LAND BANK OF THE PHILIPPINES, PETITIONER, VS. THE COURT OF APPEALS, ECO MANAGEMENT CORPORATION AND EMMANUEL C. OÑATE, RESPONDENTS.

G.R. No. 127181. September 04, 2001

Ponente: QUISUMBING, J.

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QUISUMBING, J.:

This petition for review on certiorari seeks to reverse and set aside the decision[1] promulgated on June 17, 1996 in CA-GR No. CV-43239 of public respondent and its resolution[2] dated November 29, 1996 denying petitioner's motion for reconsideration.[3]

The facts of this case as found by the Court of Appeals and which we find supported by the records are as follows:

> On various dates in September, October, and November, 1980, appellant Land Bank of the Philippines (LBP) extended a series of credit accommodations to appellee ECO, using the trust funds of the Philippine Virginia Tobacco Administration (PVTA) in the aggregate amount of P26,109,000.00. The proceeds of the credit accommodations were received on behalf of ECO by appellee Oñate.
>
> On the respective maturity dates of the loans, ECO failed to pay the same. Oral and written demands were made, but ECO was unable to pay. ECO claims that the company was in financial difficulty for it was unable to collect its investments with companies which were affected by the financial crisis brought about by the Dewey Dee scandal.
>
> x x x
>
> On October 20, 1981, ECO proposed and submitted to LBP a "Plan of Payment" whereby the former would set up a financing company which would absorb the loan obligations. It was proposed that LBP would participate in the scheme through the conversion of P9,000,000.00 which was part of the total loan, into equity.
>
> On March 4, 1982, LBP informed ECO of the action taken by the former's Trust Committee concerning the "Plan of Payment" which reads in part, as follows:
>
> x x x
>
> Please be informed that the Bank's Trust Committee has deliberated on the plan of payment during its meetings on November 6, 1981 and February 23, 1982. The Committee arrived at a decision that you may proceed with your Plan of Payment provided Land Bank shall not participate in the undertaking in any manner whatsoever.
>
> In view thereof, may we advise you to make necessary revision in the proposed Plan of Payment and submit the same to us as soon as possible. (Records, p. 428)

On May 5, 1982, ECO submitted to LBP a "Revised Plan of Payment" deleting the latter's participation in the proposed financing company. The Trust Committee deliberated on the "Revised Plan of Payment" and resolved to reject it. LBP then sent a letter to the PVTA for the latter's comments. The letter stated that if LBP did not hear

from PVTA within five (5) days from the latter's receipt of the letter, such silence would be construed to be an approval of LBP's intention to file suit against ECO and its corporate officers. PVTA did not respond to the letter.

On June 28, 1982, Landbank filed a complaint for Collection of Sum of Money against ECO and Emmanuel C. Oñate before the Regional Trial Court of Manila, Branch 50.

After trial on the merits, a judgment was rendered in favor of LBP; however, appellee Oñate was absolved from personal liability for insufficiency of evidence.

Dissatisfied, both parties filed their respective Motions for Reconsideration. LBP claimed that there was an error in computation in the amounts to be paid. LBP also questioned the dismissal of the case with regard to Oñate.

On the other hand, ECO questioned its being held liable for the amount of the loan. Upon order of the court, both parties submitted Supplemental Motions for Reconsideration and their respective Oppositions to each other's Motions.

