

Title: Metropolitan Bank and Trust Company v. S.F. Naguiat Enterprises, Inc. (G.R. No. 94968, June 14, 2007)

Facts:

- Loan and Mortgage Agreement:** In April 1997, Spouses Rommel Naguiat and Celestina Naguiat, along with S.F. Naguiat Enterprises, Inc., secured credit accommodations of P17 million from Metropolitan Bank and Trust Company (Metrobank) by mortgaging properties covered by TCT No. 58676 (Pulung Bulu, Angeles, Pampanga) and TCT No. 310523 (Marikina, Rizal).
- Subsequent Loan:** On March 3, 2005, S.F. Naguiat obtained an additional loan of P1,575,000.00 from Metrobank, further secured by the existing 1997 mortgage.
- Petition for Insolvency:** On July 7, 2005, S.F. Naguiat filed a Petition for Voluntary Insolvency with the Regional Trial Court (RTC) of Angeles City, leading to Judge Buan's July 12, 2005, order declaring S.F. Naguiat insolvent and directing the sheriff to take possession of its properties.
- Manifestation and Motion by Metrobank:** Metrobank informed the insolvency court of its intention to extrajudicially foreclose the mortgaged property instead of participating in the insolvency proceedings.
- Foreclosure and Auction Sale:** After S.F. Naguiat's default, Metrobank initiated extrajudicial foreclosure on November 8, 2005, resulting in the sale of the property to Phoenix Global Energy, Inc., the highest bidder on December 9, 2005.
- Disapproval by Executive Judge Gabitan-Erum:** On December 15, 2005, Executive Judge Gabitan-Erum denied the approval of the Certificate of Sale, citing the July 12, 2005, order of insolvency. Metrobank's motion for reconsideration was also denied on April 24, 2006.
- Court Proceedings:** Metrobank filed a Petition for certiorari and mandamus with the Court of Appeals (CA), which was dismissed on November 15, 2006, for failing to obtain the insolvency court's permission to foreclose. Metrobank's motion for reconsideration was denied on June 14, 2007.
- Petition for Review:** Metrobank filed a Petition for Review with the Supreme Court on the grounds that the CA imposed an undue requirement not provided by law and that

Executive Judge Gabitan-Erum improperly refused to perform her ministerial duty to approve the Certificate of Sale.

****Issues:****

1. Whether prior approval from the insolvency court is required for a secured creditor like Metrobank to proceed with the extrajudicial foreclosure of a mortgaged property.
2. Whether Executive Judge Gabitan-Erum abused her discretion in refusing to approve the Certificate of Sale.

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

1. ****Leave of Insolvency Court Required:**** The Supreme Court held that under Act No. 1956, prior leave from the insolvency court is implicitly required for a secured creditor to foreclose the mortgaged property of an insolvent debtor. The insolvency court assumes exclusive jurisdiction over the debtor's estate to ensure orderly administration and equitable distribution of the assets among creditors. This prevents dissipation of the insolvent's assets.
2. ****Refusal of Certificate of Sale Approval:**** The Court found no abuse of discretion by Executive Judge Gabitan-Erum in refusing to approve the Certificate of Sale. The foreclosure without the insolvency court's leave interfered with the latter's control and administration of the insolvent's property. The lack of court permission undermined the insolvency process' objectives of equitable asset distribution and creditor protection.

****Doctrine:****

1. Insolvency laws require securing the permission of the insolvency court before proceeding with foreclosure to maintain control and orderly administration of the debtor's estate.
2. Executive judges must ensure compliance with the legal requirements before approving foreclosure sales, especially where the debtor has been declared insolvent.

****Class Notes:****

1. ****Insolvency Jurisdiction:**** The insolvency court has exclusive jurisdiction over the properties of an insolvent debtor.
2. ****Foreclosure Requirements:**** Secured creditors must obtain leave from the insolvency court before foreclosing on the mortgaged property.

3. **Ministerial Duties of Judges:** Judges must act prudently and check for compliance with legal requisites before approving foreclosure-related documents.

Statutory Provisions:

1. **Act No. 1956 (Insolvency Law):**

- Section 14, 16, 18, 32, and 59 outline the process and jurisdiction over insolvency proceedings.
- Specifically, Section 59 addresses the rights of secured creditors in insolvency scenarios.

Historical Background:

- Act No. 1956 (Insolvency Law) derived from the Insolvency Act of California (1895), aimed at equitable debtor-creditor relations, was replaced by Republic Act No. 10142 (Financial Rehabilitation and Insolvency Act) in 2010.
- The law's provisions ensure seamless administration of the insolvent's assets, prioritizing fair creditor treatment and preventing asset dissipation.

Conclusion:

The Supreme Court upheld the requirement for secured creditors to seek leave from the insolvency court before proceeding with foreclosure on mortgaged properties of an insolvent debtor, affirming the lower court's decision, and supporting the prudence and caution exercised by the executive judge in refusing to approve the Certificate of Sale without proper authorization.