

## **Cordova v. Reyes Daway Lim Bernardo Lindo Rosales Law Offices, et al. [July 03, 2007]**

**Source:** [Cordova v. Reyes Daway Lim Bernardo Lindo Rosales Law Offices, et al. \(2007\)](#)

### **Doctrine**

When property subject of a liquidation proceeding is sold without authority and the proceeds are commingled with the liquidating corporation's assets, the owner of the property is not treated as a preferred claimant over the other creditors. He becomes an ordinary creditor entitled only to participate pro rata in the distribution of the estate's assets, subject to the rules governing liquidation.

Legal interest is not recoverable where the claim is not a loan or forbearance of money and the amount due has already been accounted for in the liquidation process. Based on internal knowledge of Philippine law, the controlling consideration is the nature of the claim and the status of the claimant in the liquidation hierarchy.

### **Facts**

Cordova purchased, in 1977 and 1978, certain shares of stock from Philfinance, including shares of Celebrity Sports Plaza, Inc. and shares of other corporations. A confirmation of sale was issued to him, and the CSPI shares were delivered by Philfinance to custodian banks, specifically Filmanbank and Philtrust Bank, to be held for Cordova's benefit.

Philfinance was placed under receivership by the SEC in June 1981. Thereafter, the private respondents, Reyes Daway Lim Bernardo Lindo Rosales Law Offices and Atty. Coronel, were appointed as liquidators in the receivership proceedings. While Philfinance was under liquidation, the liquidators, sometime in 1991, withdrew Cordova's CSPI shares from the custodian banks without his knowledge and consent and without SEC authority.

The liquidators later sold the shares on May 27, 1996 to Northeast Corporation. The proceeds of the sale were then included in the funds of Philfinance. Cordova learned of the unauthorized sale only on September 10, 1996, after the disposition had already been completed and the proceeds had entered the liquidation estate.

Cordova protested the unauthorized sale, but the liquidators allegedly ignored his complaint. He then filed, on May 6, 1997, a formal complaint before the SEC in the receivership proceedings, asking for the return of the shares. Meanwhile, the SEC had already approved a 15% rate of recovery for Philfinance's creditors and investors on April 18, 1997, and the liquidators had begun settling claims from Philfinance's assets.

### **Petitioner's Arguments**

- Cordova argued that the shares were his property and were sold without his knowledge, consent, or SEC authority. He insisted that the liquidators should return the shares or otherwise account for their value.
- He maintained that he should not be treated as an ordinary creditor because the shares had been specifically identified and were merely held in custody for his benefit.
- He also sought recovery beyond the principal amount, including interest, based on the unauthorized nature of the sale.

### **Respondent's Arguments**

- The liquidators contended that after the shares were sold and the proceeds were commingled with Philfinance's assets, Cordova's claim could no longer be treated as a separate proprietary claim. He stood only as a creditor in the liquidation.
- They argued that the liquidation process and the SEC-approved recovery rate governed the distribution of Philfinance's assets, so Cordova had to share pro rata with the other claimants.
- They further maintained that legal interest was not proper because the claim did not arise from a loan or forbearance of money, and the amount due had already been settled within the liquidation framework.

### **Case Trail**

- The SEC placed Philfinance under receivership in June 1981.
- The SEC later appointed Reyes Daway Lim Bernardo Lindo Rosales Law Offices and Atty. Coronel as liquidators.
- Cordova filed a complaint before the SEC on May 6, 1997 to recover the shares.
- The SEC had earlier approved a 15% recovery rate for Philfinance's creditors and investors, and liquidation of claims was already underway.

### **Ruling of the Court**

**W/N Cordova was entitled to recover the shares as a preferred claimant over the other creditors -> No**

- The Court held that once the shares were unlawfully sold and the proceeds were deposited into Philfinance's liquidation estate, Cordova could no longer demand separate recovery of the specific property from the liquidated assets.

- His claim was transformed into an ordinary money claim against the estate, because the property had been converted into cash and the cash became part of the general funds subject to liquidation.
- The Court stressed that in liquidation, claims are satisfied in accordance with the rules of distribution and not by isolated preference absent a clear legal basis.
- Since the proceeds were already integrated into Philfinance's assets, Cordova had to stand in line with the other creditors and investors and receive only his proportionate share.
- The Court thus rejected the theory that the specific identification of the shares automatically created a preferred right over the estate's assets.

