

**Title:** Lee v. Bangkok Bank Public Company Limited

**Facts:**

- Credit Line Agreements (CLAs):** Midas Diversified Export Corporation (MDEC) and Manila Home Textile, Inc. (MHI), both owned by the Lee family, secured CLAs with Bangkok Bank on November 29, 1995, and April 17, 1996, respectively. The Lee family guaranteed the loans without pledging specific properties as collateral.
- Loans from Asiatruster:** In July 1996, MDEC obtained a 40 million pesos credit line and a two million-dollar credit line from Asiatruster Development Bank, Inc.
- Purchase of Antipolo Properties:** In May 1997, Samuel Lee purchased several properties in Cupang, Antipolo. The properties were later intended for a joint venture residential subdivision project.
- Default on Asiatruster Loan:** MDEC defaulted on its loan that matured in July 1997. Negotiations led to Samuel Lee mortgaging the Antipolo properties to Asiatruster in early 1998.
- Default on Bangkok Bank Loan:** MDEC and MHI defaulted on their obligations to Bangkok Bank, accumulating debts of around USD 2.8 million by early 1998.
- SEC Suspension Order:** On February 16, 1998, MDEC and MHI, acknowledging their indebtedness, filed for suspension of payments before the SEC, which issued a suspension order on February 20, 1998.
- Legal Actions:** Bangkok Bank filed a collection suit against the Lee corporations on March 12, 1998, obtaining a writ of preliminary attachment on the Antipolo properties. Asiatruster foreclosed on the same properties on April 15, 1998, becoming the highest bidder shortly afterward.
- Cancellation of Titles:** Asiatruster registered its purchase on April 21, 1998, eventually canceling the original titles and issuing new ones in its name on April 30, 1999.
- Filing of Rescission Case:** On July 20, 1999, Bangkok Bank filed a case to rescind the mortgage, annul the foreclosure, and cancel the new titles.

**Issues:**

1. **Bangkok Bank's Capacity to Maintain an Action:** Whether Bangkok Bank had the right to maintain an action to rescind the Real Estate Mortgage (REM) and annul the foreclosure sale without exhausting other legal remedies.
2. **Coverage of SEC Suspension Order:** Whether the SEC suspension order covered private properties owned by individuals (Lee family).
3. **Fraud and Collusion:** Whether the spouses Lee and Asiatrust colluded to defraud other creditors through the execution of the REM.

**Court's Decision:**

1. **Bangkok Bank's Capacity to Maintain Action:** The Supreme Court ruled that Bangkok Bank could not maintain the action for rescission. It had other legal remedies available that were not exhausted, failing to prove that it could not collect its claims in any other manner.
2. **Coverage of SEC Suspension Order:** The SEC's jurisdiction in suspension payments under PD 902-A is limited to corporations, partnerships, and associations, not extending to private individuals or their properties. Thus, the Antipolo properties were not covered by the SEC suspension order.
3. **Fraud and Collusion:** There was no evidence of fraud or collusion between the spouses Lee and Asiatrust. Bangkok Bank failed to prove that the execution and foreclosure of the REM were fraudulent under Article 1387 of the Civil Code.

**Doctrine:**

1. **Limited Jurisdiction of SEC:** SEC's suspension order jurisdiction excludes private individuals' properties.
2. **Non-Applicability of Art. 1387 Fraud Presumption:** The presumption of fraud under Article 1387 does not apply to transfers that are not fully and absolutely conveying property ownership, such as mortgages.
3. **Exhaustion of Legal Remedies:** A creditor must exhaust all legal remedies to collect their claims before pursuing rescission due to fraud.

**Class Notes:**

- **Key Elements in Cases of Fraudulent Transfer (Accion Pauliana):**

1. Plaintiff's existing credit before alienation.

2. The debtor's subsequent patrimonial conveyance.
3. No other legal remedy available.
4. Conveyance is fraudulent.
5. Accomplice in fraud if third party involved.

- **Securities Regulation Jurisdiction:** SEC's jurisdiction covers corporate assets and associations' properties, not extending to individual persons.

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**Historical Background:**

The case unfolds in 1998, a period marked by economic upheavals across Asia leading to corporate defaults and restructuring. The legal battles reflected the tension between creditors' rights and the protection mechanisms for failing corporations, highlighting complex interplays in corporate guarantees and asset management during suspensions of payments by SEC. This case illustrates broader legal principles applied to Filipino corporate law and creditor-debtor relations during crisis periods.