

Title: ****BA Finance Corporation vs. Hon. Court of Appeals and Traders Royal Bank****

Facts:

On December 17, 1980, Renato Gaytano, under Gebbs International, secured a P60,000.00 loan from Traders Royal Bank, guaranteed by the Gaytano spouses via a deed of suretyship. Prior to this, on December 5, 1980, Philip Wong, BA Finance Corporation's credit administrator, issued a letter guaranteeing full payment of the loan should the Gaytanos default, up to P60,000.00. The Gaytanos partially paid the loan, leaving an unpaid balance of P85,807.25. When attempts to collect failed, the bank sued the Gaytano spouses and BA Finance Corporation for the sum owed. BA Finance contested, claiming Wong acted beyond his authority and its corporate capability. The trial court ruled in the bank's favor against the Gaytano spouses but dismissed the case against BA Finance. The bank appealed, and the appellate court held BA Finance jointly and severally liable with the Gaytanos. BA Finance then petitioned the Supreme Court for review.

Issues:

1. Whether the appellate court erred in holding BA Finance jointly and severally liable with the Gaytano spouses despite the supposed invalidity of the guarantee letter.
2. Whether BA Finance was subject to estoppel despite alleged ignorance of the guaranty letter.
3. Whether the guaranty letter, deemed ultra vires, was enforceable.
4. Whether the appellate court erred in not granting relief on BA Finance's counterclaim.

Court's Decision:

The Supreme Court found merit in BA Finance's contentions, identifying that parties dealing with assumed agents must verify both the agency's existence and the extent of the agent's authority. The evidence (a memorandum to Wong from BA Finance) failed to explicitly authorize Wong to issue guarantees on behalf of the corporation. Moreover, without concrete evidence beyond Wong's testimony, the claim of authority to issue guarantees was unsubstantiated. The Court also rejected the applicability of estoppel against BA Finance, pointing out a lack of proof demonstrating the corporation's knowledge or ratification of the guaranty transaction. Consequently, the Supreme Court reversed the appellate court's decision, dismissing the case against BA Finance.

Doctrine:

The doctrine established reiterates that an agent's authority to bind a principal, especially in contracts of guaranty, must be explicitly granted and proven. It also emphasizes that

entities or individuals dealing with assumed agents must, at their peril, verify the agent's authority. An agent acting beyond their authority holds personal liability for such actions.

Class Notes:

1. **Agency Verification:** When engaging with an agent, verifying both the existence of the agency relationship and the scope of the agent's authority is crucial to bind the principal.
2. **Explicit Authorization for Guarantees:** Guaranty agreements require explicit authorization from the principal; vague or general terms do not suffice.
3. **Ultra Vires Acts:** Actions beyond the scope of authority or corporate capability (ultra vires) are not enforceable.
4. **Estoppel Application:** Estoppel requires clear evidence of the principal's knowledge or ratification of the agent's unauthorized acts.
5. **Agent's Personal Liability:** An agent exceeding their authority is personally liable for damages.

Historical Background:

This case underscores the strict interpretation of agency and guaranty principles within the context of commercial transactions in Philippine jurisprudence. It highlights the judiciary's role in delineating corporate liability, especially in situations where agency relationships are involved. The decision reaffirms the necessity for clear, unequivocal proof of an agent's authority in actions that could bind a corporation, particularly in financial dealings like loan guarantees.