

DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS. NLRC AND NATIONAL MINES AND ALLIED WORKERS UNION, RESPONDENTS.

G.R. No. 97175. May 18, 1993

Ponente: MELO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-97175/>

MELO, J.:

Before us is a petition to set aside the NLRC Decision dated November 28, 1990 (Annex "C", p. 41, Rollo), disposing as follows:

WHEREFORE, PREMISES CONSIDERED, the appealed decision is hereby set aside and a new judgment is entered, holding the Development Bank of the Philippines liable to the complainants for their separation pay to the extent of the proceed of the foreclosure sale, subject to the liquidation or bankruptcy proceeding that may be instituted against Midland Cement Corporation. (pp. 47-48, Rollo)

Herein private respondent labor union filed on January 10, 1986, a complaint, the allegations of which were paraphrased by the NLRC in this wise:

. . . that the individual complainants were all employees of respondent Midland Cement Corporation who were terminated from employment on or about July 30, 1981 by reason of the termination of the business operations of the Construction and Development Corporation of the Philippines (CDCP) now PNCC, which was brought about by the expiration of the lease contract between Midland Cement Corporation and CDCP; that at the time of the separation from the service [of] the individual complainants, the complainant union was the certified sole and exclusive bargaining agent; that as a consequence of said termination, the complainant union filed with the then Ministry of Labor and Employment an opposition to the application for clearance to terminate their services filed by CDCP, the lessee of the cement plant owned by Midland Cement Corporation; that on April 27, 1983, the Ministry of Labor and Employment thru then Deputy Minister Vicente Leogardo, Jr., ordered applicant CDCP to pay the 175 affected employees separation pay equivalent to one-half (1/2) month salary for every year of service; that the employees were paid only based on their length of service with CDCP from August 1, 1975 up to July 30, 1981; the said employees were not paid (with) their separation pay when they were employees of respondent Midland Cement Corporation; that later, respondent DBP foreclosed and assumed ownership over the cement plant, including land, buildings, machineries, etc., of Midland Cement Corporation; that the individual complainants are claiming separation benefits covering the period from date of hiring up to July 31, 1975 when CDCP took over the operations of Midland Cement Corporation by virtue of lease contract. (pp. 43-44, Rollo)

After hearing, the Labor Arbiter rendered a decision on January 5, 1990 (Annex "A", p. 26, Rollo), finding DBP jointly and severally liable with Midland Cement for the payment of the separation pay, as follows:

WHEREFORE, judgment is hereby rendered giving due course to the complaint thereby ordering the respondents DBP and Midland Cement Corporation jointly and severally liable for the separation pay of the affected members of the complainant union.

It appearing that as published in the morning dailies lately that the assets of Midland Cement Corporation are now being offered for sale through public bidding by the Asset Privatization Trust, (APT) let copies of this decision be served upon said APT to protect the interest of the herein complainants. (pp. 30-31, Rollo)

DBP appealed, contending that its acquisition of the mortgaged assets of Midland through foreclosure sale did not make it the owner of the defunct Midland Cement, and that the doctrine of successor-employer is not applicable in this case, since DBP did not continue the business operations of Midland. The NLRC, while finding merit in DBP's contention, nonetheless held DBP liable since respondent's claim "constitutes a first preference with respect to the proceeds of the foreclosure sale" as provided in Article 110 of the Labor Code:

Art. 110. Worker preference in case of bankruptcy. - In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards their wages and other monetary claims, any provisions of law to the contrary notwithstanding. Such unpaid wages and monetary claims shall be paid in full before claims of the government and other creditors may be paid. (p. 46, Rollo)

Following the denial of its motion for reconsideration, DBP filed the instant petition.

DBP correctly points out that its mortgage lien should not be classified as a preferred credit. The issue raised was settled in *Republic vs. Peralta* (150 SCRA 37 [1987]) and reinforced in *DBP vs. NLRC* (183 SCRA 328 [1990]) wherein we held that because of its impact on the entire system of credit, Article 110 of the Labor Code cannot be viewed in isolation but must be read in relation to the Civil Code scheme on classification and preference of credits. Thus,

4. A distinction should be made between a preference of credit and a lien. A preference applies only to claims which do not attach to specific properties. A lien creates a charge on a particular property. The right of first preference as regards unpaid wages recognized by Article 110 does not constitute a lien on the property of the insolvent debtor in favor of workers. It is but a preference of credit in their favor, a preference in application. It is a method adopted to determine and specify the order in which credits should be paid in the final distribution of the proceeds of the insolvent's assets. It is a right to a first preference in the discharge of the funds of the judgment debtor.

In the words of *Republic vs. Peralta*, supra:

"Article 110 of the Labor Code does not purport to create a lien in favor of workers or employees for unpaid wages either upon all of the properties or upon any particular property owned by their employer. Claims for unpaid wages do not therefore fall at all within the category of specially preferred claims established under Articles 2241 and 2242 of the Civil Code, except to the extent that such claims for unpaid wages are already covered by Article 2241, number 6: claims for laborers wages, on the goods manufactured or the work done,' or by Article 2242, number 3: 'claims of laborers and other workers engaged in the construction, reconstruction or repair of buildings, canals and other works, upon said buildings, canals and other works, upon said buildings, canals and other works.' To the extent that claims for unpaid wages fall outside the scope of Article 2241, number 6 and 2242, number 3, they would come within the ambit of the category of ordinary preferred credits under Article 2244.

6. The DBP anchors its claim on a mortgage credit. A mortgage directly and immediately subjects the property upon which it is imposed, whoever the possessor may be, to the fulfillment of the obligation for whose security it was constituted (Article 2176, Civil Code). It creates a real right which is enforceable against the whole world. It is a lien on an identified immovable property, which a preference is not. A recorded mortgage credit is a special preferred credit under Article 2242 (5) of the Civil Code on classification of credits. The preference given by Article 110, when not falling within Article 2241 (6) and Article 2242 (3) of the Civil Code and not attached to any specific property, is an ordinary preferred credit although its impact is to move it from second

priority to first priority in the order of preference established by Article 2244 of the Civil Code. (Republic vs. Peralta, supra.)

x x x

x x x

x x x

In fine, the right to preference given to workers under Article 110 of the Labor Code cannot exist in any effective way prior to the time of its presentation in distribution proceedings. It will find application when, in proceedings such as insolvency, such unpaid wages shall be paid in full before the "claims of the Government and other creditors" may be paid. ... (DBP vs. NLRC, supra; pp. 337--339.)

The NLRC, therefore, erred in holding DBP liable "to the extent of the proceeds of the foreclosure sale." And making such liability dependent on a bankruptcy or liquidation proceedings is really beside the point, for these proceedings are relevant only to preferred credits, which is not the situation in the case at bar. To equate DBP's mortgage lien with a preferred credit would be to render inutile the protective mantle of the mortgage in DBP's favor and thus in the process wreak havoc to commercial transactions.

WHEREFORE, the petition is GRANTED. The decision of the NLRC dated November 28, 1990 and the Resolution of February 1, 1991 are hereby SET ASIDE, and a new judgment is entered absolving Development Bank of the Philippines of any and all liabilities to private respondent and its members.

No special pronouncement is made as to costs.

SO ORDERED.

Feliciano, (Chairman), Bidin, Davide, Jr., and Romero, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.