

Title:

University of Mindanao, Inc. v. Bangko Sentral Pilipinas, et al., G.R. No. 197005, January 13, 2016

Facts:

1. **Incorporation and Thrift Banks**:

- University of Mindanao (UM), chaired by Guillermo B. Torres, was an established educational institution.
- Guillermo and Dolores P. Torres also operated First Iligan Savings & Loan Association, Inc. (FISLAI) and Davao Savings and Loan Association, Inc. (DSLAI).

2. **Emergency Credit**:

- Bangko Sentral ng Pilipinas (BSP) extended a P1.9 million standby emergency credit to FISLAI, covered by promissory notes signed by Guillermo and co-signed by Dolores or Edmundo G. Ramos, Jr.

3. **Mortgaging Educational Properties**:

- UM's Vice President for Finance, Saturnino Petalcorin, executed a deed of real estate mortgage over UM properties in Cagayan de Oro City and Iligan City in favor of BSP, allegedly authorized by a Secretary's Certificate issued by UM's Corporate Secretary, Aurora de Leon.

4. **Disputes and Litigation**:

- UM later denied knowledge of the mortgages and filed Complaints to nullify them.
- Trial courts in Cagayan de Oro and Iligan sided with UM, declaring the mortgages unenforceable and null, finding no board resolution authorizing the mortgage.

5. **Court of Appeals Reversal**:

- The Court of Appeals reversed the trial courts' decisions, favoring BSP based on apparent authority, estoppel, and constructive notice.

6. **Further Appeals**:

- Both UM and BSP appealed the decision, leading to the Supreme Court's review.

Issues:

1. **Prescription of Foreclosure Action**: Whether BSP's action to foreclose the mortgaged properties had prescribed.
2. **Authorization and Authority**: Whether UM is bound by the real estate mortgages

executed by Saturnino Petalcorin.

3. **Ultra Vires Doctrine**: Whether the acts of mortgaging properties to secure loans of another entity were ultra vires for an educational institution.

Court's Decision:

1. **Prescription**:

- **Legal Provision**: The prescriptive period for mortgage actions is ten (10) years from the default (Civil Code, Article 1142).

- **Findings**: The loans became due in 1990, and BSP demanded payment in 1999, hence within the prescriptive period. The filing of UM's complaints and BSP's demand letter further interrupted the prescriptive period.

2. **Authority and Ratification**:

- **Ultra Vires Acts**: Securing third-party loans is not within the purposes or powers of UM as an educational institution. Such acts are ultra vires and void.

- **Lack of Board Resolution**: No proper board resolution existed authorizing Petalcorin; testimonies from UM's corporate officers confirmed the documents supporting the mortgages were fraudulent.

- **Doctrine of Estoppel and Apparent Authority**: The Secretary's Certificate alone, being fraudulent, does not estop UM from denying Petalcorin's authority.

- **Ratification**: There was no evidence of UM ratifying the unauthorized action; lack of knowledge precludes implied ratification.

3. **Role of Financial Institutions**:

- **Bank's Diligence**: BSP, owing a high degree of diligence, should have verified Petalcorin's authority, especially given the evident absence of a supporting board resolution.

- **Constructive Notice**: Annotations on titles operated as notice to third parties, not the owner; thus, they did not bind UM.

Doctrine:

- **Ultra Vires Doctrine**: Acts outside a corporation's authorized purposes or the law are ultra vires and generally unenforceable without proper authority or ratification.

- **High Standard of Diligence for Banks**: Banks are mandated to exercise high prudence and meticulous verification in transactions, given their public interest role.

- **Ratification**: Unauthorized corporate acts may be ratified either explicitly or implicitly but require evidence of acceptance or beneficial usage by the principal.

Class Notes:

- **Key Elements**:
- **Ultra Vires Doctrine**: Actions beyond corporate purposes and authority.
- **Corporate Authority**: Necessity of proper board resolution for significant corporate acts.
- **Diligence in Banking**: Banks' duty to verify authorization, heightened due diligence.
- **Ratification Principles**: Requirements for explicit or implied ratification of unauthorized acts.
- **Relevant Provisions**:
- **Civil Code Art. 1169, 1193, 1317, 1403**.
- **Corporation Code, sec. 36, 45**: Parameters for corporate powers and acts.

- **Application**:
- **Ultra Vires Acts**: Unauthorized transaction binding when ratified by the principal.
- **Banking Standards**: Importance of verification and due diligence in financial transactions.
- **Litigation**: Evidentiary support required to establish proper corporate authority and valid ratification.

Historical Background:

- **Context**: Thrift banks faced crises and emergency loans in the 1980s, leading to several instances of mortgaging properties by affiliated entities or trustees. The intersection of corporate governance, banking regulations, and the ultra vires doctrine became pivotal in such disputes.
- **Economic Landscape**: The case is set against the backdrop of financial instability in thrift banks that required emergency interventions from regulatory bodies like the BSP.