

Title:

China Banking Corporation vs. Court of Appeals, Paulino Roxas Chua, and Kiang Ming Chu Chua

Facts:

1. **Property Ownership and Levy:** Alfonso Roxas Chua and Kiang Ming Chu Chua owned a residential land in San Juan, Metro Manila, covered by TCT No. 410603. On February 2, 1984, a notice of levy affecting the property was issued due to Civil Case No. 82-14134 (Metropolitan Bank and Trust Company vs. Pacific Multi Commercial Corporation and Alfonso Roxas Chua), inscribed on TCT 410603.
2. **Compromise Agreement:** Kiang Ming Chu Chua contested the levy, leading to a compromise that the levy was enforceable only on Alfonso's ½ undivided share.
3. **Civil Case Against Pacific Multi Agro-Industrial Corporation:** On June 19, 1985, China Bank filed Civil Case No. 85-31257 for collection of P2,500,000.00 against Pacific and Alfonso Roxas Chua. A favorable judgment for China Bank was rendered on November 7, 1985.
4. **Alias Notice of Levy and Certificate of Sale by Metrobank:** On September 8, 1986, an alias notice of levy was issued on Alfonso's ½ undivided portion of TCT 410603, leading to a certificate of sale favoring Metrobank on December 22, 1987, inscribed on the TCT.
5. **Assignment to Paulino and Redemption:** On November 21, 1988, Alfonso assigned his redemption rights to Paulino Roxas Chua. Paulino redeemed the property on the same day, with inscriptions noted on March 14, 1989.
6. **China Bank's Levy and Sale:** Another notice of levy was issued on February 4, 1991 by the Deputy Sheriff of Manila against Alfonso's right and interest in TCT 410603 concerning Civil Case No. 85-31257. A certificate of sale was issued in favor of China Bank and inscribed on May 4, 1992.
7. **Civil Case No. 63199:** On May 20, 1993, Paulino and Kiang Ming Chu Chua filed Civil Case No. 63199 against China Bank, asserting Paulino had a better right over the property due to the earlier assignment and redemption.
8. **Lower Court and Court of Appeals Decisions:** The RTC of Pasig ruled in favor of Paulino, awarding damages and enjoining China Bank from asserting possession. The Court

of Appeals affirmed this ruling.

Issues:

1. **Fraudulent Conveyance:** Whether the assignment of redemption rights by Alfonso to Paulino was fraudulent under Article 1387 of the Civil Code.
2. **Validity of Proceedings:** Whether the Court of Appeals correctly upheld the lower court's decision favoring the respondents.
3. **China Bank's Remedies:** Whether China Bank was remiss by not utilizing the redemption process under Rule 39 of the Rules of Court.

Court's Decision:

1. **Presumption of Fraud:** The Supreme Court held that the 1988 assignment by Alfonso to Paulino was presumed fraudulent under Article 1387 due to the judgment already rendered against Alfonso in 1985. The presumption was not rebutted since the conveyance left no other property for Alfonso's creditors.
2. **Fraudulent Transaction Indicators:** The Court pointed out that the transfer from father to son amidst insolvency, combined with other badges of fraud (e.g., significant indebtedness, immediate family transaction), indicated an intent to defraud creditors.
3. **Ceasing Injunction:** The permanent injunction by the lower courts was lifted as it unjustly impeded China Bank's rights. The Court ordered the rescission of the assignment of redemption rights and upheld the levy and certificate of sale in favor of China Bank.

Doctrine:

The following doctrines were underscored:

- **Article 1387 of the Civil Code:** Declares conveyances made by a debtor to defraud creditors as fraudulent, even if founded on valuable consideration, emphasizing that transactions must be bona fide to be valid against creditors.
- **Badges of Fraud:** Factors such as transfer between relatives, inadequate consideration, significant indebtedness, and the insolvency of the debtor, strengthen the presumption of fraudulent intent.

Class Notes:

- **Fraudulent Transactions:** Transactions made under distress or between close relatives, where the debtor is insolvent, often presuppose fraudulent intent.
- **Civil Law Property:** Includes all legal conveyances, equitable or inchoate, as noted in Article 1387.

- **Remedy in Fraudulent Conveyance:** Creditors can seek rescission of fraudulent conveyances to enforce their claims, independent of statutory procedural remedies like redemption.

Historical Background:

The case situates within the broader socio-economic context of the 1980s Philippines, where financial scrambles and defaults were rampant due to economic downturns and banking crises. The legal intricacies surrounding creditor-debtor relationships and asset protection strategies evolved significantly, reflecting heightened judicial scrutiny over fraudulent conveyances amidst economic bailouts and restructured debts.