

NORTH BULACAN CORPORATION, PETITIONER, VS. PHILIPPINE BANK OF COMMUNICATIONS, RESPONDENT.

G.R. No. 183140. August 02, 2010

Ponente: ABAD, J.

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ABAD, J.:

This case is about the need for petitioners in corporate rehabilitation cases to consistently abide by the rules governing the same and to meet the creditors' substantial opposition to their petitions.

The Facts and the Case

Petitioner North Bulacan Corporation (NBC) is engaged in the business of developing low and medium-cost housing projects. On December 11, 2000 its parent company, Centro Ville, Inc. (CVI), entered into a joint venture agreement (JVA) with First Sarmiento Property Holdings, Inc. (FSPHI) to develop the latter's 15.5-hectare property into low and medium-cost housing projects. FSPHI will supply the land and CVI will develop it. The parties amended the JVA on April 26, 2001 to enable NBC to substitute for CVI. On August 1, 2001 NBC bought a 21-hectare property from FSPHI for P84,499,800.00.

At the onset, the Land Bank of the Philippines (Land Bank) offered P100 million to finance the construction of the houses. Later, however, respondent Philippine Bank of Communications (PBCom) offered to finance the whole project and immediately provide NBC a P100 million loan facility on the condition that the Pag-IBIG/Home Development Mutual Fund (Pag-IBIG) directly paid PBCom for the houses upon completion of construction, whether or not these had been sold.

Relying on PBCom's commitment, NBC accepted the bank's offer. On July 11, 2003 NBC executed a deed of assignment, assigning to PBCom its rights and interests over all payments that may be due it from the Pag-IBIG.

After a time, however, PBCom discontinued its financial support to NBC reportedly because Bangko Sentral ng Pilipinas (BSP) had issued a cease-and-desist order against the bank. When it became apparent that PBCom had no intention of complying with its commitment, NBC sought help from Cocolife and Land Bank which expressed their intention to finance the project by taking out NBC's loan from PBCom. But the latter refused the offer, insisting on the supposed BSP cease-and-desist order. NBC's construction eventually stopped for lack of funds.

On December 28, 2006 NBC filed a petition for corporate rehabilitation with the Mandaluyong Regional Trial Court (RTC). On June 15, 2007 NBC filed with the court a manifestation and urgent motions a) to order PBCom to release 12 Transfer Certificates of Title of finished housing units, b) to order Pag-IBIG to issue Letters of Guaranty to PBCom representing the take-out value of the finished units, and c) to allow NBC to use the proceeds to make emergency repairs and restoration works. On July 17, 2007 Judge Paulita Acosta-Villarante granted NBC's motions. PBCom refused, however, to comply with it. Meantime, Judge Villarante retired and Judge Edwin Sorongon took over. On January 24, 2008 the RTC, presided over by the latter judge, issued an order giving due course to NBC's petition for rehabilitation.

PBCom filed a petition for certiorari before the Court of Appeals (CA) to challenge the RTC order. On May 20, 2008 the CA granted PBCom's petition, stating that since the RTC was unable to approve a rehabilitation plan for NBC after 180 days from the date of the initial hearing in the case, it should have dismissed the petition for rehabilitation. This prompted NBC to take recourse to this Court.

The Issue Presented

The only issue presented in this case is whether or not the CA erred in dismissing NBC's action for corporate rehabilitation.

The Ruling of the Court

The Court enacted the Interim Rules of Procedure on Corporate Rehabilitation to provide a remedy for summary and non-adversarial rehabilitation proceedings of distressed but viable corporations.[1] The intent is consistent with the commercial nature of rehabilitation, which seeks to expedite its resolution for the benefit, not only of the petitioner-corporation, but of all the parties involved and the economy in general.[2] These rules are to be construed liberally to obtain for the parties a just, expeditious, and inexpensive disposition of the case.[3] The parties may not, however, invoke such liberality if it will result in the utter disregard of the rules or cause needless delay in the administration of justice.[4]

Here, as PBCom pointed out, NBC violated several rules on corporate rehabilitation. In contravention of Rule 3, Section 1 on prohibited pleadings, NBC filed motions for extension and a memorandum in the case,[5] which the RTC blindly allowed. NBC likewise filed various pleadings,[6] ignoring the requirement under the Rules that these be verified by the affiants.[7] Also, NBC filed a couple of motions for indirect contempt[8] against PBCom without complying with the requirement that these, too, had to be verified.[9]

Further, the documents that accompanied NBC's petition fell short of what the rules required.[10] For instance, the Schedule of Debts and Liabilities[11] did not show the creditors' addresses and, although it reflected the principal amount of each debt, nowhere did it state the amount of accrued interests, the penalties, the nature of the obligation, and any pledge, lien, mortgage judgment, or other security given for the debt. Additionally, the NBC's Inventory of Assets[12] failed to state the nature of its assets, their location and condition. NBC did not likewise disclose the encumbrances, liens, or claims on its properties and the identities as well as the addresses of the lien holders or claimants.

