

Title: Metropolitan Bank and Trust Company vs. Francisco Y. Wong

**\*\*Facts:\*\***

In 1976, Mindanao Grains, Inc. (MGI) sought a credit accommodation from Metropolitan Bank and Trust Company (the Bank) for its rice and corn business, which was secured by a real estate mortgage over Francisco Y. Wong's property in Zamboanga del Sur. On April 11, 1980, following MGI's default, the Bank initiated extrajudicial foreclosure under Act No. 3135. The auction sale, originally set for June 5, 1980, was delayed to November 23, 1981, after a series of requests and agreements between MGI and the Bank. The Bank won the auction and consolidated ownership when the redemption period lapsed.

Unaware of these events, Wong discovered the foreclosure when attempting to use the same property as collateral with another bank. He then filed a suit for reconveyance and damages against the Bank and the Register of Deeds, claiming non-compliance with notice and publication requirements under Act No. 3135. The trial court ruled in Wong's favor, awarding substantial damages. The Bank's appeal led to the Court of Appeals, affirming the decision with modified damages. The Bank then escalated the case to the Supreme Court.

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

1. Whether personal notice to the mortgagor is mandatory for the validity of foreclosure proceedings.
2. Whether non-compliance with posting requirements under Act No. 3135 is fatal to the foreclosure's validity.
3. Whether the Bank's sale of the property to a third party during the case was in bad faith.
4. Appropriate damages for the wrongful act.

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

The Supreme Court denied the petition, holding that:

1. Personal notice was not mandatory under the law but was contractually required, and the Bank's failure to notify Wong voided the foreclosure sale.
2. Non-compliance with posting requirements, combined with defective publication, invalidated the foreclosure. The Court emphasized strict adherence to statutory requirements for notice.
3. The Bank's sale of the disputed property during litigation, without informing Wong or the court, constituted bad faith.
4. Reduced moral and exemplary damages were affirmed, but attorney's fees were deleted.

**\*\*Doctrine:\*\***

- The law's requirements for notice and publication in extrajudicial foreclosure proceedings must be strictly complied with to uphold the process's validity. Contractual stipulations for additional notices must also be honored.
- Bad faith in conducting a foreclosure sale or disposing of the property during litigation can justify moral damages.

**\*\*Class Notes:\*\***

1. **\*\*Act No. 3135 Requirements:\*\*** Notice must be posted in three public places and published once a week for at least three consecutive weeks in a newspaper of general circulation.
2. **\*\*Contractual Notice:\*\*** Parties may demand more than the statutory requirement, which becomes binding.
3. **\*\*Validity of Foreclosure Sales:\*\*** Strict adherence to procedural requirements is crucial; non-compliance can render sales null and void.
4. **\*\*Bad Faith:\*\*** Actions taken in bad faith, especially during the pendency of related litigation, may lead to moral damages.

**\*\*Historical Background:\*\***

The case underscores the Philippine legal system's strict interpretation of the rules surrounding extrajudicial foreclosure, emphasizing the protection of property rights against procedural errors and bad faith actions by creditors. It reflects the balance between enforcing contractual and statutory obligations and safeguarding individuals' rights to due process and fair treatment in foreclosure proceedings.