneous fact, petitioner's counsel attempted to mislead this Court to advocate the case of its client. Such act is, in absolute terms, a downright violation of a lawyer's duty to act at all times in a manner consistent with the truth.²⁶

Be that as it may, petitioner still erred in considering August 2012 as the reckoning point. Significantly, the RTC already dismissed said petition on August 25, 2012 for being bereft of substance. The October 18, 2012 *Amended Petition* is in reality not an amendment to the earlier petition as it was filed only after the RTC dismissed the August 22, 2012 petition. Verily, there was nothing more to amend when the petition had already been dismissed. Likewise, it must be emphasized that it was the October 18, 2012 petition which was granted by the RTC and initiated the rehabilitation proceedings. Thus, the commencement date is reckoned on October 18, 2012.

As the commencement date is ascertained, it is indispensable to discern the period when the extrajudicial foreclosure sale and its effects took place as Section 17 of the FRIA extends only to processes which occurred *after* the commencement date.

It is undisputed that Certificate of Sale was issued and registered on August 22, 2011. As such, the last day of the redemption period is on August 22, 2012. The determination of such expiration date is relevant insofar as the ownership of the subject properties is concerned. Case law dictates that the purchaser in an extrajudicial foreclosure of real property becomes the absolute owner of the property if no redemption is made within one year

²⁵ *Commencement date* shall refer to the date on which the court issues the Commencement Order, which shall be retroactive to the date of filing of the petition for voluntary or involuntary proceedings; Section 4(d), Republic Act No. 10142.

²⁶ *Adez Realty, Incorporated v. Court of Appeals*, 289 Phil. 766, 773 (1992).

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from the registration of the Certificate of Sale by those entitled to redeem.²⁷ The consolidation of ownership in the name of the buyer and the issuance of the new certificate of title merely entitles him to possession thereof as a matter of right. Nevertheless, upon the purchase of the property and before the lapse of the redemption period, the buyer is already considered as the owner. In fact, he can demand possession of the land even during the redemption period except that he has to post a bond in accordance with Section 7 of Act No. 3135, as amended.²⁸

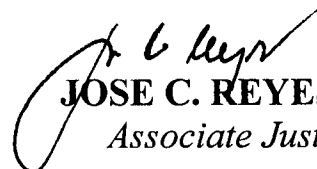
Hence, in this case, the ownership of the subject properties was vested upon the petitioner on August 22, 2012 as its registered owners failed to redeem the same. Notably, such period *precedes* the filing of the petition for corporate rehabilitation on October 18, 2012.

The effect of such sale is to release the debtor from its outstanding obligation. In fact, petitioner issued a Certification²⁹ stating that respondent fully paid the same by virtue of the foreclosure sale.

As it is settled that the acquisition of absolute ownership by respondent over the subject properties on August 22, 2012 is *antecedent* to the commencement date or the filing of the petition for corporate rehabilitation on October 18, 2012, the sale of the subject properties is valid. Corollary, petitioner is no longer considered as respondent's creditor.

WHEREFORE, premises considered, the instant petition is **GRANTED**. Accordingly, the Orders dated May 24, 2013 and January 20, 2014 of the Regional Trial Court of Infanta, Quezon, Branch 65 are **REVERSED and SET ASIDE**.

SO ORDERED.


JOSE C. REYES, JR.
Associate Justice

²⁷ *Spouses Gallent, Jr. v. Velasquez*, 784 Phil. 44, 58 (2016).

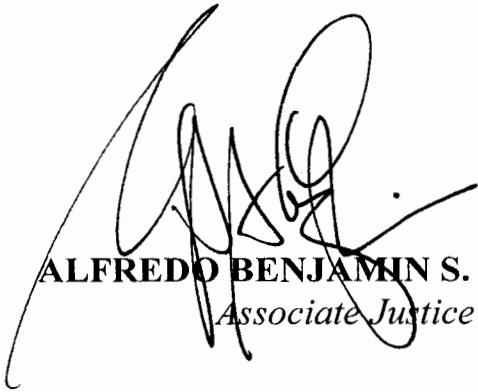
²⁸ *Okabe v. Saturnino*, 742 Phil. 1, 12 (2014).

²⁹ *Rollo*, p. 150.

WE CONCUR:



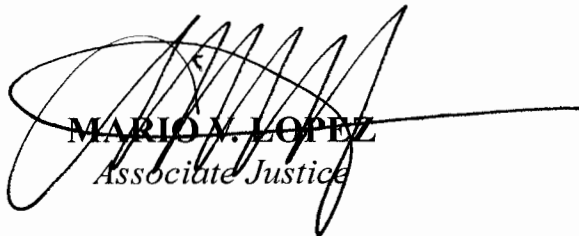
DIOSDADO M. PERALTA
Chief Justice
Chairperson



ALFREDO BENJAMIN S. CAGUIOA
Associate Justice



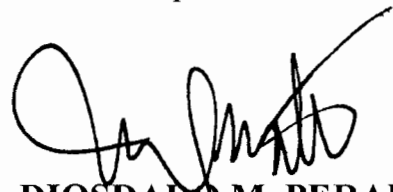
AMY C. LAZARO-JAVIER
Associate Justice



MARIO N. LOPEZ
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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.



DIOSDADO M. PERALTA
Chief Justice