

Title

****Urban Bank, Inc. v. Peña, et al.****

Facts

In 1994, Isabela Sugar Company, Inc. (ISCI) leased land in Pasay City to a tenant who subleased it to multiple establishments. As the lease expired, ISCI sold the land to Urban Bank, Inc. (Urban Bank), stipulating that the land must be delivered tenant-free. ISCI tasked Director and Corporate Secretary Magdaleno Peña (Peña) to evict unauthorized sub-tenants.

Post-sale, Urban Bank, at ISCI's request, engaged Peña to secure the property. Despite the legal and physical challenges, Peña managed to recover the property from sub-tenants.

Peña claimed verbal assurance from Urban Bank's President Borlongan for compensation amounting to 10% of the property's value plus expenses. When Urban Bank denied payment, Peña filed a complaint seeking PHP 24 million (10% of the property's value) for services rendered and PHP 4.5 million for costs and damages. The trial court awarded Peña PHP 28.5 million, including PHP 1 million in attorney's fees and PHP 500,000 in exemplary damages. Urban Bank and individual directors appealed, arguing the agency's basis and the solidary liability.

The Court of Appeals (CA) adjusted the award, acknowledging Urban Bank's benefit from Peña's services but limiting the compensation to PHP 3 million to avoid unjust enrichment.

Simultaneously, Peña sought execution pending appeal, citing a creditor claim. Despite Urban Bank's opposition and the absence of insolvency risk, the trial court granted the request, resulting in the levying of assets worth PHP 181 million to satisfy the PHP 28.5 million judgment.

Urban Bank and its officers contested the execution pending appeal and the CA's decision. They argued the lack of sufficient grounds for execution pending appeal and misapplication of the agency and unjust enrichment principles.

Issues

- **Whether the trial court correctly determined the agency agreement and its resulting compensation and damages:****
 - Does an oral contract between Peña and Urban Bank establish the compensation claimed?
 - Should compensation be based solely on the principle of unjust enrichment?
- **Personal Liability of Urban Bank's Directors:****

- Are individual Urban Bank directors personally liable for the corporate obligations to Peña?

3. **Validity of Execution Pending Appeal:**

- Were there valid 'good reasons' to authorize execution pending appeal?
- Were the procedural safeguards and equities of execution appropriately observed?

Court's Decision

Issue 1: Validity of Agency Agreement and Its Basis of Compensation

- An oral contract, as claimed by Peña, lacked material evidence. Peña's assertions about a 10% compensation of PHP 24 million were deemed unsubstantiated and incredible.
- Compensation properly founded on the principle of unjust enrichment, rewarding Peña PHP 3 million plus PHP 1.5 million for legal efforts, reflecting a quantum meruit (reasonable value of service).

Issue 2: Personal Liability of Urban Bank's Directors

- Directors and officers were not demonstrated to have acted in bad faith or with gross negligence.
- Corporate actions contrary to sectoral norms attract no personal liability unless specific unlawful acts are proven. Therefore, Urban Bank alone is liable.

Issue 3: Execution Pending Appeal

- The collection suit against Peña, filed by his creditor, did not constitute a sufficient 'good reason'.
- Insolvency or circumstantial urgency wasn't established, and the execution was void. The trial court's directive for execution lacked justifiable cause.
- The proceedings, garnishments, and sales arising from the improperly granted execution pending appeal are annulled. A detailed assessment voided levies and garnishment due to due process infractions and valuation discrepancies.

Doctrine

- **Agency Doctrine:** The agency can be implied and ratified by subsequent acceptance of benefits without formal written agreements. Proportional and reasonable compensation based on unjust enrichment is favored over inflated claims absent clear agreements.
- **Corporate Law:** Directors are typically protected against personal liability unless involvement in unlawful activities or gross negligence is proven.

- **Principle of Unjust Enrichment**: Preventing undeserved benefits demands compensations based on reasonable service value (quantum meruit).

Class Notes

Agency Legal Principles:

- Principal-agent relationship essentials: consent, representation, scope of authority.
- Contractual basis—oral agreements scrutinized against substantial evidence.
- **Civil Code on Agency**: Agents act on behalf and within the limits authorized by the principal (Art. 1868-1932).

Corporate Law & Director Liability:

- Corporate veil stands unless clear bad faith, gross negligence, or unlawful acts.
- **Corporation Code**: Preserves juridical personhood, limiting director liability (Sec. 31).

Execution Pending Appeal:

- Mandates necessity, urgency, and equity—reserved for compelling circumstances.
- **Rules of Court**: Execution pending appeal must be grounded in superior circumstances validating urgency (Rule 39, Sec. 2).

Historical Background

This case highlights the banking sector's vulnerability in the 1990s major transitions, reflecting system loopholes and rigorous scrutiny needed for corporate governance, especially post-receivership scenarios. The contested intervention guided future procedural safeguarding in corporate and agency disputes, reinforcing judicial balance in contentious claims surpassing contractual technicalities.