

### Title:

**\*\*Spouses Expedito and Alice Zepeda vs. China Banking Corporation: A Case of Nullification of Foreclosure Proceedings\*\***

### Facts:

The case initiates with the Spouses Expedito and Alice Zepeda filing a complaint against China Banking Corporation (Chinabank) on February 18, 2003, seeking the nullification of foreclosure proceedings and loan documents, including claims for damages. This was filed before the Regional Trial Court (RTC) of San Jose, Camarines Sur, marked as Civil Case No. T-947.

In 1995, the Zepedas secured a loan of P5,800,000.00 from Chinabank, offering a Real Estate Mortgage over a parcel of land as collateral. Facing repayment difficulties, the Zepedas requested a loan restructuring from Chinabank, which they alleged was granted. However, Chinabank proceeded with the extrajudicial foreclosure on October 9, 2001, acquiring the highest bid and receiving a Provisional Certificate of Sale. The failure of the Zepedas to redeem the property allowed Chinabank to consolidate ownership.

The Zepedas disputed the legalities of the foreclosure, focusing on insufficient notice and the alleged unilateral interest rate adjustments by Chinabank. The bank's motion to dismiss the complaint was overruled, followed by a denial of their affirmative defenses and a directive for pre-trial. Chinabank's response was a petition for certiorari under Rule 65 to the Court of Appeals, which ruled in its favor, pointing out the Zepedas' disregard for judicial processes and the absences of a cause of action in their complaint. This led the Zepedas to appeal to the Supreme Court under Rule 45.

### Issues:

1. Whether the Zepedas' complaint possesses a valid cause of action against Chinabank.
2. The appropriateness of dismissing the complaint due to non-response to written interrogatories from Chinabank.

### Court's Decision:

The Supreme Court sided with the Zepedas, addressing the issues separately:

- Regarding the cause of action, the Court identified the Zepedas' claim that Chinabank proceeded with foreclosure despite alleged restructuring approval, paired with non-compliance concerning notice requirements, as constitutive of a valid cause of action. The Court stressed that the restructuring agreement, if proven, could invalidate the foreclosure.

- On the issue of failing to respond to written interrogatories, the Supreme Court distinguished that Chinabank improperly applied Section 3(c) of Rule 29, which discusses sanctions for non-compliance. The Court noted that the Zepedas' complete non-response necessitated a motion under Section 5, not Section 3(c) of Rule 29. Consequently, the trial court's action against Chinabank's motion to expunge the complaint for failing to respond was deemed premised correctly.

### ### Doctrine:

This case reiterates the importance of correctly applying procedural rules concerning written interrogatories (Rule 29 of the Rules of Court). Moreover, it emphasizes the necessity for a complaint to articulate a cause of action, delineated by the right of the plaintiff, obligation of the defendant, and an act or omission violating such right.

### ### Class Notes:

- **Cause of Action:** Essential components include a legal right of the plaintiff, a correlative obligation of the defendant, and an act or omission by the defendant breaching that right.
- **Written Interrogatories (Rule 29):** The significance of answering or objecting to written interrogatories as part of pre-trial discovery, understanding the procedural aspects and implications of non-compliance.
- **Foreclosure Proceedings:** The legal requirement for notice and fairness in foreclosure processes, especially in instances where a restructuring agreement is alleged to have been made.

### ### Historical Background:

This case provides insight into the Philippine legal system's handling of foreclosure disputes, illustrating the tension between creditor rights and debtor protections amidst financial distress. It sheds light on procedural intricacies within Philippine civil litigation, particularly around pre-trial discovery mechanisms and the criterion for a valid cause of action in nullifying foreclosure proceedings.