

CERTIFIED TRUE COPY
Wilfredo V. Lapitan
WILFREDO V. LAPITAN
Division Clerk of Court
Third Division



Republic of the Philippines
Supreme Court
Baguio City

JUN 07 2017

SUPREME COURT OF THE PHILIPPINES
PUBLIC INFORMATION OFFICE
RECEIVED
JUN 13 2017
BY: CAH
TIME: 11:12

THIRD DIVISION

LAND BANK OF THE
PHILIPPINES,

G.R. No. 211287

Petitioner,

Present:

- versus -

VELASCO, JR., J.,
Chairperson,
BERSAMIN,
REYES,
JARDELEZA, and
TIJAM, JJ.

WEST BAY COLLEGES, INC.,
PBR MANAGEMENT AND
DEVELOPMENT
CORPORATION and BCP
TRADING CO., INC.,

Promulgated:

Respondents.

April 17, 2017

Wilfredo V. Lapitan

X-----X

RESOLUTION

REYES, J.:

This resolves a petition for review on *certiorari*¹ filed by Land Bank of the Philippines (Land Bank), assailing the Decision² dated September 30, 2013 and Resolution³ dated February 10, 2014 of the Court of Appeals (CA) in CA-G.R. SP No. 127897.

¹ Rollo, pp. 8-38.

² Penned by Associate Justice Hakim S. Abdulwahid, with Associate Justices Marlene Gonzales-Sison and Edwin D. Sorongon concurring; id. at 40-50.

³ Id. at 53-54.

1

Facts

West Bay Colleges, Inc. (West Bay) is a domestic corporation engaged in the operation of an educational institution; while PBR Management and Development Corporation (PBR) and BCP Trading Company, Inc. (BCP) are domestic corporations engaged in the business of real estate and construction, respectively. Together, West Bay, PBR and BCP form the Chiongbian Group of Companies (CGC) (respondents).⁴

In June 1996, West Bay applied for an interim financing with Land Bank for the construction of a school building, which was approved in the amount of ₱125 Million. On December 22, 1997, PBR availed of a ₱100-Million Term Loan from Land Bank for the construction of condominium buildings.⁵

On January 22, 1998, West Bay, as an accommodation mortgagor, executed a Real and Chattel Mortgage over its training vessel to secure the loan of PBR with Land Bank. The vessel was insured with First Lepanto Taisho Insurance Corporation in the amount of ₱26 Million, representing the mortgagee Land Bank's insurable interest in the vessel.⁶

On November 3, 2000, the mortgaged vessel sank during the typhoon *Seniang*.⁷ By agreement of the parties, insurance proceeds in the amount of ₱21,980,000.00 net of shared expenses were released to Land Bank on account of PBR's loan.⁸

To resolve its financial difficulties, West Bay proposed a restructuring of its debts with Land Bank, which the latter accepted through a letter⁹ dated March 25, 2002.¹⁰ It was provided therein that Land Bank will reimburse West Bay with the insurance proceeds that it had previously received. Subsequently, on May 10, 2002, West Bay and PBR executed their respective Restructuring Agreements¹¹ with Land Bank.

But on June 28, 2002, the respondents filed a petition for corporate rehabilitation with a prayer for suspension of payments before the Regional Trial Court (RTC) of Muntinlupa City.¹² The RTC Branch 256 issued a Stay Order¹³ dated July 10, 2002 directing, among others, a stay in the

⁴ Id. at 41, 84.

⁵ Id. at 10.

⁶ Id. at 10-11.

⁷ Id. at 11.

⁸ Id. at 11, 42.

⁹ Id. at 205-207.

¹⁰ Id. at 12.

¹¹ Id. at 208-214; 215-219.

¹² Id. at 14.

¹³ Issued by Presiding Judge Alberto L. Lerma; id. at 80-82.

enforcement of all claims against West Bay, its guarantors and sureties not solidarily liable with it, particularly, PBR and BCP.¹⁴

The RTC approved the rehabilitation plan on September 10, 2002 which provided, *inter alia*, that the ₱21,980,000.00 insurance proceeds received by Land Bank shall instead be applied to the loan of West Bay.¹⁵

On January 31, 2003, the respondents filed an amended rehabilitation plan transferring the application of the insurance proceeds from West Bay to PBR and BCP's obligations.¹⁶

In the subsequent years, the rehabilitation plan underwent several amendments which were approved by the RTC on the following dates: November 17, 2003, June 7, 2004, March 29, 2006 and September 1, 2008.¹⁷ The updated Rehabilitation Plans consistently provided for the application of the ₱21,980,000.00 insurance proceeds to the loan accounts of PBR and BCP.¹⁸

