

Title: Buenaventura Lopez and Rosario Javelona vs. El Hogar Filipino, Sociedad Mutua de Construccion y Prestamos et al., 47 Phil. 249 (1925)

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**\*\*Facts:\*\***

1. On March 17, 1920, Buenaventura Lopez and Rosario Javelona obtained a loan of PHP 84,000 from El Hogar Filipino, Sociedad Mutua de Construccion y Prestamos.
2. The loan was secured by a first mortgage on multiple parcels of land and the pledge of 420 shares of common Class A stock in El Hogar Filipino.
3. The loan agreement stipulated monthly payments for both the interest and the dues for the shares of stock.
4. The debtors failed to make their monthly payments from May 31, 1921, triggering the default clause in the loan agreement.
5. On June 29, 1922, the loan was declared due and payable, and the mortgaged properties were sold at an extrajudicial public auction by El Hogar Filipino.
6. The auction resulted in El Hogar Filipino purchasing the properties for PHP 87,505.53.
7. Buenaventura Lopez and Rosario Javelona filed a complaint for annulment of the contract, extrajudicial sale, and sought reimbursement of all interest and fines paid, as well as attorney's fees.
8. El Hogar Filipino filed cross-complaints requesting dismissal of the plaintiffs' complaint, possession of the properties, and payment into court of the loan balance if the complaint was not dismissed.
9. The court a quo rendered a decision on August 14, 1923, declaring the contract null and void as usurious, annulled the extrajudicial sale, ordered El Hogar Filipino to return PHP 12,600 plus attorney's fees, and dismissed the cross-complaints of El Hogar Filipino.
10. Upon appeal, the court amended its decision on April 10, 1924, to allow recovery of the loan amount but maintained that the contract was usurious and the extrajudicial sale was void.

**\*\*Issues:\*\***

1. Is the mortgage contract usurious?
2. Is the clause permitting extrajudicial sale valid?
3. Can El Hogar Filipino recover the principal amount of the loan?
4. Are the fines, premiums, and other charges permissible under the Usury Law?

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

**\*\*Issue 1: Usury\*\***

- The Court found that the loan agreement was not usurious.
- The Court determined that premiums and other charges were permissible under the Corporation Law governing mutual building and loan associations.
- The Court held that monthly dues and shares' value ought not to be considered partial repayments deductible from the loan balance until the shares matured or were surrendered as provided in the contract.
- The interpretation of the Usury Law emphasizes that interest charged should not exceed the statutory maximum per annum, calculated on the total amount of the loan by considering it over its entire duration.

**\*\*Issue 2: Validity of Extrajudicial Sale Clause\*\***

- The stipulation allowing El Hogar Filipino to foreclose the mortgages extrajudicially after a period of default was deemed valid.
- The Court referenced cases upholding the legality of such provisions, asserting that they align with the statutory and contract law.

**\*\*Issue 3: Recovery of Principal\*\***

- Drawing on previous decisions, the Court reiterated that even in usurious contracts, the lender is entitled to recover the principal amount loaned.
- The doctrine that a debtor must do equity to seek equity was upheld, requiring the borrower to restore the capital amount received before being granted any relief.

**\*\*Issue 4: Fines, Premiums, and Charges\*\***

- The Court concluded that fines, premiums, and additional charges applied by El Hogar Filipino were not in violation of the maximum allowable rate of interest.
- The contractual provisions relating to such charges met compliance under the Corporation Law and did not represent an evasion of the Usury Law.

**\*\*Doctrine:\*\***

- The "in pari delicto" principle (equal fault) applies; thus, the borrower must return the principal to gain any equitable relief.

- The interpretation of the Usury Law that prevents contracts from being void in entirety due to usurious interest, focusing instead on penalties and recovery of excessive interest only.
- Mutual building and loan associations are permitted to operate under a distinct regime allowing for premiums and additional charges within statutory limits.

**\*\*Class Notes:\*\***

- **\*\*Usury Law (Act No. 2655):\*\*** Defines limits on interest rates and penalties for violations.
- **\*\*Corporation Law (Act No. 1459):\*\*** Governs the operation of mutual building and loan associations, specifying permissible premiums and interest.
- **\*\*Equitable Doctrines:\*\*** Those seeking equity must restore the capital received in usurious loan contexts.
- **\*\*Extrajudicial Sale Clauses:\*\*** Validity of foreclosure procedures without judicial oversight is upheld if contractual.

**\*\*Historical Background:\*\***

- The case occurred during a period when mutual building and loan associations were heavily regulated yet given privileges to operate under specific statutes aimed at promoting home ownership and savings.
- The ruling underscored the distinct treatment afforded to such associations under Philippine corporation and usury laws, reflecting the legislative intent to foster financial inclusivity and housing development.