

Title: **Spouses Manuel & Luisa Tan Lee et al. vs. Court of Appeals and China Banking Corporation**

Facts:

1. **Credit Facility**: In 1992, China Banking Corporation (CBC) granted Spouses Manuel & Luisa Tan Lee (Spouses Lee) credit facilities amounting to PHP 5 million, secured by a Real Estate Mortgage (REM) over the Borja property.
2. **Loan Drawdown and Mortgage Amendment**: Initially, Spouses Lee borrowed PHP 5 million secured by a promissory note maturing in February 1997. As financing needs for a building project increased, the REM was amended to secure a PHP 20 million credit facility, signed by Spouses Lee and Renwick Warren's wife, Marivic.
3. **Loan Agreement**: On June 16, 1997, CBC authorized a PHP 20 million loan from the Land Bank of the Philippines-administered Countryside Loan Fund (CLF) contingent on the security provided by the Borja property. A formal loan agreement was signed on September 22, 1997.
4. **Additional Loan & Mortgage**: In January 1995, a USD 2 million credit facility was secured by an REM over the Lumbia property, later increased to PHP 5 million through amendments. Loans were evidenced by promissory notes.
5. **Default and Demand Letters**: Starting November 1997, Spouses Lee defaulted on payments, prompting CBC to issue several demand letters from June to October 1998. Despite repeated assurances from Manuel Lee, payments were not remitted.
6. **Foreclosure Proceedings/Motion to Cite in Contempt**: In reaction to non-payment, CBC set foreclosure proceedings for February 15, 1999, which led Spouses Lee to file a motion for a preliminary injunction, granting a TRO by Judge Calingin on February 12, 1999.
7. **Issuance of Injunction**: Despite CBC rescheduling foreclosure to March 29, 1999, Judge Calingin issued an injunction on March 25, 1999, which he affirmed on May 11, 1999. CBC contested these orders.
8. **Court of Appeals**: On July 19, 1999, CBC filed a Petition for Certiorari, initially dismissed by the Court of Appeals but reinstated on January 10, 2000. The appellate court nullified the injunctive orders on October 24, 2000.

9. **Supreme Court Petition**: Spouses Lee petitioned the Supreme Court, alleging errors and grave abuse of discretion by the Court of Appeals in its decision.

Issues:

1. **Correctness of the Court of Appeals' Factual Basis**: Did the Court of Appeals err by basing its decision on facts not formally established in the trial court?
2. **Grave Abuse of Discretion by the Trial Court**: Did the Regional Trial Court commit grave abuse of discretion in issuing the preliminary injunction despite the defaults by Spouses Lee?
3. **Validity of Auction Despite TRO**: Was the auction sale conducted on December 14, 2000, void due to a TRO issued by the Court of Appeals?
4. **Jurisdiction of the Court of Appeals**: Did the Court of Appeals err in reinstating a petition considered filed out of time?

Court's Decision:

1. **Factual Basis of Court of Appeals**: The Supreme Court found that the Court of Appeals improperly based its decision on factual findings not established in the trial court. Nonetheless, the trial court manifested grave abuse by prematurely issuing the injunction without completing the presentation of evidence from the defendants (CBC).
2. **Grave Abuse of Discretion**: The trial court's issuance of a preliminary injunction without allowing CBC to finish presenting its evidence constituted grave abuse of discretion. According to procedural rules, a preliminary injunction must not be granted without a fair hearing and conclusive evidence.
3. **Auction Validity**: The Supreme Court highlighted that TROs should be adhered to once issued. CBC's proceeding with the auction despite having notice of the TRO violated this injunction and is condemnable. The validity of the auction sale would depend on subsequent developments regarding third-party alienation or existing pending main cases.
4. **Jurisdiction of Court of Appeals**: The Court of Appeals acted within its jurisdiction by reinstating CBC's petition considering equitable grounds and a good-faith belief by CBC regarding procedural timelines.

Doctrine:

1. **Due Process in Injunctive Hearings**: Courts must afford all parties a fair opportunity

to present their case before issuing a preliminary injunction. A decision to enjoin must be based on complete and properly offered evidence.

2. **Injunction Compliance**: Parties must strictly comply with injunctions; actions performed in defiance may be nullified, and violators may be held in contempt.

3. **Procedural Flexibility for Substantial Justice**: Court rules should be liberally construed to prevent injustice, permitting procedural adjustments where substantial rights are affected.

Class Notes:

- **Elements for Injunction**: A clear legal right, urgent and paramount necessity, prevent irreparable injury, and no adequate remedy at law.
- **Procedural Compliance**: Proper notice and hearing; evidence must be complete and formally offered.
- **Contempt Powers**: Courts can nullify actions performed in defiance of injunctions and punish for contempt.
- **Rules Interpretation**: Flexibility favored to ensure fair justice.
- “Sec. 5, Rule 58, 1997 Rules of Civil Procedure” - No injunction without notice/hearing.
- “Sec. 4, Rule 65, as amended” - Counting period for certiorari petitions.

Historical Background:

The case outlines procedural expectations in foreclosure disputes involving injunctions to prevent property sales and how courts should handle equitable relief requests. Historically, this case underscores the importance of judicial processes ensuring due process and fairness in credit and foreclosure disputes amidst evolving procedural rules and jurisprudence interpretations.