While the rehabilitation proceedings were pending, Land Bank filed a motion to be substituted by Philippine Distressed Asset Asia Pacific (PDAAP), a special purpose vehicle. The motion was granted by the RTC in its Order¹⁹ dated November 5, 2010.²⁰

In November 2011, the respondents filed an Amended Rehabilitation Plan, indicating that PDAAP did not agree to the application of ₱21,980,000.00 insurance proceeds to the outstanding obligations of PBR.²¹

On March 13, 2012, West Bay filed an Urgent Motion²² with the RTC praying for the issuance of an order directing Land Bank to reimburse to it the amount of ₱21,980,000.00 representing the insurance proceeds. West Bay reasoned that the reimbursement was provided for in the restructuring plan previously approved by Land Bank in the letter dated March 25, 2002 but was not complied with. It alleged that although the RTC approved the rehabilitation plans authorizing the application of the insurance proceeds to the obligations of West Bay, it was never implemented.

¹⁴ Id. at 80.

¹⁵ Id. at 15.

¹⁶ Id. at 42.

¹⁷ Id. at 408-410. The Rehabilitation Plan approved by the RTC on September 1, 2008 was annulled by the CA in its Decision dated April 28, 2011 (id. at 115-127) due to some objectionable provisions therein regarding West Bay's assumption of the personal obligations of PBR's stockholders.

¹⁸ Id. at 410.

¹⁹ Id. at 129.

²⁰ Id. at 15-16.

²¹ Id. at 17.

²² Id. at 190-194.

Λ

In its Comment/Opposition,²³ Land Bank explained that the insurance proceeds were applied (value-dated) in January and June 2002 to West Bay's and PBR's outstanding loan obligation as follows:

- a. For payment of documentary stamp tax (DST) on the restructuring of the account of [West Bay] and [PBR] in the amount of ₱651,277.00; and
- b. In partial settlement of the loan of PBR under Promissory Notes Nos. P&C-2841 in the total amount of ₱21,328,723.00.²⁴

Land Bank averred that it was prompted to apply the insurance proceeds to West Bay's and PBR's outstanding loans due to West Bay's failure to comply with the terms and conditions of the Restructuring Agreement dated May 10, 2002, as well as the filing of the petition for corporate rehabilitation. Further, Land Bank claimed that it sold all its rights, credits and receivables relative to the West Bay and PBR accounts to PDAAP, net of the insurance proceeds.²⁵

Ruling of the RTC

In the assailed Order²⁶ dated August 31, 2012, the RTC denied the Urgent Motion as it found no justifiable reason for the reimbursement of the insurance proceeds to West Bay. It also observed that West Bay did not comply with the terms and conditions of the restructuring agreement. Finally, PBR signed promissory notes which stated that, "[t]he Borrower hereby authorizes and empowers the Bank, without need of notice to the Borrower, and irrespective of the date of maturity, to deduct, set-off and apply any funds, securities or assets of the Borrower with the Bank or any of its branches, on deposit or otherwise, in reduction of amounts due under this Note."²⁷

On December 18, 2012, the respondents filed a petition for *certiorari* and *mandamus* with the CA, challenging the RTC Order dated August 31, 2012.²⁸

²³ Id. at 197-204.

²⁴ Id. at 198.

²⁵ Id. at 200.

²⁶ Issued by Presiding Judge Leandro C. Catalo; id. at 51-52.

²⁷ Id. at 51.

²⁸ Id. at 412.



Ruling of the CA

On September 30, 2013, the CA promulgated a Decision,²⁹ setting aside the RTC order. Per the CA's findings, Land Bank did not apply the insurance proceeds to the remaining obligations of West Bay, PBR or BCP as there was no statement of the settlement of the insurance proceeds in the context of the restructured loan. Granting that West Bay and PBR failed to comply with the requirements of the restructured loan, it was because they were prohibited from paying any of their outstanding liabilities when the Stay Order took effect.³⁰ The dispositive portion of the decision reads:

WHEREFORE, the petition is **GRANTED**. The Order dated August 31, 2012 of the Rehabilitation Court is **ANNULLED and SET ASIDE**. The Rehabilitation Court is **ORDERED to DIRECT** the [Land Bank] to **REIMBURSE** the P21,980,000.00 insurance proceeds, plus interest, to [West Bay].

SO ORDERED.³¹

Land Bank filed a motion for reconsideration, which the CA denied in its Resolution³² dated February 10, 2014.

Undeterred, Land Bank filed the present petition for review on *certiorari*, raising the following issues:

A. WHETHER WEST BAY IS ENTITLED TO THE REIMBURSEMENT OF THE ₱21,980,000.00 INSURANCE PROCEEDS; and

B. WHETHER THE RIGHT OF WEST BAY TO BE REIMBURSED WITH THE ₱21,980,000.00 INSURANCE PROCEEDS HAS BEEN CLEARLY AND FULLY ESTABLISHED IN THE MODIFIED REHABILITATION PLAN SO AS TO BE COMPELLABLE BY MANDAMUS.³³

Ruling of the Court

The Court denies giving due course to the petition for failure of Land Bank to show any reversible error in the assailed decision as to warrant the exercise of the Court's discretionary appellate jurisdiction.

