

****Title: Land Bank of the Philippines v. Alfredo Ong****

****Facts:****

The case originated when spouses Johnson and Evangeline Sy availed themselves of a PHP 16 million loan from Land Bank Legazpi City, secured by real and personal properties. Facing financial difficulties, they sold three parcels of land to Angelina Gloria Ong under a Deed of Sale with Assumption of Mortgage, allowing Alfredo Ong, son-in-law of the Sy spouses, to pursue restructure negotiations with Land Bank.

Alfredo Ong negotiated with Land Bank for the assumption of mortgage. Despite fulfilling the initial demands, including a PHP 750,000 payment, Alfredo later found his application unapproved due to an adverse credit report. Furthermore, without prior notification on the unapproval, the properties were foreclosed by Land Bank.

Challenging the foreclosure and seeking a refund of his payment, Alfredo Ong filed a legal action against Land Bank. The Regional Trial Court (RTC) ruled in Alfredo Ong's favor, ordering Land Bank to refund PHP 750,000 with 12% interest per annum, plus attorney's fees. The Court of Appeals upheld the RTC's decision, leading Land Bank to elevate the case to the Supreme Court.

****Issues:****

1. Whether the Court of Appeals erred in its interpretation of Art. 1236 of the Civil Code concerning the non-applicability of novation in the transaction.
2. Whether the Court of Appeals erred in ordering Land Bank to refund Alfredo Ong the amount of PHP 750,000 with 12% interest per annum.
3. Whether the award of attorney's fees and litigation expenses to Alfredo Ong was justified.

****Court's Decision:****

The Supreme Court affirmed, with modification, the decision of the Court of Appeals. It held:

1. ****Recourse against Land Bank:**** Alfredo Ong made payments under the belief he would assume the mortgage, which Land Bank acknowledged by accepting the payment. The Court ruled that Alfredo paid not as a debtor but as a prospective mortgagor, thus, he should seek recourse from Land Bank, not the Sy spouses.

2. **Novation:** There was no novation as not all required elements were present, particularly, Land Bank's express consent to the substitution of debtors.
3. **Unjust Enrichment:** Land Bank was estopped from keeping Alfredo's payment as it had misled him into believing the mortgaged properties would be transferred to his name. The Supreme Court applied the principle of unjust enrichment, compelling Land Bank to refund the paid amount.
4. **Interest and Attorney's Fees:** The Court modified the interest rate on the refund from 12% per annum to 6% per annum from the time of judicial demand (December 12, 1997). Additionally, the Court upheld the award of attorney's fees due to the unjust refusal by Land Bank to refund Alfredo's payment, compelling him to litigate.

Doctrine:

This case illustrates principles on the assumption of mortgage, particularly the requirements for a valid novation through substitution of debtors, and the application of unjust enrichment when one party benefits at the expense of another without legal grounds. It reinforces that any modification to contractual obligations requires the explicit consent of all parties involved and highlights the responsibilities of banking institutions in their transactions with the public.

Class Notes:

- **Novation:** Requires a previous valid obligation, agreement of all parties to a new contract, the extinguishment of the old obligation, and the birth of a valid new obligation. Express consent is necessary for its validity.
- **Unjust Enrichment:** Occurs when a person retains a benefit without just cause at the expense of another. Requires enriching the defendant, loss to the complainant, the enrichment without just cause, and no other legal remedy for the complainant.
- **Interest Rates:** In the absence of stipulation, interest for loans or forbearance of money is 12% per annum, while for non-loan obligations, it is 6% per annum, both subject to judicial demand specifics.

Historical Background:

The case highlights issues regarding banking transactions, specifically the assumption of mortgages, and the principles governing such in Philippine law. It showcases the meticulous process and requirements for modifying financial obligations and emphasizes the role of

fairness, transparency, and duty of care by financial institutions in their dealings. Additionally, it sets a precedent on how the legal system addresses disputes in mortgage assumptions and emphasizes protecting consumers' rights against unjust enrichment.