

****Title**:** Philippine National Bank vs. Philippine Vegetable Oil Co., Inc., and Phil. C. Whitaker, Intervenor [49 Phil. 857]

****Facts**:**

The Philippine Vegetable Oil Co., Inc. (hereinafter referred to as “Vegetable Oil Company”) found itself in deep financial trouble by 1920, owing creditors around PHP 30,000,000, with the Philippine National Bank (PNB) being its largest creditor at PHP 17,000,000. Faced with impending bankruptcy, various steps were taken to avert the crisis. Among these was the appointment of a receiver for the Vegetable Oil Company in March 1921, upon the petition of Phil. C. Whitaker, the General Manager and a significant stockholder.

During the receivership, notable events occurred, including a creditor’s agreement in June 1921, where creditors transferred part of their claims to Mr. Whitaker in exchange for a trust deed over his property. In February 1922, the Vegetable Oil Company executed a new mortgage in PNB’s favor, and subsequently, the receivership was terminated. Operations of the Vegetable Oil Company, however, were suspended by May 1922, leading to PNB seeking to foreclose the mortgage in May 1924. This instigated counterclaims from both the Vegetable Oil Company and Phil. C. Whitaker, the intervenor, seeking declarations that the mortgage was void, among other reliefs.

****Issues**:**

1. Whether the execution of the mortgage to PNB was a free act by the Vegetable Oil Company.
2. Whether the mortgage was null due to it purportedly covering property under receivership at execution.
3. Whether PNB failed to comply with an alleged contract to finance the Vegetable Oil Company’s operations.

****Court’s Decision**:**

1. The Supreme Court held that the Philippine National Bank-Philippine Vegetable Oil Co., Inc., mortgage of February 20, 1922, was not legally executed by the Philippine Vegetable Oil Co., Inc., primarily because the property was under receivership at the time of execution and no circumstances validating the execution under receivership were present. This made the mortgage voidable.
2. Regarding financing, the court found no binding agreement or promise made by PNB to indefinitely finance the operations of the Vegetable Oil Company. Thus, Whitaker’s claims

for damages on this front were dismissed.

****Doctrine**:**

1. A mortgage executed by a corporation under receivership without direct authorization or ratification during the period of receivership is voidable.
2. The Statute of Frauds applies only to agreements not to be performed within one year; agreements fully performed by one party within a year are not subject to the statute's operation.

****Class Notes**:**

- Contracts requiring the performance exceeding one year from their making must be in writing to be enforceable (Statute of Frauds; Sec. 335, Code of Civil Procedure).
- The presence of undue influence or fraudulent acts in the execution of contracts renders them voidable.
- The rights of creditors and the principle of pari passu in the liquidation of assets.

****Historical Background**:**

This case reflects the complex interplay between corporate finance, the rights of creditors, and the legal doctrines governing corporate recovery during financial distress in the early 20th century Philippines. It sheds light on how legal mechanisms, such as receivership and mortgage laws, were utilized in addressing corporate bankruptcies and creditor claims during this period.