²⁹ Id. at 40-50.

³⁰ Id. at 47-48.

³¹ Id. at 49.

³² Id. at 53-54.

³³ Id. at 20.

1

It should be noted at the outset that under Rule 45 of the 1997 Rules of Civil Procedure, only questions of law may be raised by the parties and passed upon by the Court. The Court is not a trier of facts and is not duty bound to analyze and weigh again the evidence considered in the proceedings below.³⁴ This rule, however, admits of certain exceptions:

(1) when the inference made is manifestly mistaken, absurd or impossible; (2) when there is grave abuse of discretion; (3) when the findings are grounded entirely on speculations, surmises or conjectures; (4) when the judgment of the CA is based on misapprehension of facts; **(5) when the findings of fact are conflicting;** (6) when the CA, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee; (7) when the findings of fact are conclusions without citation of specific evidence on which they are based; (8) when the CA manifestly overlooked certain relevant facts not disputed by the parties and which, if properly considered, would justify a different conclusion; and (9) when the findings of fact of the CA are premised on the absence of evidence and are contradicted by the evidence on record.³⁵ (Citation omitted and emphasis ours)

In the instant case, the RTC and the CA have conflicting pronouncements, which necessitates a review of their factual findings.

After a judicious review of the records, the Court finds that there is no reversible error on the part of the CA in ordering the reimbursement of ₱21,980,000.00 which is the amount of the insurance proceeds previously received by Land Bank.

As the CA pointed out, despite several amendments to the rehabilitation plan which repeatedly provided for the application of the insurance proceeds to the debts of West Bay, then to PBR and BCP, there is no showing that Land Bank applied the amount thereof to the aforementioned loans.³⁶ The Court is inclined to uphold this finding – for if Land Bank had in fact deducted the amount of the insurance proceeds from the loan obligations of either West Bay or PBR and BCP, this information would have reflected on the rehabilitation plans of the CGC. In other words, if the insurance proceeds were indeed applied to West Bay's and PBR's account in January and June 2002 as Land Bank espoused, then ₱21,980,000.00 should have been subtracted from the obligations of the said companies. Verily, Land Bank negated its own claim when it failed to present evidence of reduction in the outstanding balances of the respondents, whether singly or collectively.

³⁴ *Benedicto v. Villaflores*, 646 Phil. 733, 739 (2010).

³⁵ *Safeguard Security Agency, Inc. v. Tangco*, 540 Phil. 86, 103 (2006).

³⁶ *Rollo*, p. 47.

Also, a belated application of the insurance proceeds to the obligations of West Bay or PBR and BCP would violate the Stay Order dated July 10, 2002 issued by the RTC. Section 6 of Rule 4 of the 2000 Interim Rules of Procedure on Corporate Rehabilitation, which was in force at the time of the filing of the petition for corporate rehabilitation, provides:

SEC. 6. *Stay Order.* - If the court finds the petition to be sufficient in form and substance, it shall, not later than five (5) days from the filing of the petition, issue an Order (a) appointing a Rehabilitation Receiver and fixing his bond; (b) staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and sureties not solidarily liable with the debtor; (c) prohibiting the debtor from selling, encumbering, transferring, or disposing in any manner any of its properties except in the ordinary course of business; **(d) prohibiting the debtor from making any payment of its liabilities outstanding as at the date of filing of the petition;** (e) prohibiting the debtor's suppliers of goods or services from withholding supply of goods and services in the ordinary course of business for as long as the debtor makes payments for the services and goods supplied after the issuance of the stay order; (f) directing the payment in full of all administrative expenses incurred after the issuance of the stay order; (g) fixing the initial hearing on the petition not earlier than forty-five (45) days but not later than sixty (60) days from the filing thereof; (h) directing the petitioner to publish the Order in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks; (i) directing all creditors and all interested parties (including the Securities and Exchange Commission) to file and serve on the debtor a verified comment on or opposition to the petition, with supporting affidavits and documents, not later than ten (10) days before the date of the initial hearing and putting them on notice that their failure to do so will bar them from participating in the proceedings; and (j) directing the creditors and interested parties to secure from the court copies of the petition and its annexes within such time as to enable themselves to file their comment on or opposition to the petition and to prepare for the initial hearing of the petition.

Lastly, the Court deems it proper to impose interest on the amount of the insurance proceeds in the concept of actual and compensatory damages. Article 2209 of the Civil Code provides that if the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six percent (6%) *per annum*.