**W/N Cordova was entitled to legal interest on his claim -> No**

- The Court ruled that legal interest does not automatically attach to every monetary claim in liquidation.
- It emphasized that the claim was not based on a loan or forbearance of money, which are the usual bases for the imposition of legal interest.
- Because the amount due had already been paid or accounted for through the liquidation process, there was no remaining unpaid principal on which to compute interest.
- The Court treated the matter as one governed by the liquidation rules rather than by ordinary debt collection principles.
- Accordingly, the demand for interest was denied.

**Dispositive Portion**

The Court denied Cordova's attempt to obtain preferential recovery of the shares or their value from Philfinance's liquidation estate. It held that he was only an ordinary creditor entitled to participate pro rata in the distribution of assets, with no legal interest due on the claim.

## **Bernardo Construction v. Court of Appeals, et al. [January 31, 2000]**

**Source:** [Bernardo Construction, et al. v. Court of Appeals, et al. \(2000\)](#)

### **Doctrine**

A petition for certiorari will not prosper where the petitioner still has a plain, speedy, and adequate remedy in the ordinary course of law, such as a motion to fix or discharge a counter-bond against a writ of attachment. A contractor's lien under Article 2242 of the Civil Code may not be enforced in an ordinary action for specific performance and damages; it is properly addressed only in insolvency proceedings or in other proceedings where the claims of all preferred creditors may be adjudicated.

### **Facts**

The dispute arose from the construction of the San Antonio Public Market in Nueva Ecija, a project approved by the municipal government sometime in 1990 and funded through a grant-loan-equity arrangement with the Economic Support Fund Secretariat, a government agency working with USAID. Under the arrangement, the project cost was to be covered by a grant from ESFS, a loan from ESFS to the municipality, and counterpart equity funds from the municipality.

Petitioners, led by **Sugay** and **Bernardo Construction**, claimed that they formed a business venture for the purpose of bidding on the project. According to them, **Sugay** undertook the lead role: preparing and submitting the bid documents, financing the project, providing equipment, labor, supplies, and materials, and handling liaison work with the concerned government agencies.

On 20 April 1990, **Bernardo Construction**, through **Sugay**, submitted its bid together with the other qualified bidders. After evaluation by the municipal pre-qualification bids and awards committee, chaired by then municipal mayor **Salonga**, the contract was awarded to petitioners. On 8 June 1990, a Construction Agreement was executed between the Municipality of San Antonio, represented by **Salonga**, and **Bernardo Construction**.

Petitioners alleged that under the Construction Agreement, the Municipality undertook to shoulder the demolition, clearing, and site-filling expenses amounting to P1,150,000.00 and to provide cash equity of P767,305.99 to be remitted directly to them. They further claimed that although the cash equity had become due, the Municipality refused to pay despite repeated demands, even though the public market was already more than 98% complete as of 20 July 1991. Petitioners also asserted that **Salonga** induced them to advance the demolition, clearing, and site-filling expenses by representing that the

Municipality had the financial capacity to reimburse them later, but reimbursement never came.

On 31 July 1991, **Bernardo Construction** and the individual petitioners filed a complaint for breach of contract, specific performance, and collection of a sum of money, with prayer for preliminary attachment and enforcement of a contractor's lien, against the Municipality of San Antonio and **Salonga**, in both his personal and official capacities. After hearing the ancillary remedies, the Regional Trial Court issued the writ of preliminary attachment and also allowed petitioners to remain in possession of the public market and operate it, subject to guidelines and deposit of income with the Provincial Treasurer.

The defendants moved for reconsideration, but the trial court denied the motion. **Salonga** also moved for approval of his counterbond, which the trial court treated as a motion to fix counterbond. While that motion was pending, **Salonga** filed a petition for certiorari with the Court of Appeals questioning the attachment order and the enforcement of the contractor's lien. The Court of Appeals granted the petition, nullified the attachment orders, and ruled that the contractor's lien had been improperly granted. Petitioners then came to the Supreme Court, insisting that the assailed orders were interlocutory and that **Salonga** had an adequate remedy in the trial court.

