

FIRST DIVISION

[G.R. No. 127166, March 02, 1998]

MODERN PAPER PRODUCTS, INC., AND SPOUSES ALFONSO CO AND ELIZABETH CO, PETITIONERS, VS. COURT OF APPEALS, METROPOLITAN BANK & TRUST CO., AND PHILIPPINE SAVINGS BANK, RESPONDENTS.

D E C I S I O N

DAVIDE, JR., J.:

In this petition for review on *certiorari* under Rule 45 of the Rules of Court, the petitioners ask us to review and set aside that part of the 12 July 1996 Decision^[1] of the Court of Appeals in CA-G.R. SP No. 40285^[2] ordering the dismissal of the petition for suspension of payments filed with the Securities and Exchange Commission (SEC) insofar as petitioners Alfonso and Elizabeth Co were concerned.

The factual antecedents are summarized by the Court of Appeals as follows:

On 12 May 1995, Modern Paper Products, Inc. (hereafter, MPPI) and Spouses Alfredo and Elizabeth Co filed before the Securities and Exchange Commission a Petition for Suspension of Payments for rehabilitation purposes, docketed as SEC Case No. 05-95-5054, seeking the following reliefs:

1. Upon filing of this petition, a temporary restraining order and/or writ of preliminary injunction be issued restraining and enjoining petitioner MPPI's creditors from instituting, prosecuting or in any other manner enforcing any foreclosures of mortgages, actions or complaints before the courts or any other tribunal or agency;
2. Petitioners be declared in a state of suspension of payments, and that an Order be issued suspending and enjoining the filing, prosecution and/or enforcement of any and all other claims against petitioners and their properties, whether judicially or extrajudicially, before any court, tribunal, board or agency;
3. An Order be issued approving petitioners' rehabilitation plan and schedule for deferred payment of petitioner MPPI's liabilities to its creditors;
4. Petitioner MPPI be allowed to continue with its business operations and to use the proceeds or income thereof in accordance with petitioner MPPI's rehabilitation plan and schedule of deferred payment; and
5. A Management Committee be created to oversee the continuation of petitioner MPPI's business operations as well as the implementation of petitioner MPPI's rehabilitation plan and schedule of deferred payment, and to exercise such other functions subject to the control and supervision of the Honorable Commission (Rollo, pp. 55-56).

Pursuant thereto, the Hearing Panel issued an order setting the petition for hearing. Accordingly, MPPI met with its creditors, among them Metrobank, PSBank^{*} and TR

Mercantile. Several hearings were conducted wherein evidences [sic] were adduced to determine the feasibility and viability of the proposed rehabilitation plan.

Metrobank and PSBank, in an Omnibus Motion, sought the dismissal of MPPI's petition for not being legally feasible. The Hearing Panel denied the Motion and directed the creation of a management committee. It also ordered the suspension of all claims not only against MPPI but against the Co spouses, as well.

Metrobank and PSBank on one hand, and TR Mercantile on the other, took exception in separate petitions for certiorari (SEC-EB No. 473 and 479, respectively) before the Commission *En Banc*, questioning the order for the creation of a management committee. The Commission *En Banc*, in a consolidated Order dated 18 March 1996, denied both petitions.^[3]

Unsatisfied with the consolidated order, Metrobank and PS Bank filed with public respondent Court of Appeals a petition for review, docketed as CA-G.R. SP No. 40285, alleging therein that

9. The SEC (En Banc) misconstrued and misapplied the rules on suspension of payments.

9.01. The SEC (En Banc) went beyond the scope of Sec. 6 (c) of P.D. 902-A by expanding the effects of the suspension of all actions for claims against MPPI to include personal obligations of the Co spouses.

9.02. The SEC (En Banc) misinterpreted the RCBC ruling (213 SCRA 830) to mean that the mere filing of a Petition for suspension of payments extinguishes -- and not merely postpones the enforcement of -- mortgage liens over specific corporate properties. In short, the filing of the petition ipso facto transforms -- permanently -- secured credits to unsecured credits.

9.03. More, the SEC (En Banc) refused to remove MPPI from the control of management committee despite having received uncontroverted evidence that the proposed rehabilitation plan is neither feasible nor viable. As far as the SEC (En Banc) is concerned, therefore, a management committee can continue to exist even if the proposed rehabilitation has already been shown not to be feasible and viable.^[4]

On 12 July 1996, the Court of Appeals rendered a decision^[5] affirming the appealed order with the modification that the petition of Spouses Alfonso and Elizabeth Co filed before the SEC for the suspension of payments of obligations they incurred in their personal capacity was ordered dismissed for lack of jurisdiction. In justifying its modification, the Court of Appeals ruled that petitions for suspension of payments under Section 5(d) of P.D. No. 902-A are limited to corporations, partnerships, or associations.^[6] It then concluded that the Co spouses could not be allowed as co-petitioners in their personal capacity in MPPI's petition; hence, the SEC exceeded its jurisdiction when it included them under a state of suspension of payments.

Metrobank and PS Bank filed a Motion for Partial Reconsideration and/or Clarification^[7] urging the Court of Appeals (1) to declare that the SEC's order placing MPPI under a management committee did not thereby permanently discharge Metrobank and PS Bank's mortgage lien over MPPI's property, and (2) to set aside the SEC (*En Banc*) order insofar as it refused to remove MPPI under the control of a management committee.