

Title: Shemberg Marketing Corporation v. Citibank, N.A., G.R. No. 116 OG No. 48, 7859

Facts:

- **December 10, 1996**: Shemberg Marketing Corporation executed a real estate mortgage over a parcel of land (Lot 1524-G-6 in Mandaue City) in favor of Citibank, N.A. The mortgage was intended to secure loan accommodations amounting to PHP 28,242,000.
- **February 13, 1998**: Citibank sent a demand letter to Shemberg for the outstanding balance of US\$390,000 under Promissory Note No. 8976267001, warning that non-payment would lead to foreclosure proceedings.
- **May 10, 1999**: Due to Shemberg's default, Citibank initiated the extra-judicial foreclosure of the mortgaged properties, scheduling the sale for June 16, 1999.
- In response, Shemberg filed a complaint before the Regional Trial Court (RTC) Cebu City, seeking rescission or a declaration of nullity of the mortgage, alleging lack of consideration as Citibank did not renew Shemberg's credit line.
- Citibank contended the mortgage was a requirement for additional security due to Shemberg's financial condition, and that extending additional credit was conditional on improvement in Shemberg's finances.
- **RTC Decision (June 10, 2005)**: The RTC declared the mortgage void due to Citibank's non-fulfillment of its credit renewal commitment. However, it held Shemberg liable for the outstanding amount of the promissory note.
- Both parties appealed to the Court of Appeals (CA).

Issues:

1. Was the real estate mortgage valid and enforceable?
2. Did Citibank have the right to foreclose on the mortgage due to Shemberg's default?
3. Were the terms of the mortgage supported by consideration?

Court's Decision:

1. **Validity of the Real Estate Mortgage**: The Supreme Court upheld the CA's ruling that the real estate mortgage was valid. The mortgage secured both past and future obligations of Shemberg to Citibank, totaling PHP 28,242,000.00. The Court noted that the terms in the mortgage agreement were explicit and binding, thus in compliance with the requirements for a valid mortgage.
2. **Right to Foreclosure**: The Supreme Court affirmed Citibank's right to foreclose on the property. Shemberg's failure to pay the scheduled amount legally justified Citibank's

initiation of the foreclosure process under the terms of the mortgage agreement.

3. **Consideration for the Mortgage**: The Court rejected Shemberg's argument that the lack of credit renewal rendered the mortgage void for a lack of consideration. The mortgage was supported by adequate consideration, evident from the outstanding obligations Shemberg already had with Citibank at the time of the mortgage's execution.

Doctrine:

- **Parol Evidence Rule**: The case reaffirmed that a written contract is presumed by the parties to be the complete terms agreed upon and may not be contradicted by any verbal agreements except in specific instances such as ambiguity or if additional terms were agreed upon after the execution of the written agreement.

Class Notes:

- **Real Estate Mortgage Requirements**:

- Constituted to secure a principal obligation.

- Mortgagor must be the absolute owner.

- Mortgagor must have free disposal or legal authority over the property.

- **Parol Evidence Rule**: Governs admissibility of external evidence in contract disputes, limited to instances of ambiguity, failure to express true intent, or post-agreement modifications.

Historical Background:

This case took place against a backdrop of economic and regulatory environments where financial institutions were tightening credit conditions post-Asian Financial Crisis, leading to stricter enforcement of security agreements, including real estate mortgages. This scenario emphasized the need for clarity in mortgage contracts, reflecting stricter banking practices and highlighting the risks companies faced during its financial restructuring attempts.