

Title: Philippine National Bank vs. Flaviano Lopez Vito and Maximina del Castillo

****Facts:****

On July 25, 1918, Flaviano Lopez Vito and his wife Maximina del Castillo (defendants) brokered a mortgage agreement involving real estate within Occidental Negros province with the Philippine National Bank (PNB, plaintiff) to secure a loan of P24,000. This mortgage agreement stipulated the repayment of the loan, plus an 8% per annum interest in ten annual installments. After partial repayment by the defendants on July 18, 1920, which reduced their debt to P16,248.84, a new payment scale was agreed upon that consisted of eight annual installments, starting from July 18, 1920. The defendants neglected the installment payments from July 1920 to July 1926. Consequently, on May 31, 1927, PNB initiated a lawsuit demanding payment of the delinquent installments, including those owing for 1927 and 1928.

The case was initially presented before a trial court where the defendants opted for a general denial and subsequently failed to appear at trial. Proceeding in their absence, the trial court ruled in favor of PNB, decreeing payment of P13,404.18 by the defendants, alongside interest from July 1920, with a reserved right for PNB to action the last unpaid installment, separately. PNB appealed this reservation in the judgment regarding the last installment, escalating the case to the Supreme Court.

****Issues:****

1. Whether the trial court erred in reserving the action for the last installment.
2. Whether the failure to meet any installment obligations by the defendants should lead to the demandability of the entire mortgage debt.

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

The Supreme Court found that the trial court indeed erred by reserving the action for the last installment not yet due. By dissecting the mortgage contract and applicable provisions of the Civil Code, the Court emphasized that contractual agreements, if lawful, are binding on parties. The Court further clarified that conditions, like the one stipulated in the mortgage contract allowing the plaintiff to call for the foreclosure upon any breach, have indubitable resolutive effects. Such conditions make the whole obligation demandable at the creditor's behest upon any violation (e.g., non-payment of any installment).

The Court cited several American jurisprudence to reinforce that defaults on part of a debt which contain acceleration clauses permit the creditor to declare the entire debt due.

Subsequently, the Supreme Court ruled in favor of the plaintiff, modifying the trial court's judgment to allow PNB to demand the total sum due, including the last installment, and proceed with foreclosure according to the law.

****Doctrine:****

In agreements containing stipulations that upon failure to fulfill any condition (such as payment of installments), the creditor may declare the whole obligation due - non-fulfillment activates the acceleration clause, making the entire debt immediately demandable and subjecting the property to foreclosure in accordance with the contract and applicable law.

****Class Notes:****

- A mortgage agreement is a legally binding contract enforceable by law.
- The principle of pacta sunt servanda: agreements must be kept.
- Acceleration Clauses in mortgage contracts allow a lender to demand the entire balance upon default.
- The Civil Code's articles - particularly 1125, 1255, and 1278 - play a significant role in contract fulfillment and enforceability.
- In application: For a mortgagee to action foreclosure for the entire debt, a contract stipulation accelerating the debt upon default is critical.

****Historical Background:****

This case underscores the rigorous application of contractual agreements under the Philippine Civil Code, particularly in mortgage contracts. It illustrates the early 20th-century legal landscape surrounding credit and property, showcasing how breaches in mortgage agreements were navigated within Philippine jurisprudence. Additionally, it reflects the Philippine National Bank's role in providing financial support through loans secured by mortgages and its legal recourse in default situations, highlighting foundational elements of financial law and real property law in the Philippines.