

**\*\*Title:\*\*** Development Bank of the Philippines vs. Guariña Agricultural and Realty Development Corporation: A Case on Premature Foreclosure

**\*\*Facts:\*\*** In July 1976, Guariña Corporation applied for a loan from DBP to finance its resort complex development in Trapiche, Oton, Iloilo. The loan, amounting to P3,387,000.00, was approved on August 5, 1976, with a maturity date set for November 3, 1988. To secure the loan, Guariña Corporation executed both real estate and chattel mortgages in favor of DBP. However, DBP released the loan in instalments, withholding a portion as interest and refused to release the balance, instead directly paying some suppliers over Guariña Corporation's objections. DBP, later claiming dissatisfaction with the progress of the construction works, initiated extrajudicial foreclosure proceedings. Guariña Corporation filed a suit against DBP to stop the foreclosure and demanded the nullification of the foreclosure proceedings and the cancellation of the certificate of sale after learning that the mortgaged properties had been sold at a public auction. The RTC initially denied DBP's application for a writ of possession but later granted it upon DBP's motion for reconsideration. Aggrieved, Guariña Corporation elevated the matter to the CA on certiorari, which was dismissed. The RTC, in its decision on January 6, 1998, nullified the foreclosure sale, ordered DBP to return the foreclosed properties to Guariña Corporation, and pay reasonable rentals for their use.

**\*\*Issues:\*\***

1. Whether the CA erred in declaring DBP's foreclosure of the mortgaged properties as invalid and unenforceable.
2. Whether DBP's act of foreclosing the mortgages was justified under the given circumstances.
3. The applicability of the law of the case doctrine in the context of the possession issue previously decided by the CA.

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

1. **\*\*On the foreclosure's validity:\*\*** The Supreme Court upheld the CA and RTC's findings that the foreclosure was premature and invalid as Guariña Corporation was not in default under the loan agreement, considering that DBP had not fully released the loan amount. It was held that foreclosure, being a remedy for default, could not be initiated in the absence of such default.
2. **\*\*On the justification for foreclosure:\*\*** The Court dismissed DBP's claim that the foreclosure was justified based on Guariña Corporation's failure to complete the project to DBP's satisfaction and deviations from the loan purpose. The Court emphasized the

reciprocal nature of loan obligations and ruled that DBP's incomplete release of the loan amount precluded it from demanding full compliance from Guarina Corporation.

3. **On the law of the case doctrine:** The Supreme Court found that this doctrine did not apply as the CA ruling on the writ of possession issue in the interlocutory appeal did not decide on the legal issues pertinent to the foreclosure's validity in the subsequent appeal.

**Doctrine:** Foreclosure of a mortgage prior to the mortgagor's default on the principal obligation is deemed premature and invalid. Mortgagors are entitled to the restoration of possession and may be awarded reasonable rent for the period the mortgagee unjustly possessed the property.

**Class Notes:**

- Loan agreements are reciprocal obligations where the performance obligations of both parties are interdependent.
- A mortgage serves as security for a loan and its enforcement is contingent upon the debtor's fulfillment of the principal obligation.
- Premature foreclosure actions are void and non-effectual; the mortgagor must be in default for foreclosure to proceed.
- The "law of the case" doctrine applies to legal questions or issues adjudicated in a former appeal but is not applicable when the issues on subsequent appeals differ from those previously decided.

**Historical Background:** This case underscores the principle that lending institutions must adhere to the highest standards of integrity and diligence, especially when their actions could unjustly dispossess individuals or entities of their properties. It also highlights the judicial mechanisms in place to remedy such situations and protect property rights in the Philippines.