

Title:

Sps. Reynaldo K. Litonjua and Erlinda P. Litonjua and Phil. White House Auto Supply, Inc. vs. L & R Corporation

Facts:

The case revolves around a series of loans totaling P400,000.00 secured by mortgages on two parcels of land owned by the spouses Litonjua. Having defaulted, the properties were foreclosed and sold at auction to L & R Corporation, which was unaware of a prior sale made by the Litonjuas to PWHAS. This sale violated stipulations in the mortgage agreement requiring the mortgagee's (L & R Corporation's) consent for any sale and granting them the right of first refusal. PWHAS, on behalf of the Litonjuas, attempted redemption seven months post-foreclosure but was refused by L & R Corporation due to the initial unauthorized sale. Legal battles ensued over the subsequent years, with the issue of the validity of the mortgage stipulations, the sale to PWHAS, and the redemption attempt being central to the dispute. The Philippine Supreme Court was tasked with determining the enforceability of these mortgage stipulations and the validity of the subsequent transactions.

Issues:

1. The validity and enforceability of mortgage stipulations prohibiting the sale without the mortgagee's consent and granting them a right of first refusal.
2. The validity of the sale of the mortgaged properties by the Litonjuas to PWHAS in the absence of L & R Corporation's consent.
3. The right of PWHAS, as the purported successor-in-interest of the Litonjuas, to redeem the foreclosed properties.
4. The validity of the redemption offered by PWHAS on behalf of the Litonjuas.

Court's Decision:

The Supreme Court ruled that:

- The prohibition against selling the mortgaged property without the mortgagee's prior written consent (paragraph 8 of the mortgage contract) was invalid as it contravened Article 2130 of the New Civil Code.
- Consequently, the sale made by the Litonjuas to PWHAS, despite lacking L & R Corporation's consent, was deemed valid.
- As a valid successor-in-interest, PWHAS had the right to redeem the foreclosed properties.
- However, the sale to PWHAS was considered rescissible due to the violation of L & R Corporation's contractual right of first refusal (paragraph 9 of the mortgage contract),

which was upheld as a valid stipulation.

- The situation warranted a rescission of the sale to PWHAS with specific instructions on returning the purchase amount, disallowing the redemption, retaining titles with L & R Corporation, and compensating the Litonjuas.

Doctrine:

This decision reaffirmed doctrines regarding:

- The invalidity of stipulations forbidding the sale of mortgaged properties without the mortgagee's consent as contrary to Article 2130 of the Civil Code.
- The upholding of contractual rights of first refusal as valid and enforceable.

Class Notes:

- **Article 2130 of the New Civil Code**: "A stipulation forbidding the owner from alienating the immovable mortgaged shall be void."
- **Right of First Refusal**: Recognized in contractual agreements and must be respected within the bounds of the contract.
- **Successor-in-Interest**: Has the right to redeem foreclosed property if the sale that conferred such status is valid.

Historical Background:

The context intrinsic to this case highlights the intricacies of real estate mortgage laws in the Philippines, and the balance courts must achieve between contractual freedom and statutory protections. It illustrates the judiciary's role in interpreting stipulations within mortgage contracts, the rights of mortgagors, and the obligations of mortgagees, providing a significant precedent in understanding the application of Articles 2130, rights of first refusal, and principles surrounding redemption and rescission in the context of real estate mortgages.