On February 3, 1993, the trial court rendered an Amended Decision, the dispositive portion of which reads as follows:

ACCORDINGLY, the Decision, dated December 3, 1990, is hereby modified to read as follows:

> WHEREFORE, judgment is rendered ordering defendant Eco Management Corporation to pay plaintiff Land Bank of the Philippines:
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> A. The sum of P26,109,000.00 representing the total amount of the ten (10) loan accommodations plus 16% interest per annum computed from the dates of their respective maturities until fully paid, broken down as follows:
>
> 1. the principal amount of P4,000,000.00 with interest at 16% computed from September 18, 1981;
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> 2. the principal amount of P5,000,000.00 with interest at 16% computed from September 21, 1981;
>
> 3. the principal amount of P1,000,000.00 with interest rate at 16% computed from September 28, 1981;
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> 4. the principal amount of P1,000,000.00 with interest at 15% computed from October 5, 1981;
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> 5. the principal amount of P2,000,000.00 with interest rate at of 16% computed from October 8, 1981;
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> 6. the principal amount of P2,000,000.00 with interest rate at of 16% from October 23, 1981;
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> 7. the principal amount of P814,000.00 with interest rate at of 16% computed from November 1, 1981;
>
> 8. the principal amount of P2,295,000.00 with interest rate at of 16% computed from November 6, 1981;
>
> 9. the principal amount of P3,000,000.00 with interest rate at of 16% computed from November 7, 1981;
>
> 10. the principal amount of P5,000,000.00 with interest rate at 16% computed from November 9, 1981;
>
> B. The sum of P260,000.00 as attorney's fees; and
>
> C. The costs of the suit.
>
> The case as against defendant Emmanuel Oñate is dismissed for insufficiency of evidence.
>
> SO ORDERED. (Records, p. 608)[4]

The Court of Appeals affirmed in toto the amended decision of the trial court.[5]

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On June 9, 1996, petitioner filed a motion for reconsideration, which was denied in a resolution dated November 29, 1996. Hence, this present petition, assigning the following errors allegedly committed by the Court of Appeals:

> A
>
> THE COURT OF APPEALS GRAVELY ERRED IN NOT RULING THAT BASED ON THE FACTS AS ESTABLISHED BY EVIDENCE, THERE EXISTS A SUBSTANTIAL AND JUSTIFIABLE GROUND UPON WHICH THE LEGAL NOTION OF THE CORPORATE FICTION OF RESPONDENT ECO MANAGEMENT CORPORATION MAY BE PIERCED.
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> B
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> THE COURT OF APPEALS GRAVELY ERRED IN NOT A[T]TACHING LIABILITY TO RESPONDENT EMMANUEL C. OÑATE JOINTLY AND SEVERALLY WITH RESPONDENT ECO MANAGEMENT CORPORATION FOR THE PRINCIPAL SUM OF P26 M PLUS INTEREST THEREON.
>
> C
>
> THE COURT OF APPEALS GRAVELY ERRED IN AFFIRMING THE RULING OF THE LOWER COURT THE SAME NOT BEING SUPPORTED BY THE EVIDENCE AND APPLICABLE LAWS AND JURISPRUDENCE.[6]

The primary issues for resolution here are (1) whether or not the corporate veil of ECO Management Corporation should be pierced; and (2) whether or not Emmanuel C. Oñate should be held jointly and severally liable with ECO Management Corporation for the loans incurred from Land Bank.

Petitioner contends that the personalities of Emmanuel Oñate and of ECO Management Corporation should be treated as one, for the particular purpose of holding respondent Oñate liable for the loans incurred by corporate respondent ECO from Land Bank. According to petitioner, the said corporation was formed ostensibly to allow Oñate to acquire loans from Land Bank which he used for his personal advantage.

Petitioner submits the following arguments to support its stand: (1) Respondent Oñate owns the majority of the interest holdings in respondent corporation, specifically during the crucial time when appellees applied for and obtained the loan from LANDBANK, sometime in September to November, 1980. (2) The acronym ECO stands for the initials of Emmanuel C. Oñate, which is the logical, sensible and concrete explanation for the name ECO, in the absence of evidence to the contrary. (3) Respondent Oñate has always referred to himself as the debtor, not merely as an officer or a representative of respondent corporation. (4) Respondent Oñate personally paid P1 Million taken from trust accounts in his name. (5) Respondent Oñate made a personal offering to pay his personal obligation. (6) Respondent Oñate controlled respondent corporation by simultaneously holding two (2) corporate positions, viz., as Chairman and as treasurer, beginning from the time of respondent corporation's incorporation and continuously thereafter without benefit of election. (7) Respondent corporation had not held any meeting of the stockholders or of the Board of Directors, as shown by the fact that no proceeding of such corporate activities was filed with or borne by the record of the Securities and Exchange Commission (SEC). The only corporate records respondent corporation filed with the SEC were the following: Articles of Incorporation, Treasurer's Affidavit, Undertaking to Change Corporate Name, Statement of Assets and Liabilities.[7]

