

Title:

Central Bank of the Philippines vs. Tolentino

Facts:

On April 28, 1965, the Island Savings Bank approved an ₱80,000.00 loan for Sulpicio M. Tolentino, secured by a real estate mortgage on his 100-hectare land. Only ₱17,000.00 of the loan was released, with the balance promised. Following liquidity issues, the bank was prohibited from making new loans by a Monetary Board resolution on August 13, 1965, and eventually, on June 14, 1968, it was barred from business, and its assets were taken over. The bank sought to foreclose Tolentino's mortgage for non-payment of the ₱17,000.00, leading Tolentino to file for injunction, specific performance, or rescission and damages in the Court of First Instance of Agusan on January 20, 1969. The court ruled against Tolentino, a decision modified by the Court of Appeals, which held the bank could neither foreclose the mortgage nor collect the loan. The Central Bank appealed to the Supreme Court.

Issues:

1. Can Tolentino's action for specific performance succeed?
2. Is Tolentino liable for the ₱17,000.00 debt?
3. If liable, can his mortgage be foreclosed to cover the amount?

Court's Decision:

1. Specific performance cannot be granted due to the bank's prohibition from business operations.
2. Tolentino is liable for the ₱17,000.00 debt plus interest, as he benefited from the loan amount.
3. The mortgage can only be foreclosed up to the extent covering the liability (21.25 hectares) due to partial failure of consideration, making it unenforceable beyond the loan amount received by Tolentino.

Doctrine:

The Supreme Court highlighted the principle of reciprocal obligations under Article 1169 of the Civil Code, stating that when one party is willing to perform its part of the contract, the other party who fails to perform incurs in delay. It also reiterated the doctrine that the insolvency of a debtor does not excuse non-fulfillment of contractual obligations.

Class Notes:

- **Reciprocal Obligations**: Performance by one party depends upon the performance of the other. Failure to perform by one party puts them in default.
- **Doctrine of Failure of Consideration**: If the full consideration (e.g., the total loan amount) is not furnished, the obligation (e.g., real estate mortgage) becomes unenforceable to the extent of such failure.
- **Article 1169, Civil Code**: Reciprocal obligations incur in delay if one party performs, while the other does not.
- **Article 1191, Civil Code**: Allows for rescission or specific performance in cases of breach.
- **Article 2089, Civil Code**: Regards the rule of indivisibility of a mortgage, which does not apply when several heirs of the debtor or creditor are not involved.

Historical Background:

This case unfolds against the backdrop of stringent regulatory actions undertaken by the Monetary Board of the Central Bank of the Philippines to protect the banking system's health, which included taking over insolvent banks and prohibiting them from transacting further business. The unique circumstances of this case illustrate the intricate balance between protecting borrowers' rights and ensuring financial stability.