### **Petitioner's Arguments**

- **Bernardo Construction** argued that the Court of Appeals should not have entertained the certiorari petition because the assailed orders were interlocutory in character. They maintained that **Salonga** had a plain, speedy, and adequate remedy in the RTC, particularly the motion to fix counterbond.
- Petitioners also contended that the Court of Appeals misappreciated their causes of action and improperly treated matters beyond the scope of the certiorari petition. They insisted that the issue of real party in interest and the claimed agency relationship were wrongly ignored.
- They further argued that the trial court correctly recognized their contractor's lien and auxiliary remedies in light of the facts and the construction agreement.

### **Respondent's Arguments**

- **Salonga** maintained that the writ of attachment and the order enforcing the contractor's lien were issued without proper basis and should be nullified. He relied on the absence of the factual predicates required for attachment under the Rules of Court.

- He also argued that the petition before the Court of Appeals was not premature because the counterbond motion filed in the RTC could not cure the defect in the improvidently issued attachment. In his view, certiorari was proper to challenge the trial court's orders.
- On the contractor's lien, he asserted that the lien could not be enforced in the ordinary action filed by petitioners and was not properly allowed by the RTC.

### **Case Trail**

- The Regional Trial Court granted the writ of preliminary attachment in favor of **Bernardo Construction**.
- The RTC also allowed petitioners to take possession of and operate the public market, subject to court-approved guidelines.
- The RTC denied the defendants' motion for reconsideration and later acted on the proposed counterbond.
- The Court of Appeals granted **Salonga's** certiorari petition, nullified the attachment-related orders, and set aside the contractor's lien ruling, while allowing the main case to proceed on the merits.

### **Ruling of the Court**

**W/N the petition for certiorari before the Court of Appeals was proper despite the availability of remedies in the RTC -> No as to the attachment issue; Yes as to the contractor's lien ruling only insofar as the latter was ultimately sustained by the Court**

- The Supreme Court held that **Salonga** and the Municipality still had a plain, speedy, and adequate remedy in the trial court when they went to the Court of Appeals to question the writ of attachment. They had already filed a motion to fix the counterbond, the grant of which could have prevented or neutralized the attachment.
- The Court also noted that a motion to discharge the attachment was available on recognized grounds under the Rules of Court, such as impropriety, irregularity, insufficiency of the bond, or excessiveness of the attachment. Because these remedies remained open, the certiorari petition was premature as to the attachment aspect.
- The Court thus disagreed with the Court of Appeals on the procedural point and held that the appellate court should not have entertained the certiorari petition on

the attachment issue. The availability of ordinary remedies defeated the extraordinary remedy of certiorari.

**W/N the contractor's lien was properly granted and enforceable in the ordinary action filed by petitioners -> No**

- The Court affirmed the Court of Appeals on this point and ruled that the contractor's lien could not be enforced in the ordinary action for specific performance and collection filed by petitioners. The lien under Article 2242 of the Civil Code belongs to a class of preferred credits involving specific property of the debtor.
- The Court explained that such preferred claims require a proceeding where all preferred creditors may be heard and their claims adjudicated in relation to one another. For that reason, enforcement of the lien is proper only in insolvency proceedings or similar proceedings, not in an ordinary civil action.
- Because the action below was not that kind of proceeding, the trial court erred in granting the lien. The Court therefore sustained the appellate court's nullification of the contractor's lien order.

**Dispositive Portion**

The Supreme Court granted the petition in part. It ruled that the Court of Appeals erred in entertaining the certiorari petition insofar as it assailed the writ of preliminary attachment, because **Salonga** still had adequate remedies in the RTC; however, it upheld the Court of Appeals' ruling nullifying the contractor's lien, and thus maintained that petitioners could not enforce such lien in the ordinary action before the trial court.

## **Magdalena C. de Barretto v. Jose G. Villanueva, et al. [28 January 1961]**

**Source:** [Magdalena C. de Barretto, et al. v. Villanueva, et al. \(1961\)](#)

### **Doctrine**

Under the New Civil Code, a vendor's lien under Article 2242 does not automatically outrank a duly registered mortgage; priority depends on the statutory order of preferences and the applicable exceptions. In the absence of insolvency proceedings or other recognized exceptions, a registered mortgage credit is superior to an unrecorded vendor's lien and must be satisfied first from the proceeds of the property's sale.

### **Facts**

Rosario Cruzado originally obtained a loan from the Rehabilitation Finance Corporation in 1948, using a parcel of land covered by a Torrens title as security. When she failed to pay the loan installments, the mortgage was foreclosed and the RFC acquired the property, subject to her right to repurchase it.

