Solidbank Corporation vs. Permanent Homes, Incorporated: A Case of Unilateral Interest Rate Adjustments

Facts:
Permanent Homes Incorporated (Permanent) is a real estate company that secured a loan from Solidbank Corporation (Solidbank) amounting to SIXTY MILLION PESOS to finance its Buena Vida Townhomes project in Parañaque City. This loan was secured through an "Omnibus Line" credit facility, comprising mainly a time loan with interest rates subject to monthly repricing according to prevailing market rates. Over time, thirty-six townhouse units were mortgaged to Solidbank as security for the loan, from which Permanent availed a total of 41.5 million pesos covered by three promissory notes.

Contrary to the stated provisions allowing Solidbank to unilaterally adjust interest rates, there was a standing agreement that any interest rate changes would require mutual agreement. Despite this, Solidbank significantly increased interest rates multiple times without Permanent's agreement. Feeling coerced and fearing the loss of its credit facility amid its project development, Permanent did not immediately challenge these increases. This led to Permanent filing a case against Solidbank, seeking to annul the interest rate increases for violating the principle of mutuality of contracts, among other reliefs.

Solidbank defended its actions by insisting on the provisions in the Omnibus Credit Line and promissory notes that allegedly allowed it to adjust interest rates unilaterally. These developments culminated in a decision by the trial court dismissing Permanent's complaint, which was subsequently reversed by the appellate court. The appellate court's decision was then challenged by Solidbank in the Supreme Court.

Issues:
1. The legality of unilateral interest rate adjustments by Solidbank without mutual agreement with Permanent.
2. The necessity of entering into a new express agreement regarding interest rates subsequent to the initial thirty-day period as decreed by the appellate court.
3. Entitlement of Permanent to attorney's fees as ruled by the appellate court.

Court's Decision:
The Supreme Court partially granted the petition, setting aside the appellate court's decisions and agreeing with the trial court, albeit with modifications. The core finding was that the promissory notes did legitimately allow Solidbank to adjust interest rates subject to

certain conditions: mutual agreement of the parties, written notice to Permanent, and an option for Permanent to prepay the loan upon disagreement with the new rates.

The Court underscored, however, that while Solidbank's rate adjustments were within legal boundaries, they were required to provide Permanent with written notice as a condition for these adjustments. The Court observed that Solidbank failed to provide timely written notices, sometimes advising new rates verbally or sending late billing statements, which violated the agreed procedure. Hence, the Court decided that Solidbank's computation of interest due from Permanent should be based on the dates when Permanent actually received written notice of the rate adjustments.

Doctrine:
1. Mutuality of Contracts – Obligations arising from contracts have the force of law between the parties and must be mutually agreed upon. Unilateral decisions by one party without the other's consent are void.
2. Written Notice Requirement – Any adjustment in interest rates based on agreements allowing for repricing must be communicated through written notice to take effect.

Class Notes:
– **Mutuality of Contracts:** Essential for the validity of agreements, particularly in loan agreements involving interest rate adjustments.
– **Interest Rate Adjustment Clauses:** Must specify conditions including mutual agreement, written notice, and the borrower's right to prepay.
– **Legal Compliance:** Adjustments in interest rates and other significant loan terms must adhere to the principle of transparency and fairness, ensuring borrowers are duly informed.

Historical Background:
This case occurred against the backdrop of the Asian financial crisis in the late 1990s, which saw dramatic shifts in interest rates due to volatile markets. The financial instability during this period heightened the risks of lending and the contentiousness of loan agreements, particularly concerning interest rate adjustments.