

Title:

Mendoza v. Court of Appeals, G.R. No. 116014

Facts:

1. **Initial Credit Arrangements**: Danilo D. Mendoza, operating under Atlantic Exchange Philippines, engaged in international trade, secured a credit line and Letter of Credit/Trust Receipt worth P500,000.00 and P1,000,000.00 respectively from Philippine National Bank (PNB) in 1978. Properties and equipment were mortgaged as security.
2. **Escalation Clauses**: The credit agreement contained clauses allowing interest rate increases as prescribed by PNB's Board of Directors.
3. **Utilization and Promissory Notes**: Mendoza utilized the lines to procure materials, resulting in three promissory notes with adjustable interest rates capped by law.
4. **Modified Interest Rates**: From December 1, 1979, interest rates on these obligations were raised to 14% per annum by the PNB in accordance with Central Bank directives.
5. **Issues and Requests for Restructuring**: Due to business complications, Mendoza requested to restructure outstanding obligations into a five-year term loan and an additional P2,000,000.00 LC/TR line. PNB posed conditions and periphery discussions ensued.
6. **Adjusted Proposals**: Multiple proposals by Mendoza were met with varied unofficial responses from PNB officials, leading to signing two promissory notes (No. 127/82 and No. 128/82) supposedly under unclear terms, as Mendoza claimed they were blank placeholders.
7. **Dispute on Implementation**: PNB increased interest rates on the notes, escalating them from agreed rates without prior notification, and proceeded with extrajudicial foreclosure when Mendoza defaulted.
8. **Legal Action**: Mendoza sued for the invalidation of foreclosure and damages, claiming premature enforcement based on the alleged 5-year restructuring plan.
9. **Lower Court Decision**: RTC ruled in favor of Mendoza, nullifying the foreclosure, restructuring the loans, and awarding damages. PNB appealed.
10. **Appeal Court Decision**: The Court of Appeals overturned the RTC's ruling, holding that the restructuring plan was never officially approved by PNB and dismissing Mendoza's complaint.

Issues:

1. **Existence of a 5-Year Restructuring Agreement**:
 - Was the restructuring plan legally binding and approved as claimed by Mendoza?
2. **Validity of Interest Rate Increases**:
 - Were PNB's unilateral interest rate adjustments lawful?

3. **Enforcement of Foreclosure**:

- Was foreclosing on the property on grounds of Mendoza's alleged default lawful despite the claimed restructuring?

Court's Decision:

1. **Restructuring Agreement**:

- The Supreme Court held that no concrete evidence showed PNB's approval of the five-year restructuring. Documents presented by Mendoza indicated negotiations but lacked an explicit, binding acceptance as required for contract formation under Article 1318 of the Civil Code.

2. **Unilateral Interest Rate Increases**:

- The Court invalidated the increased interest rates from 21% and 18% under the promissory notes, noting adjustments needed mutual consent. The unapproved and altered rates violated the mutuality of contracts principle under Article 1308 of the Civil Code.

3. **Foreclosure Legality**:

- Since the restructuring agreement was unproven, the promissory notes' two-year terms stood valid. Thus, Mendoza defaulted, legally warranting PNB's foreclosure, per the notes' conditions. The foreclosures were validated reflecting past due obligations.

Doctrine:

1. **Doctrine of Mutual Assent**: Contracts must have mutual assent to form and alter. Unilateral changes void important terms like interest rates without explicit consent from all parties (Article 1308).

2. **Promissory Estoppel Non-Applicability**: The doctrine of promissory estoppel mandates clear, definite promises. Conditional proposals without explicit acceptance cannot effect promissory estoppel.

Class Notes:

- **Contract Formation (Article 1318)**: Understanding the elements - consent, object certain, and cause.

- **Mutuality of Contracts (Article 1308)**: Mutual consent is essential for contract validity and enforceability.

- **Interest Rate Adjustments**: Must be consensual to effect legally.

- **Promissory Estoppel**: Requires clearly proven promises and reliance detriment; not applicable to conditional terms.

Historical Background:

- **Economic Climate of 1980s**: Business loans and credit lines were crucial for expansion amidst a developing Philippine economy. Banking regulations and Central Bank monetary policies significantly impacted lending practices.
- **Legal Evolution in Contract Laws**: The case underscores evolving standards in honoring firm mutual agreements over verbal or informal arrangements, illustrating banking regulation applications profoundly shaping lending agreements and compliance.