

Title: Land Bank of the Philippines vs. Sprint Business Network and Cargo Services, Inc.

Facts:

Sprint Business Network and Cargo Services, Inc. (Sprint), represented by its Vice President Irene Velasco, secured a loan amounting to PHP 22,000,000 from the Land Bank of the Philippines (LBP). The loan was secured by a real estate mortgage over a Makati property registered under Transfer Certificate of Title (TCT) No. 213623. Due to financial difficulties triggered by economic crises, Sprint defaulted on the loan. LBP initiated extrajudicial foreclosure proceedings after failing to restructure the loan with Sprint, which led to LBP acquiring the mortgaged property at a public auction. Despite being notified of the redemption period expiration, Sprint failed to redeem the property, resulting in the title's consolidation under LBP. Sprint filed a Complaint seeking nullification of the foreclosure and related proceedings, citing irregularities and claiming that excessive interest rates and charges were imposed. The Regional Trial Court (RTC) of Makati City dismissed Sprint's complaint, leading to an appeal to the Court of Appeals (CA), which reversed the RTC's decision, declaring the interest rates and foreclosure void. LBP contested this CA ruling via a Petition for Review on Certiorari to the Supreme Court.

Issues:

1. Whether the CA erred in reversing the RTC's decision regarding the foreclosure's validity and the imposition of interest rates.
2. The validity of the escalation clause in the loan contract and its compliance with the principle of mutuality of contracts.

Court's Decision:

The Supreme Court granted the petition, setting aside the CA's decision and reinstating the RTC's ruling. The Court affirmed the validity of the escalation clause in the loan agreement, citing that adjustments made to the interest rates were based on agreed terms and not solely at the bank's discretion. It was emphasized that Sprint had agreed to these terms, failed to formally object to the adjusted rates, and did not demonstrate any coercion or undue influence in entering the contract. The Court also found that the foreclosure proceedings were conducted in compliance with legal requirements.

Doctrine:

Contracts are bound by the principle of mutuality; any adjustment in interest rates must be consensual and compliant with the escalation clause terms. The validity of foreclosure processes is upheld when conducted in adherence to statutory requirements and when the

mortgagor fails to redeem the property within the prescribed period.

**Class Notes:**

- Escalation Clauses: Valid if adjustments are made based on reasonable and mutually agreed grounds, and if borrowers are given notice with an option to prepay.
- Principle of Mutuality: Contracts cannot be modified unilaterally; all modifications must be based on mutual consent.
- Foreclosure Compliance: Foreclosure proceedings must comply with Act No. 3135, including notice and publication requirements.

**Historical Background:**

The conflict between LBP and Sprint captures significant issues surrounding loan agreements, specifically concerning the impact of economic crises on borrowers, the enforcement of escalation clauses, and the banks' rights in foreclosure proceedings. It highlights the Philippine judiciary's stance on ensuring contracts' enforceability, balancing lenders' rights, and protecting borrowers from unconscionable terms.