

Title: Equitable PCI Bank (now Banco De Oro Unibank), Aimee Yu and Bejan Lionel Apas vs. Ng Sheung Ngor (doing business under the name and style “Ken Marketing”), Ken Appliance Division, Inc., and Benjamin E. Go

Facts:

Ng Sheung Ngor, Ken Appliance Division, Inc., and Benjamin E. Go filed an action against Equitable PCI Bank and its employees, Aimee Yu and Bejan Lionel Apas, for annulment and/or reformation of documents and contracts with an RTC in Cebu City. Claiming that they were misled into signing promissory notes with escalation clauses that allowed unilateral interest rate adjustments by the bank. The respondents utilized the bank’s credit facilities from 1996 until these disputes arose in 2001.

The RTC, in its decision, found that while the promissory notes were valid, the escalation clauses were invalid due to a violation of the principle of mutuality of contracts. The RTC declared extraordinary deflation and referenced the 1996 dollar exchange rate for the respondents’ dollar-denominated loans and awarded moral and exemplary damages due to damage to the respondents’ reputation when their accounts were frozen.

Equitable PCI Bank appealed, but the RTC denied the appeal stating that the appeal fees were not paid, leading the bank to file a petition for relief. This was later withdrawn for a petition for certiorari with the CA. The RTC issued a writ of execution leading to the auction of Equitable’s properties despite a CA writ of injunction.

The CA found Equitable guilty of forum shopping and dismissed the petition for certiorari due to the simultaneous petitions (which was later corrected by Equitable) and for failing to disclose this in the certificate of non-forum shopping.

Issues:

1. Whether Equitable PCI Bank was guilty of forum shopping.
2. Whether the RTC committed grave abuse of discretion in issuing its orders.
3. Whether Equitable PCI Bank raised pure questions of law in its petition.
4. Validation of the promissory notes despite containing contracts of adhesion.
5. Validity of the escalation clause and determination of the proper interest rate.
6. Whether there was extraordinary deflation affecting the dollar-denominated loans.
7. Whether the award of moral and exemplary damages and attorney’s fees was justified.

Court’s Decision:

1. The Supreme Court decided that Equitable was not guilty of forum shopping, noting that

- the causes of action were different, and Equitable acted promptly to correct the filing issue.
2. The Court ruled that the RTC had indeed committed grave abuse of discretion by preventing an appeal and hastily issuing a writ of execution.
 3. The Court agreed that Equitable's petition was focused on questions of law regarding the nullity of the RTC's decision.
 4. The Court upheld the validity of the promissory notes, despite being contracts of adhesion, as the respondents freely participated in the credit facilities.
 5. The Court found the escalation clause void for lack of mutuality and absence of a de-escalation clause, setting the interest rates at 12.66% p.a. for the dollar loans and 20% p.a. for the peso loans from January 10, 2001, to July 9, 2001.
 6. The Court ruled that there was no extraordinary deflation as the BSP did not declare such a situation, and there was no agreement between the parties to consider effects of extraordinary inflation or deflation.
 7. The Court found no legal basis for moral and exemplary damages, concluding that whatever damage the respondents experienced was purely due to their failure to pay back the loans.

Doctrine:

- Escalation clauses in contracts are not per se void, but clauses that grant the creditor unilateral rights to adjust interest rates without providing for de-escalation violate the principle of mutuality of contracts enshrined in Article 1308 of the Civil Code.
- Contracts of adhesion are binding as normal contracts, provided there is no taking advantage of the adhesion of the other party.
- Extraordinary inflation or deflation requires official declaration by the Bangko Sentral ng Pilipinas, and the change in currency value must be beyond the contemplation of the parties at the time of the obligation

Class Notes:

- Essentials of a valid contract: The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them (Civil Code, Art. 1308).
- Escalation clauses must conform to legal standards and principles of mutuality; they must allow for both increase and decrease according to law or the Monetary Board, and cannot be left to the sole discretion of the creditor.
- Certiorari requires proving that the public respondent acted without or in excess of jurisdiction or with grave abuse of discretion.
- Forum shopping involves the filing of multiple actions with the same parties, facts, and issues, and is prohibited.

- Awards for moral and exemplary damages require a breach to be wanton, reckless, malicious, or in bad faith, and justified under specific circumstances stipulated in the Civil Code (Art. 2219, 2220).
- Legal interest rates are subject to the stipulations of a valid contract and to prevailing jurisprudence.

Historical Background:

At the time of this legal dispute, escalation clauses in loan agreements were a common contentious point often leading to litigation in the Philippines, especially during periods of economic instability where fluctuating interest rates affected borrowers. The case was set in the context of a period experiencing currency fluctuations and banking practices that raised concerns about fairness and transparency in loan agreements. The Supreme Court's decision provided clarity on the application of escalation clauses and contracts of adhesion within Philippine contract law, shaping subsequent lending practices and contract formulations.