Title: Spouses Mariano and Gilda Florendo vs. Court of Appeals and Land Bank of the Philippines

Facts:
The case originated from a dispute between the Spouses Mariano and Gilda Florendo (petitioners) and the Land Bank of the Philippines (respondent bank) over the unilateral increase of the interest rate on a housing loan. Gilda Florendo, an employee of the respondent bank from May 17, 1976, until her resignation on August 16, 1984, secured a housing loan of P148,000.00 on July 20, 1983, payable within 25 years. The loan was accompanied by a Housing Loan Agreement (HLA), a Real Estate Mortgage, and a Promissory Note. On March 19, 1985, the respondent bank increased the loan's interest rate from 9% per annum to 17%.

The respondents first informed the petitioners of the increase on June 7, 1985. The petitioners protested the increase, which led to a series of exchanges. Despite the demand for increased payments, the petitioners continued to pay the original rate. They then filed a suit for Injunction and Damages when the demands persisted.

The trial court ruled in favor of the respondent bank, basing the increase on escalation provisions in the HLA and the mortgage contract. The petitioners appealed the decision, prompting the case to ascend to the Court of Appeals, which affirmed but modified the trial court's decision, allowing the interest rate increase to start from July 1, 1985.

Dissatisfied, the petitioners elevated the case to the Supreme Court through a petition for review on certiorari.

Issues:
1. Is a bank authorized to unilaterally raise the interest rate of a housing loan due to the borrower's resignation?
2. Is the escalation clause in the contract valid and applicable to the petitioner's situation?
3. Does a unilateral increase in interest rate violate the principle of mutuality of contracts?

Court's Decision:
The Supreme Court reversed the Court of Appeals' ruling, emphasizing the principle of contract mutuality. The increase in the interest rate was deemed invalid as it was unilateral, without the consent of the borrowers, and violated the principle of mutuality essential in contracts. The decision highlighted that valid escalation clauses must be clear, mutually agreed upon, and based on prevailing rules or laws that both parties are made aware of. The

Court held that the ManCom Resolution could not serve as a basis for increasing the interest rate retroactively as it was neither a rule nor a resolution by the Monetary Board. The interest rate was to remain at 9% per annum, and the monthly installment at P1,248.72.

Doctrine:
This case reinforced the doctrine that agreements involving escalation clauses must be clear, mutually agreed upon, and the application of such clauses must adhere to the principle of mutuality of contracts, ensuring both parties have an equal standing in the adjustments of contract terms.

Class Notes:
– **Principle of Mutuality of Contracts**: Contracts must be entered into and maintained on a mutual agreement between all parties involved. Any changes to the contract terms require consent from all parties.
– **Escalation Clauses**: Must be specific and clear. The triggering condition for adjusting interest rates or other contract terms must be based on external, verifiable factors or mutual consent, not on the unilateral decision of one party.
– **Interest Rate Increases**: Must have a legal basis or be grounded in a mutual agreement. Cannot be retroactively applied or based solely on internal resolutions without a valid reference to laws, rules, or mutual agreement.

Historical Background:
This case sheds light on the practice of including escalation clauses in loan agreements and the potential for abuse when such clauses are not carefully regulated or clearly defined. It highlights the evolving relationship between employers and employees, particularly in scenarios where the employer also acts as a lender, stressing the importance of fairness and equity in employer-provided benefits such as housing loans.