

Title: Philippine National Bank vs. Spouses Enrique Manalo & Rosalinda Jacinto, et al.

Facts: This case involves the Philippine National Bank (PNB) and Spouses Enrique Manalo and Rosalinda Jacinto, along with their children Arnold, Arnel, Anthony, and Arma Manalo. The core of the dispute is a series of loans that the Spouses Manalo took from PNB, secured by real estate mortgages, which were allegedly subject to unilateral and arbitrary interest rate increases by PNB. Despite partial repayments, PNB declared the Spouses Manalo in default and initiated foreclosure proceedings, eventually acquiring the mortgaged properties. The Spouses Manalo, challenging the foreclosure, alleged they were led to believe their account would be updated and their loan restructured into a long-term loan by PNB's officer Antoninus Yuvienco, and furthermore, that PNB failed to comply with the notice requirements under Act No. 3135. PNB countered that the loan from Benito Tan, which the Spouses Manalo claimed was meant for restructuring their debt, had been duly credited to their account without any restructuring agreement. After the Regional Trial Court (RTC) favored PNB, holding that the Spouses Manalo could not dispute the bank's right to foreclose given their prior agreement during pre-trial, the case was taken to the Court of Appeals. The CA partially modified the decision, recognizing faults in PNB's imposition of interest rates but upholding the foreclosure's legality.

Issues: The legal issues revolved around: (i) the validity of the interest rates imposed and their increases by PNB, especially in the light of them being unilaterally determined by the bank, and (ii) whether these unilateral actions by PNB breached the principle of mutuality of contracts under Article 1308 of the Civil Code.

Court's Decision: The Supreme Court affirmed the CA's decision, with modifications regarding the interest rates to be applied. The Court held that PNB unilaterally determining interest rates was contrary to the principle of mutuality of contracts. Therefore, the varied interest rates imposed by PNB were declared null and void. Instead, an interest rate of 12% per annum, computed from the Spouses Manalo's default, was fixed. It further directed the recomputation of the Spouses Manalo's indebtedness and ordered any excess in the foreclosure sale to be refunded, with the said amount to accrue interest calculated from the CA decision.

Doctrine: The Supreme Court reiterated that unilateral determinations and impositions of increased rates are violative of the mutuality principle in contracts. Additionally, it touched upon the applicability of Monetary Board Circular No. 799, adjusting the legal interest rate on judgments.

Class Notes:

- Principle of Mutuality of Contracts (Article 1308, Civil Code): Contracts must bind both parties equally, and their validity or compliance cannot be left to the will of one party.
- Contracts of Adhesion: Any ambiguity in a contract prepared by one party will be construed against the preparer.
- Legal Interest Rates as per Monetary Board Circular No. 799: Adjusts the legal interest rate for loans, forbearance of money, goods, or credits, and judgments to 6% per annum unless a different rate is stipulated.

Historical Background: Prior to the enactment of MB Circular No. 799 in 2013, legal interest rates for loans and forbearance of any money, goods, or credits, and those allowed in judgments, were pegged at 12% per annum. This case reflects the transition in legal principles governing interest rates and emphasizes the judiciary's role in upholding the fairness and mutuality inherent in contractual relationships, especially in lending and borrowing scenarios prevalent in the banking sector.