### Title
**Villa Crista Monte Realty & Development Corporation vs. Equitable PCI Bank (Now Known as Banco De Oro Unibank, Inc.)**

### Facts
In 1994, Villa Crista Monte Realty Corporation was established for real estate development and acquired 21.5 hectares of land in Quezon City. To finance its subdivision project, Villa Crista secured a credit line of P80 million from Equitable PCI Bank (E-PCIB), now BDO, secured by a real estate mortgage. This credit line was later increased to P130 million upon acquiring additional land, with the mortgage amended accordingly.

Between March and August 1997, Villa Crista drew various amounts under this credit line, with each draw covered by a promissory note stipulating interest rates ranging from 13% to 24%. However, E-PCIB later notified Villa Crista of increased interest rates between 21% to 36% based on a repricing clause in the promissory notes.

Villa Crista failed to repay the loan, leading E-PCIB to initiate foreclosure proceedings. Villa Crista then filed a complaint in the Regional Trial Court (RTC) of Quezon City to nullify the promissory notes and mortgage agreements, alleging the unilateral imposition of exorbitant interest rates. The RTC ruled in favor of E-PCIB, a decision affirmed by the Court of Appeals (CA).

### Issues
1. Whether the bank's unilateral repricing of the interest rates was valid.
2. Whether the promissory notes, being contracts of adhesion, bound Villa Crista.
3. Whether payments made by Villa Crista in excess of the original rate of interest should be credited to the principal.

### Court's Decision
The Supreme Court upheld the decisions of both the RTC and the CA, finding the promissory notes and the real estate mortgage, including the subsequent foreclosure proceedings, valid. The Court ruled that the escalation clause, allowing for the repricing of interest rates, was not inherently wrong, and its application in this case was valid as the bank had, on several occasions, decreased or adjusted the interest rates downwards, eliminating any one-sidedness in the contract. The Court emphasized the principle of mutuality in contracts, noting that any contract leaving the validity or compliance solely to one party was invalid. Nonetheless, it found that in this case, there was mutality since the borrower (Villa Crista)

had the option to reject the new rates by prepaying the loan. Therefore, the escalation clause without a corresponding de-escalation clause in this context was deemed valid and enforceable.

### Doctrine
– An escalation clause without a de-escalation clause is void for violating the principle of mutuality of contracts unless the lender at times lowers the interest rates or allows the borrower to reject the repriced rates.
– Contracts of adhesion are not invalid per se; they become void only when they impose upon one party against the principle of mutual consent in contracts.

### Class Notes
**Key Elements:**
1. **Principle of Mutuality in Contracts (Article 1308 of the Civil Code):** Contracts must bind both parties equally; their compliance cannot depend solely on one party’s will. This principle applies to any modification in contracts, particularly those concerning interest rates in loan agreements.
2. **Escalation Clause:** Valid if it provides for the adjustment of interest rates with the law or Monetary Board’s changes, ensuring a corresponding decrease (de-escalation clause) to maintain contract mutuality.
3. **Contracts of Adhesion:** Valid and binding as long as they are entered into by parties on equal footing without one being imposed upon.

**Relevant Statutes:**
– **Presidential Decree No. 1684:** Amends the Usury Law, emphasizing the need for a de-escalation clause in loan agreements for an escalation clause to be valid.
– **Central Bank Circular No. 905:** Deregulated interest rates, allowing parties to agree on any rate, subject to the principle of mutuality and consent.

### Historical Background
The regulatory landscape on interest rates in the Philippines has evolved from strict regulation under the Usury Law to a more liberal regime under Central Bank Circular No. 905, allowing parties to stipulate freely on interest rates. The case reflects the tension between contractual freedom in determining interest rates and the state’s interest in ensuring fair and equitable dealings in financial transactions, particularly in loan agreements. The Supreme Court’s decision in this case reaffirms the importance of maintaining the balance between these interests through the principle of mutuality in

contracts and the requirement of de-escalation clauses in escalation clauses.