

Title: China Banking Corporation vs. St. Francis Square Realty Corporation, et al.

Facts:

St. Francis Square Realty Corporation (SFSRC), as part of the ASB Group of Companies, secured loans totaling PHP 300,000,000 from China Banking Corporation (Chinabank), with three major properties as collateral. The Asian financial crisis severely impacted SFSRC's financial standing, prompting them to seek rehabilitation under the Securities and Exchange Commission (SEC) on May 2, 2000, leading to the issuance of Stay Orders. A rehabilitation receiver was appointed by the SEC on April 26, 2001.

Chinabank and SFSRC underwent various legal confrontations regarding the imposition of interests and the handling of the collateral properties. The matter escalated to the SEC En Banc, which made several decisions, leading to appeals before the Court of Appeals (CA) under different case numbers. Each party filed motions and petitions, challenging the SEC's resolutions regarding interests and charges on the loans and the collateral properties' handling.

The CA, in its consolidated decision dated April 7, 2017, prohibited Chinabank from charging interest and penalties on the outstanding loans since May 4, 2000, reversed SEC En Banc's decisions related to the over-collateralization of loans, and affirmed the appointment of a rehabilitation receiver. Chinabank filed a motion for reconsideration, which was denied, prompting a petition for review before the Supreme Court.

Issues:

1. Whether the CA erred in treating respondents' petitions for review as petitions for certiorari.
2. Whether the suspension or condonation of interests and charges on respondents' loans was correctly ordered.
3. The validity of claims of over-collateralization and the propriety of releasing the subject properties from mortgage.
4. The immediate executory nature of the SHP 2 Order dated March 25, 2014.
5. Correctness of the CA in reinstating the SHP 2's Order designating a sheriff to execute the deeds of cancellation of mortgage.

Court's Decision:

- The Supreme Court affirmed the CA's decision, highlighting the equitable and rehabilitative purposes of rehabilitation proceedings. It emphasized that the rehabilitation

plan's terms are binding, including the options for settling loans through dacion en pago or by selling the mortgaged properties without additional interest, penalties, and charges accruing after May 4, 2000.

- The Court clarified that the "cram-down" principle allows rehabilitation plans to be implemented even over creditors' objections, focusing on long-term recovery rather than immediate but incomplete reimbursement.
- It was determined that SFSRC and related entities followed the rehabilitation plan's provisions, making the CA's decision to waive additional charges and interests, and direct the handling of collateral properties, justified.
- The Court modified the CA's reinstatement of the sheriff's designation for execution, revoking the appointment of a specific sheriff while directing the designated special sheriff to proceed with the execution as per SEC's rules.

#### Doctrine:

The rulings solidified the doctrine that approved rehabilitation plans are binding and immediately executory, even over the objections of creditors, in line with the "cram-down" principle to foster long-term viability over immediate recovery.

#### Class Notes:

1. Rehabilitation plans aim at equitable distribution and provision of a fresh start for the distressed company, with the long-term benefit of stakeholders as a primary consideration.
2. The "cram-down" power enables courts to implement rehabilitation plans despite creditor objections, based on the overall feasibility and benefits of rehabilitation.
3. The immediate executory nature of orders issued under rehabilitation proceedings ensures swift action towards the distressed company's recovery efforts.

#### Historical Background:

The case illustrates the challenges and legal intricacies involved in corporate rehabilitation in the Philippines, especially post-Asian financial crisis. It demonstrates the evolving jurisprudence on corporate recovery mechanisms, emphasizing balancing creditors' rights with the distressed company's survival and overall economic health.