

SECOND DIVISION

[G.R. No. 169211, March 06, 2013]

STAR TWO (SPV-AMC), INC.,^[1] PETITIONER, VS. PAPER CITY CORPORATION OF THE PHILIPPINES, RESPONDENT.

D E C I S I O N

PEREZ, J.:

For review before this Court is a Petition for Review on Certiorari filed by Rizal Commercial Banking Corporation now substituted by Star Two (SPV-AMC), Inc. by virtue of Republic Act No. 9182^[2] otherwise known as the "Special Purpose Vehicle Act of 2002," assailing the 8 March 2005 Decision and 8 August 2005 Resolution of the Special Fourth Division of the Court of Appeals (CA) in CA-G.R. SP No. 82022 upholding the 15 August 2003 and 1 December 2003 Orders of the Valenzuela Regional Trial Court (RTC) ruling that the subject machineries and equipments of Paper City Corporation (Paper City) are movable properties by agreement of the parties and cannot be considered as included in the extrajudicial foreclosure sale of the mortgaged land and building of Paper City.^[3]

The facts as we gathered from the records are:

Rizal Commercial Banking Corporation (RCBC), Metropolitan Bank and Trust Co. (Metrobank) and Union Bank of the Philippines (Union Bank) are banking corporations duly organized and existing under the laws of the Philippines.

On the other hand, respondent Paper City is a domestic corporation engaged in the manufacture of paper products particularly cartons, newsprint and clay-coated paper.^[4]

From 1990-1991, Paper City applied for and was granted the following loans and credit accommodations in peso and dollar denominations by RCBC: P10,000,000.00 on 8 January 1990,^[5] P14,000,000.00 on 19 July 1990,^[6] P10,000,000.00 on 28 June 1991,^[7] and P16,615,000.00 on 28 November 1991.^[8] The loans were secured by four (4) Deeds of Continuing Chattel Mortgages on its machineries and equipments found inside its paper plants.

On **25 August 1992, a unilateral Cancellation of Deed of Continuing Chattel Mortgage on Inventory of Merchandise/Stocks-in-Trade** was executed by RCBC through its Branch Operation Head Joey P. Singh and Asst. Vice President Anita O. Abad over the merchandise and stocks-in-trade covered by the continuing chattel mortgages.^[9]

On **26 August 1992**, RCBC, Metrobank and Union Bank (*creditor banks with RCBC instituted as the trustee bank*) entered into a **Mortgage Trust**

Indenture (MTI) with Paper City. In the said MTI, Paper City acquired an additional loan of One Hundred Seventy Million Pesos (P170,000,000.00) from the creditor banks in addition to the previous loan from RCBC amounting to P110,000,000.00 thereby increasing the entire loan to a total of P280,000,000.00. The old loan of P110,000,000.00 was partly secured by various parcels of land covered by TCT Nos. T-157743, V-13515, V-1184, V-1485, V-13518 and V-13516 situated in Valenzuela City pursuant to five (5) Deeds of Real Estate Mortgage dated 8 January 1990, 27 February 1990, 19 July 1990, 20 February 1992 and 12 March 1992.^[10] The new loan obligation of P170,000,000.00 would be secured by the same five (5) Deeds of Real Estate Mortgage and additional real and personal properties described in an annex to MTI, Annex "B."^[11] Annex "B" of the said MTI covered the machineries and equipments of Paper City.^[12]

The MTI was later amended on **20 November 1992** to increase the contributions of the RCBC and Union Bank to P80,000,000.00 and P70,000,000.00, respectively. As a consequence, they executed a **Deed of Amendment to MTI**^[13] but still included as part of the mortgaged properties by way of a first mortgage the various machineries and equipments located in and bolted to and/or forming part of buildings generally described as:

Annex "A"

A. Office Building

Building 1, 2, 3, 4, and 5
Boiler House
Workers' Quarter/Restroom
Canteen
Guardhouse, Parking Shed, Elevated Guard
Post and other amenities

B. Pollution Tank Nos. 1 and 2.

Reserve Water Tank and Swimming Pool
Waste Water Treatment Tank
Elevated Concrete Water Tank
And other Improvements listed in Annex "A"