Largely because of NBC's numerous prohibited pleadings, nearly a year had passed since the petition's initial hearing on February 15, 2007 and still the RTC had not approved a rehabilitation plan for the company. Under the Rehabilitation Rules, if upon the lapse of 180 days from the date of the initial hearing there is still no approved rehabilitation plan, the RTC must dismiss the petition.[13]

NBC argues that the RTC could not have committed grave abuse of discretion in extending the 180-day period since the rules allowed such an extension provided it was not to exceed 18 months from the filing of the petition. True, such an extension is allowed but only if there appeared to be convincing and compelling evidence that the debtor-corporation can be successfully rehabilitated.[14]

Here, however, the RTC proceeded beyond the 180-day period even in the absence of a motion to extend the same and despite the lack of strong and compelling evidence which showed that NBC's continued operation was still economically feasible. Quite the contrary, aside from the substantial inadequacy of NBC's listed assets, the creditors' opposition to rehabilitation critically placed in serious doubt the likelihood of its success. PBCom claimed that, out of 1,202 real properties listed as NBC's assets, at least 1,075 actually belonged to FSPHI and

were mortgaged to PBCOM.

FSPHI, for its part, said that NBC's obligation to it amounted to P48,333,914.00 and not P43,845,000.00 as listed. Pag-IBIG pointed out that NBC owed it more than P188 Million. The RTC did not properly address these oppositions to the rehabilitation. Moreover, even assuming that the extension was just, the petition had to be dismissed just the same because the RTC had not approved any rehabilitation plan as of June 28, 2008 or within 18 months from the date of filing of the petition on December 28, 2006.[15] In fact, there is nothing in the records of the case that would show that the RTC ever approved any rehabilitation plan.

Ordinarily, the evaluation of petitioner-company's business viability in a corporate rehabilitation case involves factual issues that this Court will not take cognizance of since it is not a trier of facts.[16] But when it is shown that the RTC gravely abused its discretion in finding what the facts are,[17] it may grant an exception. Here, the RTC did just that when it utterly disregarded the Rules on Corporate Rehabilitation in the guise of liberal construction and granted the petition for rehabilitation based on insufficient evidence.

The RTC admitted NBC's pleadings and their attachments despite blatant non-compliance with the rules. It gave due course to the petition allegedly because the "NBC was able to convince the court of the feasibility of its rehabilitation by showing the condition and value of its assets, the viability of its business, and the cause for its present financial problems." [18] On closer examination, however, the NBC inventory actually did not mention the condition of its listed assets. It merely enumerated certain real properties and their respective sizes and market values. Further, the RTC refused to dismiss the petition notwithstanding that it had not approved any rehabilitation plan within the period specified by law. Clearly, the rehabilitation court grossly abused its authority in granting NBC's petition while ignoring the requirements for it.

Even brushing technicalities aside, NBC's petition for corporate rehabilitation must still fail. As the CA aptly noted, the RTC failed to address NBC's misrepresentation as to its true accountabilities with Pag-IBIG and FSPHI. For instance, NBC claims that as of November 30, 2006 its total assets amounted to P412,193,537.50 while its obligations reached P367,926,823.05. But FSPHI asserts that NBC owed it P48,333,914.00, not just P43,845,000.00, indicating a need to examine the claims. For its part, Pag-IBIG asserts that NBC owed it P188,425,476.49 as a result of the latter's unjustified refusal to register its covered employees and to remit their compulsory monthly contributions as mandated by law.[19] If these claims were taken into consideration, it would readily be apparent that NBC's liabilities were far greater than its claimed properties.

Under the circumstances, NBC's total debts would balloon to P560,841,213.54, exclusive of interests, penalties, and other charges. Obviously, its continued operation would no longer be viable. The Court holds that the RTC should have ruled on the creditors' objections instead of merely treating them as premature. The RTC of course claims that the rehabilitation plan would still have to be referred to the receiver for study and evaluation. But there would be no need to go that far when the petitioning corporation declined to comply with the simple rules of rehabilitation, when the documentation of its assets were inadequate, and when the creditors' opposition offered insurmountable basis for shelving the entire effort.

WHEREFORE, the Court DENIES the petition and AFFIRMS the decision of the Court of Appeals in CA-G.R. SP 102555 dated May 20, 2008 which dismissed petitioner North Bulacan Corporation's petition for corporate rehabilitation.

SO ORDERED.

Carpio, (Chairperson), Peralta, Perez,[*] and Mendoza, JJ., concur.

[*] Designated as additional member in lieu of Associate Justice Antonio Eduardo B. Nachura, per raffle dated June 7, 2010.

[1] Interim Rules of Procedure on Corporate Rehabilitation (2000), Rule 3, Section 1.

[2] *New Frontier Sugar Corporation v. Regional Trial Court, Branch 39, Iloilo City*, G.R. No. 165001, January 31, 2007, 513 SCRA 601, 608.

[3] *Supra* note 1, Rule 2, Section 2.

[4] *El Reyno Homes, Inc. v. Ong*, 445 Phil. 610, 618 (2003).

[5] *Rollo*, p. 491.

[6] *Id.* at 491-492.

[7] *Supra* note 1.

[8] *Rollo*, p. 492.

[9] Rules of Court, Rule 71, Section 4.

[10] *Supra* note 1, Rule 4, Section 2.

[11] *Rollo*, p. 175.

[12] *Id.* at 29.

[13] *Supra* note 1, Rule 4, Section 11.

[14] *Id.*

[15] *Id.*

[16] *Ignacio v. Magsimpan*, G.R. No. 165710, April 6, 2005.

[17] *Rosario v. PCI Leasing and Finance, Inc.*, G.R. No. 139233, November 11, 2005, 474 SCRA 500, 506.

[18] *Rollo*, p. 277.

[19] Implementing Rules and Regulations of R.A. 7742, Rule V, Section 1 and Rule VI, Section 5.

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