Private respondents, in turn, contend that Oñate's only participation in the transaction between petitioner and respondent ECO was his execution of the loan agreements and promissory notes as Chairman of the corporation's Board of Directors. There was nothing in the loan agreement nor in the promissory notes which would indicate that Oñate was binding himself jointly and severally with ECO. Respondents likewise deny that ECO stands for

Emmanuel C. Oñate. Respondents also note that Oñate is no longer a majority stockholder of ECO and that the payment by a third person of the debt of another is allowed under the Civil Code. They also alleged that there was no fraud and/or bad faith in the transactions between them and Land Bank. Hence, private respondents conclude, there is no legal ground to pierce the veil of respondent corporation's personality.[8]

At the outset, we find the matters raised by petitioner in his argumentation are mainly questions of fact which are not proper in a petition of this nature.[9] Petitioner is basically questioning the evaluation made by the Court of Appeals of the evidence submitted at the trial. The Court of Appeals had found that petitioner's evidence was not sufficient to justify the piercing of ECO's corporate personality.[10] Petitioner contended otherwise. It is basic that where what is being questioned is the sufficiency of evidence, it is a question of fact.[11] Nevertheless, even if we regard these matters as tendering an issue of law, we still find no reason to reverse the findings of the Court of Appeals.

A corporation, upon coming into existence, is invested by law with a personality separate and distinct from those persons composing it as well as from any other legal entity to which it may be related.[12] By this attribute, a stockholder may not, generally, be made to answer for acts or liabilities of the said corporation, and vice versa.[13] This separate and distinct personality is, however, merely a fiction created by law for convenience and to promote the ends of justice.[14] For this reason, it may not be used or invoked for ends subversive to the policy and purpose behind its creation[15] or which could not have been intended by law to which it owes its being.[16] This is particularly true when the fiction is used to defeat public convenience, justify wrong, protect fraud, defend crime,[17] confuse legitimate legal or judicial issues,[18] perpetrate deception or otherwise circumvent the law.[19] This is likewise true where the corporate entity is being used as an alter ego, adjunct, or business conduit for the sole benefit of the stockholders or of another corporate entity.[20] In all these cases, the notion of corporate entity will be pierced or disregarded with reference to the particular transaction involved.[21]

The burden is on petitioner to prove that the corporation and its stockholders are, in fact, using the personality of the corporation as a means to perpetrate fraud and/or escape a liability and responsibility demanded by law. In order to disregard the separate juridical personality of a corporation, the wrongdoing must be clearly and convincingly established.[22] In the absence of any malice or bad faith, a stockholder or an officer of a corporation cannot be made personally liable for corporate liabilities.[23]

The mere fact that Oñate owned the majority of the shares of ECO is not a ground to conclude that Oñate and ECO is one and the same. Mere ownership by a single stockholder of all or nearly all of the capital stock of a corporation is not by itself sufficient reason for disregarding the fiction of separate corporate personalities.[24] Neither is the fact that the name "ECO" represents the first three letters of Oñate's name sufficient reason to pierce the veil. Even if it did, it does not mean that the said corporation is merely a dummy of Oñate. A corporation may assume any name provided it is lawful. There is nothing illegal in a corporation acquiring the name or as in this case, the initials of one of its shareholders.