C. Power Plants Nos. 1 and 2

Fabrication Building
Various Fuel, Water Tanks and Pumps
Transformers
Annex "B"

D. Material Handling Equipment

Paper Plant No. 3

A **Second Supplemental Indenture to the 26 August 1992 MTI** was executed

on 7 June 1994 to increase the amount of the loan from P280,000,000.00 to P408,900,000.00 secured against the existing properties composed of land, building, machineries and equipments and inventories described in Annexes "A" and "B."^[14]

Finally, a **Third Supplemental Indenture to the 26 August 1992 MTI** was executed on 24 January 1995 to increase the existing loan obligation of P408,900,000.00 to P555,000,000.00 with an additional security composed of a newly constructed two-storey building and other improvements, machineries and equipments located in the existing plant site.^[15]

Paper City was able to comply with its loan obligations until July 1997. But economic crisis ensued which made it difficult for Paper City to meet the terms of its obligations leading to payment defaults.^[16] Consequently, RCBC filed a **Petition for Extrajudicial Foreclosure Under Act No. 3135 Against the Real Estate Mortgage executed by Paper City on 21 October 1998.**^[17] This petition was for the extra-judicial foreclosure of **eight (8) parcels of land including all improvements thereon** enumerated as TCT Nos. V-9763, V-13515, V-13516, V-13518, V-1484, V-1485, V-6662 and V-6663 included in the MTI dated 26 August 1992, Supplemental MTI dated 20 November 1992, Second Supplemental Indenture on the MTI dated 7 June 1994 and Third Supplemental Indenture on the MTI dated 24 January 1995.^[18] Paper City then had an outstanding obligation with the creditor banks adding up to Nine Hundred One Million Eight Hundred One Thousand Four Hundred Eighty-Four and 10/100 Pesos (P901,801,484.10), inclusive of interest and penalty charges.^[19]

A **Certificate of Sale** was executed on **8 February 1999** certifying that the eight (8) parcels of land with improvements thereon were sold on 27 November 1998 in the amount of Seven Hundred Two Million Three Hundred Fifty-One Thousand Seven Hundred Ninety-Six Pesos and 28/100 (P702,351,796.28) in favor of the creditor banks RCBC, Union Bank and Metrobank as the highest bidders.^[20]

This foreclosure sale prompted Paper City to file a Complaint^[21] docketed as Civil Case No. 164-V-99 on 15 June 1999 against the creditor banks alleging that the extra-judicial sale of the properties and plants was null and void due to lack of prior notice and attendance of gross and evident bad faith on the part of the creditor banks. In the alternative, it prayed that in case the sale is declared valid, to render the whole obligation of Paper City as fully paid and extinguished. Also prayed for was the return of P5,000,000.00 as excessive penalty and the payment of damages and attorney's fees.

In the meantime, Paper City and Union Bank entered into a Compromise Agreement which was later approved by the trial court on 19 November 2001. It was agreed that the share of Union Bank in the proceeds of the foreclosure shall be up to 34.23% of the price and the remaining possible liabilities of Paper City shall be condoned by the bank. Paper City likewise waived all its claim and counter charges against Union Bank and agreed to turn-over its proportionate share over the property within 120 days from the date of agreement.^[22]

On the other hand, the negotiations between the other creditor banks and Paper

City remained pending. During the interim, Paper City filed with the trial court a Manifestation with Motion to Remove and/or Dispose Machinery on 18 December 2002 reasoning that the [machineries] located inside the foreclosed land and building were deteriorating. It posited that since the machineries were not included in the foreclosure of the real estate mortgage, it is appropriate that it be removed from the building and sold to a third party.^[23]

Acting on the said motion, the trial court, on 28 February 2003 issued an Order denying the prayer and ruled that the machineries and equipments were included in the annexes and form part of the MTI dated 26 August 1992 as well as its subsequent amendments. Further, the machineries and equipments are covered by the Certificate of Sale issued as a consequence of foreclosure, the certificate stating that the **properties described therein with improvements thereon were sold to creditor banks [to the defendants] at public auction.**^[24]

