

Title:

Zomer Development Company, Inc. vs. International Exchange Bank and Sheriff IV Arthur R. Cabigon

Facts:

Zomer Development Company, Inc. (hereafter Zomer) resolved to secure a credit line from International Exchange Bank (IEB) for P60,000,000 on August 25, 1997, pledging its properties as collateral, also covering obligations of IDHI Prime Aggregates Corporation (Prime Aggregates). Prime Aggregates, on August 26, 1997, obtained a term loan from IEB for the same amount. The mortgage, executed on September 2, 1997, aimed to secure payments of various obligations to IEB by Zomer and/or Prime Aggregates.

When Prime Aggregates defaulted on payments, IEB pursued an extrajudicial foreclosure of the mortgaged properties. Zomer intervened by filing a complaint for injunction with the Cebu City RTC, asserting the mortgage's nullity. The request for a temporary restraining order to halt the scheduled foreclosure was denied, with subsequent denials on all filed motions and amendments.

Zomer then escalated the matter to the Court of Appeals (CA-G.R. SP No. 64390), challenging the RTC's denial and alleging the mortgage was ultra vires. Meanwhile, RTC dismissed the complaint following a branch re-affle. The appellate court concurred with the RTC's findings, leading Zomer to the Supreme Court, presenting various grounds including the ultra vires nature of the mortgage and alleged misconduct in its execution.

Issues:

1. Whether the real estate mortgage executed was ultra vires and thus void.
2. If the actions of IEB and the subsequent foreclosure violate any rights of Zomer.
3. The validity of the appellate court's denials and the legal basis for denying a writ of preliminary injunction.

Court's Decision:

The Supreme Court found the petition moot due to foreclosure and consolidation actions already finalized by IEB, sidelining the need to address whether Zomer could secure third-party obligations. It affirmed the appellate court's reasoning, which recognized that a corporation is not inherently barred from mortgaging assets to secure third-party debts if it furthers the corporation's interest or pertains to a subsidiary's debts. The Court noted Zomer's ratification of the mortgage through inaction and the absence of evidence

indicating detriment to Zomer's creditors or that Prime Aggregates couldn't meet its obligations.

Doctrine:

This decision reiterated that the plea of ultra vires cannot be used to advance injustice or against parties acting in good faith. A corporation may mortgage its assets for the debts of third parties or subsidiaries if it aligns with the corporation's interest and adheres to legal and procedural standards.

Class Notes:

- Ultra Vires Act: An act beyond the scope of the power of a corporation as defined by its charter or the laws of the state.
- Mortgage to Secure Third-Party Obligations: Corporations can mortgage assets to secure third-party debts if it serves the corporation's interest or involves a subsidiary.
- Ratification: A corporation can ratify the acts of its agents either through explicit approval or impliedly through inaction.
- Equity and Good Faith: Equity principles bar invoking ultra vires when doing so would perpetuate a legal wrong or prejudice against parties acting in good faith.

Historical Background:

This case encapsulates the evolving legal interpretations surrounding corporate powers, particularly in securing third-party obligations. Amidst the backdrop of corporate financial arrangements, it underscores the balance between adhering to a corporation's charter and recognizing practical business relationships—especially in familial or closely held corporations. Through this lens, the Supreme Court elaborates on applying corporate law principles in contexts that blur personal and corporate boundaries.