

# Title:

State Investment House, Inc. and State Financing Center, Inc. vs. Citibank, N.A., Bank of America, NT & SA, Hongkong & Shanghai Banking Corporation, and the Court of Appeals

# Facts:

Consolidated Mines, Inc. (CMI) had loans from three foreign banks: Bank of America (BA), Citibank, N.A., and Hongkong & Shanghai Banking Corporation (HSBC). By late 1981, CMI's debts totaled millions in pesos and U.S. dollars.

In November 1981, State Investment House, Inc. (SIHI) and State Financing Center, Inc. (SFCI) filed actions for collection of sums against CMI, obtaining writs of preliminary attachment on CMI's property. On December 11, 1981, the three foreign banks petitioned for CMI's involuntary insolvency, citing CMI's default and attachment of its properties, key indicators under Section 20 of the Insolvency Law. SIHI and SFCI opposed the petition, arguing the banks lacked standing as they were not "resident creditors" under the law.

The Court of First Instance of Rizal granted SIHI and SFCI's motion for summary judgment, dismissing the insolvency petition for lack of jurisdiction, asserting the foreign banks were not Philippine residents. The banks appealed to the Intermediate Appellate Court (IAC), which reversed the trial court's decision. SIHI and SFCI then appealed to the Supreme Court.

# Issues:

1. Whether foreign banks licensed to do business in the Philippines can be considered "resident creditors" under the Insolvency Law.
2. Whether the failure of three foreign banks to explicitly allege their Philippine residency in their insolvency petition is fatal to their case.
3. Whether Philippine law allows only foreign corporations with reciprocal rights for Filipinos to do business in the Philippines.
4. Whether the actions of the foreign banks in terms of substantial payments from CMI disqualify their petition under principles of equity.

# Court's Decision:

The Supreme Court affirmed the appellate court's decision, holding:

1. **Foreign Banks as "Resident Creditors":** The Court held that foreign banks with licenses to operate in the Philippines and doing business via branches or offices must be regarded as "residents" in the context of trade and business. The Court found this

interpretation consistent with other statutes like the National Internal Revenue Code, the Offshore Banking Law, and the General Banking Act, which considered these entities as residents for business and tax purposes.

2. **Failure to Allege Residency:** The Court deemed the banks' omission of an explicit residency allegation as non-fatal, since their claim outlined their operation and licensing in the Philippines, implicitly asserting their status as residents.

3. **Reciprocal Rights for Filipinos:** The Court dismissed the argument about reciprocal rights under foreign laws. It highlighted that the Insolvency Law doesn't mandate such reciprocity and reaffirmed that general permissions for business operations in territory countries suffice.

4. **Integrity and Equity Concerns:** The Court found no issue with the banks receiving payments from CMI just before their insolvency petition. It noted this was a matter for the Bankruptcy Court to address in terms of asset distribution and not a reason to deny the insolvency proceeding.

#### # Doctrine:

The decision reaffirmed the broader interpretation that foreign corporations with authority to operate locally could be considered as 'resident creditors' under Philippine insolvency laws. This perspective aligns with statutory equality in treatment of foreign and domestic corporations in regards to operation and legal standing in commercial and bankruptcy matters.

#### # Class Notes:

- **"Resident Creditors":** Defined under Section 20 of the Insolvency Law - for insolvency petitions, creditors must have resident status.
- **Philippine Law:** Broadened to include licensed foreign banks conducting business locally.
- **National Internal Revenue Code:** Defines resident foreign corporations as entities engaging with local trade/business.
- **General Banking Act:** Equates licensed branches of foreign banks with domestic banking institutions for regulatory purposes.
- **Reciprocity Principle:** Under the Corporation Code, foreign entities can operate locally provided mutual business permissions exist.
- **Procedural Equity:** Insolvency proceedings address distribution equity regardless of

pre-petition creditor transactions.

**# Historical Background:**

The case occurred amid evolving interpretations of business residency and insolvency laws. The decision was influenced by international norms and local regulatory perspectives that equate lengthy active business engagement as functional residency, a principle embracing globalized trade and investment flows crucial to economic policy strategies while maintaining fairness and competitive parity amongst enterprises.