

****Title****: Florante Vitug vs. Evangeline A. Abuda (776 Phil. 540)

****Facts****:

1. ****March 17, 1997****: Evangeline A. Abuda loaned P250,000.00 to Florante Vitug and his wife Narcisa Vitug. The debt was secured by a mortgage on Vitug's property in Tondo, Manila. The property was subject to a conditional Contract to Sell with the National Housing Authority (NHA).
2. ****Mortgage Terms****: The mortgage was for six months with a 10% monthly interest. A Special Power of Attorney allowed Abuda to expedite any processes related to the release of the property title from NHA.
3. ****November 17, 1997****: Due to unpaid loans, the parties restructured the mortgage contract, now securing P600,000.00 (original loan, additional loans, and subsequent credit). The property was now under Transfer Certificate of Title No. 234246 in Vitug's name.
4. ****November 21, 2003****: Abuda filed a complaint for foreclosure due to non-payment.
5. ****Regional Trial Court Decision (December 19, 2008)****: The court ruled in favor of Abuda, ordering Vitug to pay the principal with 5% monthly interest and attorney fees, and in case of default, for the property to be sold at a public auction.
6. ****Court of Appeals Decision (October 26, 2011)****: Affirmed the RTC decision but modified the interest rate to 1% per month or 12% per annum upon judicial demand.
7. ****Vitug's Motion for Reconsideration (November 23, 2011)****: Argued that the mortgage contract was invalid without NHA's consent and that the property was a family home exempt from execution.
8. ****Court of Appeals Resolution (March 8, 2012)****: Denied Vitug's motion.

****Issues****:

1. Whether Vitug could raise issues about NHA's lack of consent and exemption of his property from execution.
2. Whether the restriction in Vitug's title invalidated the mortgage.
3. Whether the property is a family home exempt from execution under the Family Code.

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

1. ****Issues Raised****: The Supreme Court found Vitug was entitled to raise the issues of NHA consent and property execution exemption during his petition since they were presented in his Answer and Pre-trial Brief.
2. ****Mortgage Validity****: The Court held that all elements of a valid mortgage were present. Vitug had free disposal of the property despite restrictions. Restrictions made the contract voidable at NHA's discretion, not void ab initio. NHA had provided a Permit to Mortgage,

which indicated substantial compliance.

3. ****In Pari Delicto****: If the contract was illegal, neither party could contest its validity under the principle of in pari delicto since both were at fault.
4. ****Family Home Exemption****: The Court ruled the property was not exempt from execution, as debts secured by mortgages are specifically excepted from this rule under the Family Code.
5. ****Interest Rates****: The Court affirmed the reduction of the interest rate to 1% per month (12% per annum) and further lowered it to 6% per annum from July 1, 2013 until full satisfaction.

****Doctrine****:

1. A mortgage contract is voidable, not void ab initio, if it merely violates restrictions imposed by a third party that has not annulled the contract.
2. Even if a loan condition seems voluntary, interest rates may be reduced by courts if found unconscionable. Courts ensure equitable terms for both parties.
3. The principle of in pari delicto bars courts from assisting parties in void contracts due to joint illegalities.
4. Family homes are not exempt from execution for debts secured by mortgages under the Family Code.

****Class Notes****:

- ****Elements of a valid mortgage****: Security for an obligation, absolute ownership by mortgagor, free disposal, or legal authorization.
- ****Family Code****: Article 155 on family home exemption and exceptions like debts secured by mortgages.
- ****In Pari Delicto****: Civil Code Articles 1411 and 1412 barring illegal contract enforcement between parties equally at fault.
- **Legal Interest Rate Adjustments**: Refer to Nacar v. Gallery Frames for guidelines on interest rate modifications upon judicial demand.

****Historical Background****:

The case highlights the evolving jurisprudence surrounding mortgage contracts and the protection provided under Philippine law. During the late 1990s and early 2000s, the rise in informal lending practices led to disputes over excessive interest rates and the enforceability of mortgage provisions in contracts. The Supreme Court's intervention in reducing exorbitant interest rates in this case reflects broader legal principles aiming for fairness and balance between lender and borrower rights, ensuring just economic relations

amidst the backdrop of evolving financial regulations in the Philippines.