In the case of loans or forbearances of money, the rate of legal interest used to be twelve percent (12%) *per annum* pursuant to Central Bank Circular No. 905-82, which took effect on January 1, 1983.³⁷ "The term 'forbearance', within the context of usury law, has been described as a contractual obligation of a lender or creditor to refrain, during a given period

³⁷ *Planters Development Bank v. Spouses Lopez*, 720 Phil. 426, 447 (2013).

1

of time, from requiring the borrower or debtor to repay the loan or debt then due and payable.”³⁸

But effective on July 1, 2013, under Bangko Sentral ng Pilipinas Monetary Board Circular No. 799, the rate of interest is now back at six percent (6%) *per annum* for the loan or forbearance of any money, goods or credits and in judgments, in the absence of an express contract as to such rate of interest.³⁹ In view of this amendment, the Court, in *Nacar v. Gallery Frames, et al.*,⁴⁰ modified the guidelines laid down in *Eastern Shipping Lines, Inc. v. Court of Appeals*,⁴¹ as follows:

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, *i.e.*, a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 6% *per annum* to be computed from default, *i.e.*, from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.
2. When an obligation, **not** constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed **at the discretion of the court** at the rate of 6% *per annum*. No interest, however, shall be adjudged on unliquidated claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

³⁸ *Sunga-Chan, et al. v. CA, et al.*, 578 Phil. 262, 276 (2008).

³⁹ *S.C. Megaworld Construction and Development Corporation v. Engr. Parada*, 717 Phil. 752, 773 (2013).

⁴⁰ 716 Phil. 267 (2013).

⁴¹ 304 Phil. 236 (1994).

1

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 6% *per annum* from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.⁴² (Emphasis ours)

Since the obligation of Land Bank to reimburse the amount of insurance proceeds does not constitute a forbearance of money, the interest rate of six percent (6%) is applicable. The pronouncement of the Court in *Sunga-Chan, et al. v. CA, et al.*⁴³ on this matter is enlightening: **For transactions involving payment of indemnities in the concept of damages arising from default in the performance of obligations in general and/or for money judgment not involving a loan or forbearance of money, goods, or credit, the governing provision is Article 2209 of the Civil Code prescribing a yearly six percent (6%) interest.**⁴⁴

As to the reckoning period for the commencement of the running of the legal interest, it shall be subject to the condition “that the courts are vested with discretion, depending on the equities of each case, on the award of interest.”⁴⁵ Applying the guidelines in *Nacar*, another six percent (6%) interest shall be imposed from the finality of this Resolution until its satisfaction as the interim period, is considered to be, by then, equivalent to a forbearance of credit.

WHEREFORE, the petition is **DENIED**. The Decision dated September 30, 2013 and Resolution dated February 10, 2014 of the Court of Appeals in CA-G.R. SP No. 127897 are **AFFIRMED**. The Land Bank of the Philippines is **DIRECTED** to reimburse West Bay Colleges, Inc. the amount of ₱21,980,000.00 representing the insurance proceeds plus six percent (6%) interest thereon from the issuance of the Stay Order on July 10, 2002 up to the date of finality of this Resolution by way of actual or compensatory damages. From finality until full satisfaction, the total amount due now compounded with interest due from July 10, 2002 up to finality, shall likewise earn interest at six percent (6%) *per annum* until fully paid.

⁴² *Nacar v. Gallery Frames, et al.*, supra note 40, at 282-283.

⁴³ 578 Phil. 262 (2008).

⁴⁴ Id. at 276.

⁴⁵ Id. at 277.

Λ

SO ORDERED.

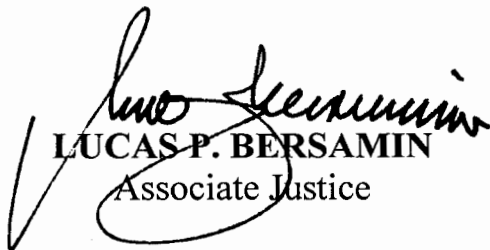


BIENVENIDO L. REYES
Associate Justice

WE CONCUR:




PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson



LUCAS P. BERSAMIN
Associate Justice




FRANCIS H. JARDELEZA
Associate Justice



NOEL C. TIJAM
Associate Justice

ATTESTATION

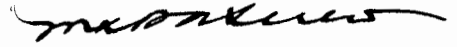
I attest that the conclusions in the above Resolution had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



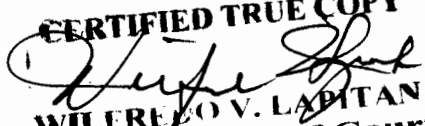
PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Resolution had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARIA LOURDES P. A. SERENO
Chief Justice

CERTIFIED TRUE COPY

WILFREDO V. LAPITAN
Division Clerk of Court
Third Division

JUN 07 2017

