

**\*\*Title:** Development Bank of the Philippines vs. Remington Industrial Sales Corporation, et al. (1996)**\*\***

**\*\*Facts:\*\***

Marinduque Mining Industrial Corporation (MMIC) acquired substantial loans from the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP) and secured these through real estate and chattel mortgages. Despite these accommodations, MMIC failed to fulfill its loan obligations, prompting PNB and DBP to initiate foreclosure procedures on MMIC's assets. These assets, acquired by the banks through foreclosure sales, were subsequently assigned to the Nonoc Mining and Industrial Corporation (Nonoc Mining), Maricalum Mining Corporation (Maricalum Mining), Island Cement Corporation (Island Cement), and the National Government via the Asset Privatization Trust (APT).

Remington Industrial Sales Corporation (Remington) sold construction materials worth P921,755.95 to MMIC, which MMIC failed to pay for. Consequently, Remington initiated a collection suit. Over the course of the lawsuit, Remington amended its complaint multiple times to include PNB, DBP, Nonoc Mining, Maricalum Mining, Island Cement, and APT, arguing these entities were merely instruments or alter egos of MMIC, thus liable for MMIC's debts. The Regional Trial Court (RTC) adopted Remington's argument and found all defendants jointly and severally liable. The Court of Appeals affirmed the RTC's decision, prompting a Petition for Review to the Supreme Court by DBP.

**\*\*Issues:\*\***

1. Was there justifiable reason to pierce the corporate veil among MMIC, PNB, DBP, and their transferees (Nonoc Mining, Maricalum Mining, Island Cement, APT)?
2. Did Remington have a valid lien on the properties transferred to the assignee corporations?
3. Was Remington's collection action proper given the statutory framework on preferences among creditors?

**\*\*Court's Decision:\*\***

1. **\*\*Piercing the Corporate Veil:\*\***

The Supreme Court found insufficient evidence of fraud to justify the piercing of the corporate veil. The foreclosure and subsequent property transfers were conducted without bad faith, enforcing regulatory compliances such as PD 385 which mandated foreclosure when arrearages exceeded 20%. Hiring former MMIC personnel and the use of MMIC premises by new entities were deemed practical and justified to maintain operational

continuity and value retention.

2. **Validity of Remington's Lien:**

The Court ruled that Remington's claims for unpaid movable goods did not translate into enforceable liens against DBP, as the transactions between DBP and its transferees did not qualify as liquidation or insolvency proceedings necessary to enforce Article 2241 of the Civil Code. Article 2249's pro-rata principle required a judicial proceeding to reconcile all creditor claims, not achievable in the non-liquidation context.

3. **Proper Collection Action:**

The Supreme Court underscored that Remington should have pursued its claims through liquidation proceedings to determine appropriate preferences among creditors. The direct action for collection against DBP and its transferees was procedurally improper for claims that should be resolved in a comprehensive liquidation context.

**Doctrine:**

1. **Piercing the Corporate Veil:**

- The corporate veil will only be pierced when it's shown that a corporate entity is being used to defeat public convenience, justify wrong, protect fraud, or defend crime. The presumption lies heavily against such piercing without clear evidence (Doctrine re-stated from Yutivo Sons Hardware vs. Court of Tax Appeals).

2. **Preference of Credits:**

- Article 2241, Civil Code - Specific movable property creditor claims require insolvency or liquidation proceedings to ascertain pro-rata distribution (Doctrine stated in Barretto vs. Villanueva).

**Class Notes:**

- **Key Legal Concepts:**

- **Corporate Veil Doctrine:** Separate corporate entity is protected unless fraud or malfeasance is incontrovertibly proven.

- **Mandatory Foreclosure (PD 385):** Government financial institutions are compelled to act against arrearages >20%.

- **Preference Among Creditors:** Preferential claims over debtor's assets require judicial proceedings for claims reconciliation (Article 2241, Civil Code).

**Historical Background:**

The case highlights the transition period of the Philippine economy in the 1980s,

characterized by corporate restructuring and emphasis on asset privatization. It underscores efforts by government financial institutions to stabilize corporate operations amidst economic duress, involving strategic reallocation of assets through foreclosure and ensuring business continuity via new corporate vehicles while upholding statutory safeguards against creditor claims.