

Title: ****Planters Development Bank vs. Spouses Lopez, Res. by Joven, et al.****

Facts:

In 1983, Spouses Ernesto and Florentina Lopez secured a P3,000,000.00 real estate loan from Planters Development Bank (Planters Bank) to construct a four-story dormitory, backed by a parcel of land. Originally for 14 years at 21% p.a. interest, the agreement was amended twice, increasing interest to 25% p.a. and shortening the term. By 1984, amidst an economic downturn, they sought an additional P1,200,000.00, bringing the total loan to P4,200,000.00 at 27% p.a., with a one-year term. Planters Bank further increased the interest to 32% p.a. and required project completion reports for drawdowns. They refused the final P700,000.00, leading the Lopezes to halt construction and file for rescission and damages in Makati RTC on October 13, 1984. Planters Bank foreclosed on the property after the Lopezes defaulted on November 16, 1984.

The RTC, on August 18, 1997, ruled in favor of Planters Bank, stating that rescission was inapplicable as the Lopezes had violated the agreement by not submitting reports and altering the building plan. The CA reversed this decision on November 27, 2006, and declared the loan rescinded, ordering reduced interest payments and property restitution, which was eventually denied prompting Planters Bank to petition the Supreme Court.

Issues:

1. Finality and execution of the CA's amended decision.
2. Breach of loan agreement by Spouses Lopez (report submission and project deviation).
3. Substantial breach by Planters Bank.
4. Appropriate interest awards post-rescission.

Court's Decision:

1. ****Finality of Decision:**** The CA's decision wasn't final as Planters Bank filed their motion for reconsideration on time, supported by postal certifications proving receipt on August 7, 2007.
2. ****Submission of Accomplishment Reports:**** The spouses Lopez complied with the report submission requirement, corroborated by Engineer Fianza and Planters Bank's own appraisal head.
3. ****Deviation from Construction Plan:**** Despite recognizing the additional floors as early as September 1983, Planters Bank continued loan disbursements implying consent (equitable estoppel). Hence, they couldn't later object to deviations.

4. **Breach by Planters Bank:** Though Planters Bank's refusal to release the final P700,000.00 was a breach, it was deemed slight since they released 83% of the total loan. Factors like material cost increases and decision to add floors influenced the project delay.

5. **Awards and Interest Rates:** The Court found the 27% and 32% interest rates excessive. They recalibrated interest rates:

- 12% p.a. from June 22, 1984 until full repayment,
- 12% compensatory interest from June 22, 1984 until June 30, 2013,
- 6% p.a. from July 1, 2013 until finality,
- 6% p.a. from finality to full payment.

The CA's modified decision Order for responding parties to pay P3,500,000.00 with proceeds from the foreclosed properties deducted was upheld but modified as detailed above.

Doctrine:

1. **Principle of Mutuality in Contracts:** The terms of the contract, including interest rates, cannot be unilaterally altered by one party.
2. **Equitable Estoppel:** Practiced continuity in payments despite deviations estops the lender from claiming noncompliance later.
3. **Substantial vs. Slight Breach:** Rescission isn't justified for slight or casual breaches but rather for those fundamentally defeating the contract's purpose.

Class Notes:

- **Reciprocal Obligations:** Obligations are mutual considerations; failure by one doesn't excuse the other party's obligations.
- **Interest Rate Adjustment:** Courts can adjust iniquitous interest rates (e.g., excessive rates not revised mutually).
- Equitable doctrines can prevent later actions if previous contrary actions by the party indicated consent to certain contract deviations.

Key Statutory Provisions:

- **Article 1191, Civil Code:** Rescission of reciprocal obligation breaches.
- **Rule 131, Rules of Court:** Estoppel principles.
- **Section 1, BSP Circular No. 799 (2013):** Governs compensatory interest rates for loans.

Historical Background:

The case reflects the economic turmoil in the 1980s Philippines affecting contractual and financial obligations. Loan agreements' enforceability faced scrutiny amidst situations where economic conditions and borrower-lender actions influenced the loan's fulfillment and associated obligations. The ruling is pivotal for clarifying obligations under fluctuating circumstances and excessive interest rates.