

Title:

****Metropolitan Bank and Trust Company, Inc., and United Coconut Planters Bank vs. SLGT Holdings, Inc., Danilo A. Dylanco, and ASB Development Corporation****

Facts:

The case involves ASB Development Corporation (ASB), a developer of BSA Twin Towers Condominium Project in Mandaluyong City who, after pre-selling units, mortgaged the project to Metrobank and UCPB without HLURB approval or notifying unit buyers. ASB failed to complete the project by December 1999, leading to lawsuits by fully-paid buyers Dylanco and SLGT Holdings, Inc. for delivery of units or refund, and facing a threatened mortgage foreclosure. ASB sought rehabilitation due to liquidity issues.

The procedural journey began with complaints filed by Dylanco and SLGT against ASB, Metrobank, and UCPB at the HLURB for delivery of titles and nullification of the mortgage for being constituted without HLURB clearance. Despite ASB's receivership and rehabilitation proceedings at the SEC, HLURB pressed on, ruling the mortgage invalid and directing ASB to deliver titles to Dylanco and SLGT free from liens. Appeals to the Office of the President (OP) upheld the HLURB's decision. Metrobank and UCPB then appealed to the Court of Appeals (CA), which also affirmed the decision, leading to the Supreme Court's review.

Issues:

1. The validity of the entire mortgage on the project land and improvements thereon.
2. The applicability of the suspension order by SEC in the context of claims against ASB during its rehabilitation proceedings.

Court's Decision:

The Supreme Court denied the petitions, affirming the CA's decision. The Court found that:

- The mortgage was void in its entirety for being executed without HLURB's prior written approval and for not notifying the unit buyers, a violation of Section 18 of PD 957.
- The mortgage contract's nature as indivisible led the nullity to extend to the entire contract.
- The petitioner banks were not considered mortgagees in good faith due to their failure to observe diligence in checking the status of the mortgaged property, which was under a pre-selling agreement.
- The HLURB's proceedings were justified to continue despite ASB's rehabilitation process, as the claims by Dylanco and SLGT were for specific performance under PD 957 (aimed at

protecting condominium buyers), not covered by the suspension of “actions for claims” under PD 902-A as amended.

Doctrine:

- ****Indivisibility of Mortgage Contracts:**** Mortgage contracts are indivisible; thus, a violation of a statutory requirement (such as the need for HLURB approval before mortgaging properties under development) voids the entire contract.
- ****Application of PD 957 in Protecting Condominium Unit Buyers:**** The protective mantle of PD 957 extends to ensuring that any mortgage of a property subject to pre-selling contracts is duly notified and approved by HLURB, safeguarding buyers from unscrupulous practices.

Class Notes:

- ****PD 957 Requirements:**** Developers cannot mortgage properties under development without prior written HLURB approval, and buyers must be notified pre-mortgage.
- ****Mortgage Contract’s Nature:**** Mortgages are indivisible; a breach affecting part affects the whole.
- ****Duty of Banks:**** Banks are expected to exercise greater due diligence in mortgage transactions, especially involving pre-sold properties.
- ****Suspension of Proceedings during Corporate Rehabilitation:**** Claims for specific performance under PD 957 are not suspended by rehabilitation proceedings focused on monetary claims.

Historical Background:

This case underscores the complexities arising in property development financing and the protection of condominium buyers in the Philippines. It highlights the statutory mechanisms intended to protect buyers from the potential fallout of developers’ financial difficulties and the emphasis on due diligence by financing institutions.