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# FIRST DIVISION

## [ G.R. No. 205469, March 25, 2015 ]

### BPI FAMILY SAVINGS BANK, INC., PETITIONER, VS. ST. MICHAEL MEDICAL CENTER, INC., RESPONDENT.

### D E C I S I O N

**PERLAS-BERNABE, J.:**

Before the Court is a petition for review on *certiorari*[1] assailing the Decision[2] dated August 30, 2012 and the Resolution[3] dated January 18, 2013 of the Court of Appeals (CA) in CA-G.R. SP No. 121004 which affirmed the approval of the Rehabilitation Plan of respondent St. Michael Medical Center, Inc. (SMMCI) by the Regional Trial Court of Imus, Cavite, Branch 21 (RTC) through its Order[4] dated August 4, 2011 in SEC Case No. 086-10.

**The Facts**

Spouses Virgilio and Yolanda Rodil (Sps. Rodil) are the owners and sole proprietors of St. Michael Diagnostic and Skin Care Laboratory Services and Hospital (St. Michael Hospital), a 5-storey secondary level hospital built on their property located in Molino 2, Bacoor, Cavite. With a vision to upgrade St. Michael Hospital into a modern, well-equipped and full service tertiary 11-storey hospital, Sps. Rodil purchased two (2) parcels of land adjoining their existing property and, on May 22, 2003, incorporated SMMCI, with which entity they planned to eventually consolidate St. Michael Hospital's operations. SMMCI had an initial capital of P2,000,000.00 which was later increased to P53,500,000.00, 94.49% of which outstanding capital stock, or P50,553,000.00, was subscribed and paid by Sps. Rodil.[5]

In May 2004, construction of a new hospital building on the adjoining properties commenced, with Sps. Rodil contributing personal funds as initial capital for the project which was estimated to cost at least P100,000,000.00.[6] To finance the costs of construction, SMMCI applied for a loan with petitioner BPI Family Savings Bank, Inc. (BPI Family) which gave a credit line of up to P35,000,000.00,[7] secured by a Real Estate Mortgage[8] (mortgage) over three (3) parcels of land[9] belonging to Sps. Rodil, on a portion of which stands the hospital building being constructed. SMMCI was able to draw the aggregate amount of P23,700,000.00,[10] with interest at the rate of 10.25% per annum (p.a.) and a late payment charge of 3% per month accruing on the overdue amount, for which Sps. Rodil, who agreed to be co-borrowers on the loan, executed and signed a Promissory Note.[11]

In the meantime, after suffering financial losses due to problems with the first building contractor,[12] Sps. Rodil temporarily deferred the original construction plans for the 11-storey hospital building and, instead, engaged the services of another contractor for the completion of the remaining structural works of the unfinished building up to the 5th floor. In this regard, they spent an additional P25,000,000.00, or a total of P55,000,000.00 for the construction. The lack of funds for the finishing works of the 3rd, 4th and 5th floors, however, kept the new building from becoming completely functional and, in turn, hampered the plans for the physical transfer of St. Michael Hospital's operations to SMMCI. Nevertheless, using hospital-generated revenues, Sps. Rodil were still able to purchase new equipment and machinery for St. Michael Hospital valued in excess of P20,000,000.00.[13]

Although the finishing works were later resumed and some of the hospital operations were eventually transferred to the completed first two floors of the new building, as of May 2006, SMMCI was still neither operational nor earning revenues. Hence, it was only able to pay the interest on its BPI Family loan, or the amount of P3,000,000.00 over a two-year period, from the income of St. Michael Hospital.[14]

On September 25, 2009, BPI Family demanded immediate payment of the entire loan obligation[15] and, soon after, filed a petition for extrajudicial foreclosure[16] of the real properties covered by the mortgage. The auction sale was scheduled on December 11, 2009, which was postponed to February 15, 2010 with the conformity of BPI Family.[17]

On August 11, 2010, SMMCI filed a Petition for Corporate Rehabilitation[18] (Rehabilitation Petition), docketed as SEC Case No. 086-10, before the RTC, with prayer for the issuance of a Stay Order as it foresaw the impossibility of meeting its obligation to BPI Family, its purported sole creditor.[19]

In the said petition, SMMCI claimed that it had to defer the construction of the projected 11-storey hospital building due to the problems it had with its first contractor as well as the rise of the cost of construction materials. As of date, only two (2) floors of the new building are functional, in which some of the operations of St. Michael had already been transferred.[20]

Also, it was alleged that more than P66,000,000.00 had been spent for the construction of the existing structure (in excess of its proportionate share of the original estimated cost for the entire project), said amount having come from the personal funds of Sps. Rodil and/or income generated by St. Michael Hospital, aside from the drawings from the credit line with BPI Family. At the same time, Sps. Rodil continued to shoulder the costs of equipment and machinery amounting to P20,000,000.00, in order to build up the hospital's medical capabilities. However, since SMMCI was neither operational nor earning revenues, it could only pay interest on the BPI Family loan, using St. Michael Hospital's income, over a two-year period. [21]

Further, it was averred that while St. Michael Hospital – whose operations were to be eventually absorbed by SMMCI – was operating profitably, it was saddled with the burden of paying the loan obligation of SMMCI and Sps. Rodil to BPI Family, which it cannot service together with its current obligations to other persons and/or entities. The situation became even more difficult when the bank called the entire loan obligation which, as of November 16, 2009, amounted to P52,784,589.34 (net of unapplied payment), consisting of: (*a*) the principal of P23,700,000.00; (*b*) accrued interest of P7,048,152.74; and (*c*) late payment charges amounting to P23,510,400.00. While several persons approached Sps. Rodil signifying their interest to invest in the corporation, they needed enough time to complete their audit and due diligence of the company,[22] hence, the Rehabilitation Petition.

In its proposed Rehabilitation Plan,[23] SMMCI merely sought for BPI Family (*a*) to defer foreclosing on the mortgage and (*b*) to agree to a moratorium of at least two (2) years during which SMMCI – either through St. Michael Hospital or its successor – will retire all other obligations. After which, SMMCI can then start servicing its loan obligation to the bank under a mutually acceptable restructuring agreement.[24] SMMCI declared that it intends to conclude pending negotiations for investments offered by a group of medical doctors whose capital infusion shall be used (*a*) to complete the finishing requirements for the 3rd and 5th floors of the new building; (*b*) to renovate the old 5-storey building where St. Michael Hospital operates; and (*c*) to pay, in whole or in part, the bank loan with the view of finally integrating St. Michael Hospital with SMMCI.[25]

**The Proceedings Before the RTC**

Finding the Rehabilitation Petition to be sufficient in form and substance, the RTC issued a Stay Order[26] on August 16, 2010. After the initial hearing on October 5, 2010, and the filing of comments to the said petition,[27] the same was referred to the court-appointed Rehabilitation Receiver, Dr. Uriel S. Halum (Dr. Halum), who submitted in due time his Report and Recommendations[28] (Receiver's Report) to the RTC on February 17, 2011.[29]

In the said report, Dr. Halum gave credence to the feasibility study conducted by Mrs. Nenita Alibangbang (Mrs. Alibangbang), a certified public accountant and Dean of the College of Accountancy at the University of Perpetual Help Dalta, who was commissioned in 2008 to do a study on the viability of the project, finding that the same was feasible given that St. Michael Hospital, whose operations SMMCI will eventually absorb, registered outstanding revenue performance for the last seven years of its operation with an average growth rate of 42.21% annually.[30] Accordingly, Dr. Halum found that SMMCI may be rehabilitated because it is a viable option but, nevertheless, opined that it will take more than what it had proposed to successfully bring the company back to good financial health considering the finding that its obligation actually extends beyond the bank, and also includes accounts payable due to suppliers and informal lenders.[31] Thus, he made the following recommendations:

1. The two-year moratorium period to pay the bank is not enough. The Court should seriously consider extending it by another three years or a total of five (5) years, at least. The bank, whose loan is secured by mortgages on three prime parcels of land with improvements should discuss restructuring the loan with the creditors with the end in view of stretching the term and allowing for more flexible rate.

2. Obligations to other creditors such as the suppliers and lenders can be serviced at once. Given the performance of the hospital, the undersigned reasonably believes that these obligations can be settled in next three (3) years. These accounts can be paid proportionately provided that [SMMCI] should be allowed to re-structure these accounts to allow for longer and more convenient payment terms.

3. [SMMCI] should be allowed to spend for the improvement of the building but not necessarily continuing with the planned 11-storey building. It should make do with what it has but should be permitted to spend reasonable part of the hospital's revenues to improve the facilities. For instance, we recommend that the fifth floor of the building should be finished to provide for an intensive care unit or ICU with equipments (sic) and required facilities. [SMMCI] should also consider spending (sic) an elevator to make access to and from the higher floors convenient to patients, doctors, nurses and guests. Incidentally, these improvements should be programmed for the next two to three years. Given the budgetary constraints of the hospital, doing all these improvements all at once would be impossible.

4. Finally, [SMMCI] should provide for details on its statements regarding the prospective investors. It (sic) true, or in case it happens, then this fresh capital should be used partly to pay the bank and the rest to improve the hospital to make it more competitive with the nearby medical service providers.[32]

On May 26, 2011, the RTC issued an order requiring the counsels of the creditors/oppositors to file their comments to the Receiver's Report within ten (10) days from notice, but only counsel for South East Star Enterprises complied. [33]

**The RTC Ruling**

In an Order[34] dated August 4, 2011, the RTC approved the Rehabilitation Plan with the modifications recommended by the Rehabilitation Receiver and thus, ordered: (*a*) a five-year moratorium on SMMCI's bank loan; (*b*) a restructuring and payment of obligations to other creditors such as suppliers and lenders; (*c*) a programmed spending of a reasonable part of the hospital's revenues for the finishing of the 5th floor and the improvement of hospital facilities in the next two or three years; and (d) use of fresh capital from prospective investors to partly pay SMMCI's bank loan and improve St. Michael Hospital's competitiveness.[35]

It cited the following considerations which had justified its approval: (1) the Rehabilitation Plan is endorsed by the Rehabilitation Receiver subject to certain recommendations; (2) the plan ensures preservation of assets and orderly payment of debts; (3) the plan provides for recovery rates on operating mode as opposed to liquidation values; (4) it contains details for a business plan which will restore profitability and solvency of petitioner; (5) the projected cash flow can support the continuous operation of the debtor as a going concern; (6) the plan did not ask for a waiver of the principal; (7) the plan preserves the security of the secured creditor; (8) the plan has provisions to ensure that future income will inure to the benefit of the creditors; and (9) the rehabilitation of the debtor benefits its employees, creditors, stockholders and, in a large sense, the general public as it will generate employment and is a potential source of revenue for the government.[36]

Aggrieved, BPI Family elevated the matter before the CA, mainly arguing that the approval of the Rehabilitation Plan violated its rights as an unpaid creditor/mortgagee and that the same was submitted without prior consultation with creditors.[37]

**The CA Ruling**

In a Decision[38] dated August 30, 2012, the CA affirmed the RTC's approval of the Rehabilitation Plan.[39]

It found that: (*a*) the rehabilitation of SMMCI is feasible considering the outstanding revenue performance of St. Michael Hospital, which it shall absorb, showing its gross profit exceeding its operating expenses and the large probability of increased profitability due to the favorable economic conditions of the locality; (*b*) the approval of the Rehabilitation Plan did not amount to an impairment of contract since there was no directive for the release of the mortgaged properties to which BPI Family is entitled to as a secured creditor but only a suspension of the provisions of the loan agreements; (*c*) it is not mandatory for the validity of the Rehabilitation Plan that the Rehabilitation Receiver should consult with the creditors; and (*d*) the approval of the Rehabilitation Plan was not made arbitrarily since it was done only after a review of the pleadings filed and the report submitted by the Rehabilitation Receiver, and its approval was anchored on valid considerations.[40]

Dissatisfied, BPI Family moved for reconsideration which was denied in a Resolution[41] dated January 18, 2013, hence, this petition.

**The Issue Before the Court**

The essential issue in this case is whether or not the CA correctly affirmed SMMCI's Rehabilitation Plan as approved by the RTC.

**The Court's Ruling**

The petition is meritorious.

**I.**

Restoration is the central idea behind the remedy of corporate rehabilitation. In common parlance, to "restore" means "to bring back to or put back into a former or original state."[42] Case law explains that corporate rehabilitation contemplates a continuance of corporate life and activities in an effort **<u>to restore and reinstate the corporation to its former position of successful operation and solvency,</u> the purpose being to enable the company to gain a new lease on life and**