Paper City filed its Motion for Reconsideration^[25] on 4 April 2003 which was **favorably granted** by the trial court in its **Order dated 15 August 2003**. The court justified the reversal of its order on the finding that the disputed machineries and equipments are chattels by agreement of the parties through their inclusion in the four (4) Deeds of Chattel Mortgage dated 28 January 1990, 19 July 1990, 28 June 1991 and 28 November 1991. It further ruled that the deed of cancellation executed by RCBC on 25 August 1992 was not valid because it was done unilaterally and without the consent of Paper City and the cancellation only refers to the merchandise/stocks-in-trade and not to machineries and equipments.^[26]

RCBC in turn filed its Motion for Reconsideration to persuade the court to reverse its 15 August 2003 Order. However, the same was denied by the trial court through its 1 December 2003 Order reiterating the finding and conclusion of the previous Order.^[27]

Aggrieved, RCBC filed with the CA a Petition for Certiorari under Rule 65 to annul the Orders dated 15 August 2003 and 1 December 2003 of the trial court,^[28] for the reasons that:

- I. [Paper City] gave its conformity to consider the subject machineries and equipment as real properties when the president and Executive Vice President of Paper City signed the Mortgage Trust Indenture as well as its subsequent amendments and all pages of the annexes thereto which itemized all properties that were mortgaged.^[29]
- II. Under Section 8 of Act No. 1508, otherwise known as "The Chattel Mortgage Law" the consent of the mortgagor (Paper City) is not required in order to cancel a chattel mortgage. Thus the "Cancellation of Deed of Continuing Chattel Mortgage on Inventory of Merchandise/Stocks-in-Trade" dated August 25, 1992 is valid and binding on the [Paper City] even assuming that it was executed unilaterally by petitioner RCBC.^[30]
- III. The four (4) Deeds of Chattel Mortgage that were attached as Annexes "A" to "D" to the December 18, 2003 "Manifestation with

Motion to Remove and/or Dispose of Machinery” were executed from January 8, 1990 until November 28, 1991. On the other hand, the “Cancellation of Deed of Continuing Chattel Mortgage” was executed on August 25, 1992 while the MTI and the subsequent supplemental amendments thereto were executed from August 26, 1992 until January 24, 1995. It is of the contention of RCBC that [Paper City’s] unreasonable delay of ten (10) years in assailing that the disputed machineries and equipments were personal amounted to estoppel and ratification of the characterization that the same were real properties.^[31]

IV. The removal of the subject machineries or equipment is not among the reliefs prayed for by the [Paper City] in its June 11, 1999 Complaint. The [Paper City] sought the removal of the subject machineries and equipment only when it filed its December 18, 2002 Manifestation with Motion to Remove and/or Dispose of Machinery.^[32]

V. [Paper City] did not specify in its various motions filed with the respondent judge the subject machineries and equipment that are allegedly excluded from the extrajudicial foreclosure sale.^[33]

VI. The machineries and equipments mentioned in the four (4) Deeds of Chattel Mortgage that were attached on the Manifestation with Motion to Remove and/or Dispose of Machinery are the same machineries and equipments included in the MTI and supplemental amendments, hence, are treated by agreement of the parties as real properties.^[34]

In its Comment,^[35] Paper City refuted the claim of RCBC that it gave its consent to consider the machineries and equipments as real properties. It alleged that the disputed properties remained within the purview of the existing chattel mortgages which in fact were acknowledged by RCBC in the MTI particularly in Section 11.07 which reads:

Section 11.07. This INDENTURE in respect of the MORTGAGE OBLIGATIONS in the additional amount not exceeding TWO HUNDRED TWENTY MILLION SIX HUNDRED FIFTEEN THOUSAND PESOS (P220,615,000.00) shall be registered with the Register of Deeds of Valenzuela, Metro Manila, apportioned based on the corresponding loanable value of the MORTGAGED PROPERTIES, *viz*:

- a. Real Estate Mortgage – P206,815,000.00
- b. Chattel Mortgage – P13,800,000.00^[36]

Paper City argued further that the subject machineries and equipments were not included in the foreclosure of the mortgage on real properties particularly the eight (8) parcels of land. Further, the Certificate of Sale of the Foreclosed Property