That respondent corporation in this case was being used as a mere alter ego of Oñate to obtain the loans had not been shown. Bad faith or fraud on the part of ECO and Oñate was not also shown. As the Court of Appeals observed, if shareholders of ECO meant to defraud petitioner, then they could have just easily absconded instead of going out of their way to propose "Plans of Payment."[25] Likewise, Oñate volunteered to pay a portion of the corporation's debt.[26] This offer demonstrated good faith on his part to ease the debt of the corporation of which he was a part. It is understandable that a shareholder would want to help his corporation and in the process, assure that his stakes in the said corporation are secured. In this case, it was established that the P1 Million did not come solely from Oñate. It was taken from a trust account which was owned by Oñate and other investors.[27] It was likewise proved that the P1 Million was a loan granted by Oñate and his co-depositors to alleviate the plight of

ECO.[28] This circumstance should not be construed as an admission that he was really the debtor and not ECO.

In sum, we agree with the Court of Appeals' conclusion that the evidence presented by the petitioner does not suffice to hold respondent Oñate personally liable for the debt of co-respondent ECO. No reversible error could be attributed to respondent court's decision and resolution which petitioner assails.

WHEREFORE, the petition is DENIED for lack of merit. The decision and resolution of the Court of Appeals in CA-G.R. CV No. 43239 are AFFIRMED. Costs against petitioner.
SO ORDERED.

Bellosillo, (Chairman), Mendoza, Buena, and De Leon, Jr., JJ., concur.

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[1] CA Rollo, pp. 163-170.

[2] Id. at 198.

[3] Id. at 172-186.

[4] Id. at 163-166.

[5] Id. at 170.

[6] Rollo, p. 25.

[7] Id. at 26-28.

[8] Id. at 197-204.

[9] Herrera, Remedial Law, Volume VII, pp. 520-521, citing FNCB Finance vs. Estavillo, G.R. No. 93394, 192 SCRA 514, 517 (1990); and Universal Motors vs. Court of Appeals, G.R. No. 47432, 205 SCRA 448, 455 (1992).

[10] CA Rollo, p. 167.

[11] Herrera, Id. at 521, citing 2 Moran p. 473 1979 ed; Cheeseman vs. IAC, G.R. No. 74833, 193 SCRA 93, 100-101 (1991); Paterno vs. Paterno, G.R. No. 63680, 183 SCRA 630, 636-637 (1990).

[12] Yutivo Sons Hardware Company vs. Court of Tax Appeals, 1 SCRA 160, 165 (1961); Francisco Motors Corporation vs. CA, 309 SCRA 72, 82 (1999).

[13] NAMARCO vs. Associated Finance Company, 19 SCRA 962, 965 (1967)

[14] Azcor Manufacturing, Inc. vs. NLRC, 303 SCRA 26, 35 (1999).

[15] Emilio Cano Enterprises Inc., vs. CIR, 121 Phil. 276, 278-279 (1965).

[16] McConnel vs. Court of Appeals, 1 SCRA 722, 725 (1961).

[17] Supra, note 10 at 165.

[18] R.F. Sugay & Co. vs. Reyes, 120 Phil. 1497, 1502 (1964).

[19] Gregorio Araneta, Inc. vs. Paz Tuason de Paterno, 49 O.G. 45, 56 (1953).

[20] Comm. Internal Revenue vs. Norton Harrison Corp., 120 Phil. 684, 690-691 (1964).

[21] Koppel, Inc. vs. Yatco, 77 Phil. 496, 505 (1946).

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[22] Complex Electronics Employees Association vs. National Labor Relations Commission, 310 SCRA 403, 418 (1999).

[23] Id. at 421.

[24] Traders Royal Bank vs. Court of Appeals, 269 SCRA 15, 29-30 (1997).

[25] CA decision, p. 7; Rollo, p. 52.

[26] One million pesos.

[27] TSN, April 3, 1984, pp. 61-62; Records, pp. 206-207.

[28] Records, p. 454, Exhibit "K".

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