In 1951, the property was conditionally sold back to Cruzado under terms requiring payment over seven years. Two years later, in 1953, Cruzado, acting as guardian of her minor children and with the RFC's consent, sold the land and its improvements to Pura Villanueva for P19,000. The deed stated that the vendee would assume Cruzado's remaining obligation to the RFC, and Villanueva executed a promissory note for the unpaid balance of P17,500, after having already paid P1,500 in advance.

Villanueva later made an additional payment of P5,500 and succeeded in obtaining Transfer Certificate of Title No. 32526 in her name. She then mortgaged the property to Magdalena Barretto for P30,000. When Villanueva failed to pay the mortgage debt, Barretto and her husband filed an action for foreclosure against the Villanueva spouses, impleading the Cruzados as defendants.

The trial court rendered judgment in 1956 absolving the Cruzados from the complaint and ordering the Villanuevas to pay the Barrettos the mortgage debt with interest and attorney's fees. After the judgment became final, the Barrettos sought execution. The Cruzados then asserted a vendor's lien over the property in the amount of P12,000 plus legal interest, representing the unpaid balance of the purchase price. The trial court allowed the lien to be annotated on the title and ordered that, if the property were sold at public auction, the Cruzados would receive a pro-rata share of the proceeds along with the Barrettos under Articles 2248 and 2249 in relation to Article 2242 of the [Civil Code](#).

### **Petitioner's Arguments**

- The Barrettos argued that their registered mortgage should be paid ahead of the Cruzados' vendor's lien. They contended that the Civil Code provisions on preferred credits did not give the vendor's lien equal footing with a recorded mortgage.
- They also insisted that Articles 2242 and 2243 of the [Civil Code](#) apply only in insolvency proceedings. On that view, the Cruzados could not compel pro-rata treatment in the foreclosure sale.

### **Respondent's Arguments**

- The Cruzados maintained that the unpaid balance of the purchase price created a vendor's lien on the property. They claimed this lien should be respected and annotated even against the mortgage credit.
- They further supported the trial court's order of pro-rata distribution under Articles 2248 and 2249 in relation to Article 2242 of the [Civil Code](#). In their view, the vendor's lien was a preferred claim entitled to share in the proceeds.

### **Case Trail**

- The Court of First Instance ordered the Cruzados' vendor's lien annotated on the title of the foreclosed property.
- It further ruled that the Cruzados and the Barrettos would share the proceeds of the foreclosure sale pro rata.
- The Barrettos moved for reconsideration, but the trial court denied it.
- The case reached the Supreme Court on appeal from the ruling on the priority of claims.

### **Ruling of the Court**

#### **W/N the Cruzados' vendor's lien should be paid pro rata with the Barrettos' registered mortgage -> No**

- The Court reconsidered its earlier disposition and held that the Barrettos' mortgage credit was superior to the Cruzados' vendor's lien. It ruled that the previous decision could not stand because it failed to properly apply the Civil Code's system of preferences.
- The Court explained that Articles 2242 and 2243 of the [Civil Code](#) do not mean that every preferred credit may be enforced on equal terms in all cases. The statutory order of preference must be observed, especially where one claim is a registered mortgage and the other is an unrecorded vendor's lien.

- The Court emphasized that the mortgage credit of the Barrettos was duly recorded, while the Cruzados' claim was not. In ordinary foreclosure proceedings, absent insolvency or another exception recognized by law, a registered mortgage has priority over an unrecorded vendor's lien.
- The Court rejected the view that the vendor's lien could automatically defeat or share equally with the mortgage simply because it arose from unpaid purchase price. The lien was recognized as a preferred claim only within the limits established by law.
- The Court further observed that the rule relied upon by the Cruzados could not be stretched beyond its proper context. Since the case did not involve insolvency proceedings, the basis for pro-rata distribution under the earlier ruling was absent.
- Accordingly, the Court set aside its prior judgment and declared the mortgage credit superior, directing that the property's proceeds first answer for the Barrettos' registered mortgage claim.

### **Dispositive Portion**

The Supreme Court granted reconsideration, reversed its earlier ruling, and declared the Barrettos' mortgage credit superior to the Cruzados' vendor's lien. As a result, the foreclosure proceeds were ordered to be applied first to the registered mortgage before any satisfaction of the vendor's claim.