

# FIRST DIVISION

[ G.R. No. 211537, December 10, 2019 ]

**LAND BANK OF THE PHILIPPINES, PETITIONER, V. POLILLO  
PARADISE ISLAND CORPORATION, RESPONDENT.**

## DECISION

**REYES, J. JR., J.:**

Before this Court is a petition for review on *certiorari*,<sup>[1]</sup> assailing the Order<sup>[2]</sup> dated May 24, 2013 and Order<sup>[3]</sup> 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 P5 Million Short Term Loan Line (STLL) with petitioner in 2000. As a security thereof, two parcels 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.<sup>[4]</sup> Said loan was used as additional working capital of its hotel business.<sup>[5]</sup>

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 P1.2 Million STLL was granted.<sup>[6]</sup>

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.<sup>[7]</sup> Subsequently, the mortgaged properties (subject properties) were sold in the amount of P11,161,047.12, wherein petitioner emerged as the highest bidder.<sup>[8]</sup> A Certificate of Sale<sup>[9]</sup> 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.<sup>[10]</sup>

Allegedly, respondent filed a petition for corporate rehabilitation<sup>[11]</sup> 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 Order<sup>[12]</sup> 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.

On October 12, 2012, respondent filed an amended petition<sup>[13]</sup> 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 Order<sup>[14]</sup> dated January 8, 2013 and accordingly issued a Commencement/Suspension Order<sup>[15]</sup> 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.<sup>[16]</sup>

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.<sup>[17]</sup> 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 Order<sup>[18]</sup> 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 Order<sup>[19]</sup> dated January 20, 2014. Reckoning the *date of the consolidation of ownership in petitioner's name* as the period as to when the 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 17<sup>[20]</sup> 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,<sup>[21]</sup> 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,<sup>[22]</sup> 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, more if the debtor continues as a going concern than if it is immediately liquidated.<sup>[23]</sup>

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.<sup>[24]</sup>

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: