

FIRST DIVISION

[G.R. No. 184000, September 17, 2014]

**PUERTO AZUL LAND, INC., PETITIONER, VS. PACIFIC WIDE
REALTY DEVELOPMENT CORPORATION, * RESPONDENT.**

D E C I S I O N

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*^[1] are the Decision^[2] dated February 21, 2008 and the Resolution^[3] dated July 22, 2008 of the Court of Appeals (CA) in CA-G.R. SP No. 92691 which set aside the Decision^[4] dated December 13, 2005 of the Regional Trial Court of Manila, Branch 24 (RTC) in Civil Case No. 04-110914, thereby dismissing the revised rehabilitation plan of petitioner Puerto Azul Land, Inc. (PALI).

The Facts

PALI is a domestic corporation engaged in the business of developing the Puerto Azul Complex located in Ternate, Cavite into a "satellite city," described as a "self-sufficient and integrated tourist destination community with residential areas, resort/tourism, and retail commercial centers with recreation areas like golf courses, jungle trails, and white sand lagoons."^[5] To finance the full operation of its business, PALI obtained loans in the total principal amount of P640,225,324.00 from several creditors, among which were East Asia Capital, Export and Industry Bank (EIB), Philippine National Bank, and Equitable PCI Bank (EPCIB), secured by real estate owned by PALI and by accommodation mortgagors under a Mortgage Trust Indenture.^[6]

Foreseeing the impossibility of meeting its debts and obligations to its creditors as they fall due, PALI, on September 14, 2004, filed a Petition for Suspension of Payments and Rehabilitation^[7] before the RTC, docketed as Civil Case No. 04-110914, attributing its financial difficulties to: (a) the denial by the Philippine Stock Exchange of its application for the public listing of its shares of stock which resulted in the loss of potential investors and real estate buyers; (b) the 1997 Asian financial crisis; and (c) the real estate bubble burst.^[8] Attached to PALI's petition was its proposed Rehabilitation Plan.^[9]

On September 17, 2004, the RTC, finding PALI's petition to be sufficient in form and substance, issued a Stay Order^[10] pursuant to Section 6, Rule 4 of the Interim Rules on Corporate Rehabilitation^[11] (Interim Rules), among others, (a) staying the enforcement of all claims against the debtor, its guarantors, and sureties not solidarily liable with the debtor, (b) prohibiting PALI from making any payment of its liabilities outstanding as of the date of filing of the petition, (c) prohibiting PALI from

selling, encumbering, transferring, or disposing any of its properties except in the ordinary course of business, and (d) appointing Mr. Patrick V. Caoile as Rehabilitation Receiver, conditioned upon his posting of a bond in the amount of P1,000,000.00.

During the initial hearing, PALI adduced evidence showing compliance with the jurisdictional requirements. Thereafter, the RTC heard the comments and opposition of the creditors to the petition and the Rehabilitation Plan.^[12] Later, creditor EPCIB was substituted by Cameron Granville Asset Management (SPV-AMC), Inc. (CGAM).^[13]

On April 20, 2005, the Rehabilitation Receiver filed his Rehabilitation Report and Recommendation,^[14] recommending PALI's rehabilitation over its dissolution and liquidation, followed by a Revised Rehabilitation Plan on June 9, 2005.^[15]

The RTC Ruling

In a Decision^[16] dated December 13, 2005, the RTC approved PALI's Revised Rehabilitation Plan under the following terms and conditions:

1. The creditors shall have, as first option, the right to be paid with real estate properties being offered by the petitioner in *dacion en pago*, which shall be implemented under the following terms and conditions:

- a) The properties offered by the petitioner shall be appraised by three appraisers, one to be chosen by the petitioner, a second to be chosen by the bank creditors and the third to be chosen by the Receiver. The average of the appraisals of the three (3) chosen appraisers shall be the value to be applied in arriving at the *dacion* value of the properties. In case the *dacion* amount is less than the total of the secured creditor's principal obligation, the balance shall be restructured in accordance with the schedule of payments under option 2, paragraph (a). In case of excess, the same shall [be] applied in full or partial payment of the accrued interest on the obligations. The balance of the accrued interest, if any, together with the penalties shall [be] condoned.

2. Creditors who will not opt for *dacion*, shall be paid in accordance with the restructuring of the obligations as recommended by the Receiver as follows:

- a) The obligations to secured creditors will be subject to a 50% haircut of the principal, and repayment shall be semi-annually over a period of 10 years, with 3-year grace period. Accrued interests and penalties shall be condoned. Interest shall be paid at the rate of 2% p.a. for the first 5 years, and 5% p.a. thereafter until the obligations are fully paid. The petitioner shall allot 50% of its cash flow available for debt service for secured creditors. Upon completion of payments to government and employee accounts, the petitioner's cash flow available for debt service shall be used until the obligations

are fully paid.

b) One half (1/2) of the principal of the petitioner's unsecured loan obligations to other creditors shall be settled through non-cash offsetting arrangements, with the balance payable semi-annually over a period of 10 years, with 3-year grace period, with interest at the rate of 2% p.a. for the first 5 years and 5% p.a. from the 6th year onwards until the obligations are settled in full. Accrued interest and penalties shall be condoned.

c) Similarly, one half (1/2) of the petitioner's obligations to trade creditors shall be settled through non-cash offsetting arrangements. The cash payments shall be made semi-annually over a period of 10 years on a *pari passu* basis with the bank creditors, without interest, penalties and other charges of similar kind.^[17]

Dissatisfied, CGAM filed a petition for review before the CA, docketed as CA-G.R. SP No. 92691, objecting to the approval of PALI's Revised Rehabilitation Plan on the following grounds: (a) insufficiency in the substance of the petition; (b) the Revised Rehabilitation Plan was not approved within 180 days from the date of the initial hearing; (c) the 50% "haircut" reduction on the principal obligation and the condonation of penalties and interests violated the constitutional guarantee against non-impairment of contracts; and (d) the Revised Rehabilitation Plan does not give due regard to the interests of the secured creditors.^[18]

CGAM was later substituted by its assignee, herein respondent Pacific Wide Realty Development Corporation (PWRDC),^[19] in the proceedings before the CA.

The CA Ruling

In a Decision^[20] dated February 21, 2008, the CA granted PWRDC's petition for review and reversed the December 13, 2005 RTC Decision, thereby dismissing PALI's petition for rehabilitation.

It held that the causes of PALI's inability to pay its debts were not alleged in the petition with sufficient particularity as to have allowed the RTC to properly evaluate whether or not to issue a Stay Order and eventually approve its rehabilitation.^[21] It further ruled that when the RTC approved PALI's Revised Rehabilitation Plan on December 13, 2005, the mandatory 180-day period allowed under the rules for the approval or disapproval of the same had already lapsed, warranting the dismissal of the petition for rehabilitation.^[22] It also found the 50% "haircut" reduction on the principal loan and the condonation of penalties and interests to be an impairment of the parties' loan agreements.^[23]

PALI moved for reconsideration which the CA denied in a Resolution^[24] dated July 22, 2008, prompting the filing of the instant petition.

PALI invokes a liberal construction of the provisions of the Interim Rules, and cites Sections 5(d), 6(c), and 6(d) of Presidential Decree No. 902-A whose objectives are to effect a feasible and viable rehabilitation and to give enough breathing space for the management committee or rehabilitation receiver to make the business viable anew.^[25] It also posits that the CA erred in construing the 180-day period under Section 11, Rule 4 of the Interim Rules to be mandatory, stating that the purpose and intent of the rules should have been considered.^[26] Finally, it asserts that the approved Revised Rehabilitation Plan is neither unreasonable nor prejudicial to the interests of its creditors, adding that PALI's rehabilitation is the best way to protect the interests of all parties concerned and its continued operation remains the only viable and feasible solution to meet the desired objectives.^[27]

Significantly, another PALI creditor, EIB, filed a petition for review before the CA, docketed as CA-G.R. SP No. 92695,^[28] contesting the same December 13, 2005 RTC Decision. The CA, however, dismissed the petition and affirmed the aforesaid RTC Decision. Consequently, EIB's assignee, PWRDC, elevated the matter to the Court, docketed as **G.R. No. 180893**, and was consolidated with **G.R. No. 178768**, a related case also commenced by PWRDC essentially involving the coverage of the RTC's Stay Order over the security posted by an accommodation mortgagor.^[29]

The Court resolved both cases in a Decision^[30] dated November 25, 2009, ruling: (a) in G.R. No. 180893, that there was nothing unreasonable or onerous in PALI's Revised Rehabilitation Plan nor was there a violation of the non-impairment clause, in effect upholding the RTC's approval of PALI's rehabilitation;^[31] and (b) in G.R. No. 178768, that the RTC committed no reversible error when it removed TCT No. 133164 from the coverage of the Stay Order since the Interim Rules only covers the suspension of the enforcement of all claims against the debtor, its guarantors, and sureties not solidarily liable with the mortgagor, and is silent on the enforcement of claims against accommodation mortgagors.^[32]

The Issue Before the Court

The core issue for resolution is whether or not the CA erred in reversing the December 13, 2005 RTC Decision, thereby dismissing PALI's Revised Rehabilitation Plan.

The Court's Ruling

The Court finds in favor of PALI.

As adverted to earlier, the validity of PALI's rehabilitation was already raised as an issue by PWRDC and resolved with finality by the Court in its November 25, 2009 Decision in G.R. No. 180893 (consolidated with G.R. No. 178768). The Court sustained therein the CA's affirmation of PALI's Revised Rehabilitation Plan, including those terms which its creditors had found objectionable, namely, the 50% "haircut" reduction of the principal obligations and the condonation of accrued interests and penalty charges. The relevant portion of the Court's ruling reads: