

Title: United Coconut Planters Bank vs. Editha F. Ang and Violeta M. Fernandez

Facts:

- On April 30, 1997, United Coconut Planters Bank (UCPB) granted a term loan of P16,000,000.00 to Editha F. Ang and Violeta M. Fernandez for the partial financing of the renovation of Queen's Beach Resort. The repayment was arranged through 20 quarterly amortizations starting July 1, 1997, until April 30, 2002.
- The loans were secured by several real estate mortgages. Despite initial payments, Ang and Fernandez were unable to continue paying the amortizations after April 15, 1999.
- UCPB, alleging the failure of Ang and Fernandez to meet their loan obligations, initiated extrajudicial foreclosure proceedings, resulting in a public auction on August 2, 1999, where UCPB emerged as the highest bidder for the mortgaged properties.
- Ang and Fernandez filed a Petition for Declaration of Nullity of Foreclosure and Auction Sale, arguing the invalidity of the dollar-denominated promissory notes under R.A. 529 and the breach of the Truth in Lending Act.

Procedural Posture:

- The Regional Trial Court (RTC) initially declared the transaction null and void due to violations of the Civil Code and the Truth in Lending Act. However, upon UCPB's motion for reconsideration, the court ultimately declared the auction sale valid and ordered Ang and Fernandez to pay their loan obligation plus interests and penalties.
- The Court of Appeals (CA) partially granted the appeal of Ang and Fernandez, affirming the validity of the promissory notes but nullifying the interest rates and auction sale. The case was remanded to the RTC for the re-computation of the total indebtedness.
- UCPB's petition for review on certiorari was initially denied by the Supreme Court due to procedural deficiencies but was later reinstated.

Issues:

1. Validity of the petition in the face of procedural issues.
2. Legality of the interest rates imposed under the loan agreement.
3. Validity of the extrajudicial foreclosure process despite the questionable imposition of interest rates.

Court's Decision:

The Supreme Court held the petition meritorious. It distinguished questions of fact permissible under Rule 45 exceptions and reviewed the CA's findings. The Court ruled:

- The provisions on interest rates in the credit agreement and promissory notes were

declared void for violating the principle of mutuality of contracts but did not negate the obligation to repay the principal loan amount.

- The extrajudicial foreclosure and auction sale were declared valid. The Supreme Court emphasized that the nullity of interest rates does not invalidate the debtors' obligation to repay the principal, nor does it render the foreclosure proceedings illegitimate.

Doctrine:

This decision reinforces the doctrines regarding the mutuality of contracts stipulating that terms of a contract must be consensual and not solely dictated by one party. It also highlights that the nullity of an interest rate stipulation does not entirely void the underlying obligation if the principal amount remains unpaid.

Class Notes:

- The principle of mutuality of contracts requires that contractual obligations and stipulations are agreed upon by all parties involved, and one party cannot unilaterally impose conditions.

- Under the Truth in Lending Act (R.A. No. 3765), lenders are required to disclose finance charges in writing and obtain the borrower's consent to any interest rate changes.

- In cases where an interest rate is deemed invalid due to its unilateral imposition, the protection of the principal loan obligation remains, and foreclosure proceedings can be valid if the debtor defaults on the principal amount.

Historical Background:

This case illustrates the judicial approach to interpreting loan agreements, particularly those with fluctuating interest rates, against the backdrop of protecting borrowers from potentially onerous terms while ensuring that lenders retain their right to recover the principal loan amounts. It addresses the balance between contractual freedom and the need for contracts to be equitable and consensual.