

Title: Terp Construction Corporation v. Banco Filipino Savings and Mortgage Bank

Facts:

In 1995, Terp Construction Corporation (Terp Construction) intended to finance two real estate projects by issuing bonds worth P400 million, named Margarita Project Participation Certificates (Margarita Bonds). The company, along with Home Insurance Guaranty Corporation and Planters Development Bank (Planters Bank), agreed that Planters Bank would be the asset custodian and Home Insurance Guaranty Corporation would guarantee the bonds at 8.5% interest per annum. Banco Filipino Savings and Mortgage Bank (Banco Filipino) purchased P100 million worth of these bonds.

Banco Filipino sought additional interest beyond the guaranteed 8.5%, as indicated in two letters from Terp Construction's Senior Vice President, Alberto Escalona. Escalona committed Terp to pay 15.5% and 16.5% interest on two segments of the bonds. Terp paid this additional interest twice but stopped amid the 1997 economic crisis, causing insufficient funds to pay bondholders upon maturity.

Banco Filipino demanded unpaid interest differentials of about P18,104,431.33, claiming that Terp's commitment was unconditional. Terp Construction refused, claiming it was conditional upon the release of asset pool funds, which did not happen. Terp then sued Banco Filipino to nullify the interest, while Banco Filipino countered with claims that Terp's payments confirmed its obligations.

The Regional Trial Court ruled in favor of Terp Construction, finding no obligation on their part to pay the additional interest and that Escalona's letters were unauthorized acts not binding on the corporation. On appeal, the Court of Appeals reversed this decision, holding Terp accountable for the interest differentials based on evidence that Escalona's commitments had been authorized through subsequent payments made during the bond's term. Terp Construction's Motion for Reconsideration was denied, leading to their petition before the Supreme Court.

Issues:

1. Whether the issue of conflicting factual findings between the Regional Trial Court and the Court of Appeals warrants Supreme Court review.
2. Whether Terp Construction was obligated to pay Banco Filipino additional interest over the guaranteed 8.5%.

Court's Decision:

The Supreme Court affirmed the Court of Appeals' decision.

****On the procedural issue:****

- The Supreme Court stated that while there are exceptions allowing a review of factual findings, such as conflicting findings between courts, merely showing a discrepancy does not automatically entitle a party to review. The exceptions must be demonstrated and proved. The Court of Appeals' findings were supported by substantial evidence, thus binding on the Court.

****On the factual issue:****

- Terp Construction had indeed committed to paying Banco Filipino over the guaranteed 8.5%, as evidenced by Escalona's letters and corroborated by subsequent payments made during the bond's term.

- The Supreme Court differentiated between actual and apparent authority, establishing that Escalona's commitments were ratified by the corporation's subsequent actions (two payments made based on his letters), and hence binding on the corporation.

- Terp's argument that these payments were erroneous could not stand, as corporations are held accountable for their actions irrespective of internal errors.

**Doctrine:**

1. A corporation may ratify the unauthorized acts of its officers through subsequent actions that align with such acts.

2. Apparent authority is sufficient to bind a corporation when an officer, known or assumed by third parties to possess such authority, performs acts within this perceived scope and the corporation does not object.

3. The binding nature of a corporate officer's actions can be inferred via the corporation's acquiescence or consistent acceptance of the benefits arising from such actions.

**Class Notes:**

- ****Key Elements:****

- Ratification: Subsequent actions by the corporation accepting or confirming the officer's unauthorized act.

- Apparent Authority: The visible authority of an officer to third parties, leading to reliance on the officer's acts as binding the corporation.

- Binding Payments: Payments made by a corporation based on an officer's commitment imply ratification of the officer's authority.

- **Critical Statutes:**

- **Corporation Code Section 23:** Defines the authority and powers of the board of directors, and implicitly, what constitutes ratification and apparent authority in corporate governance.

- **Case Law Citations:**

- Yao Ka Sin Trading v. Court of Appeals: Defined apparent authority.

- Nacar v. Gallery Frames: Modified legal interest rates applicable from claim initiation to satisfaction.

Historical Background:

The case unfolded during the Philippine economic upheaval, notably the 1997 financial crisis, which impacted financial commitments and project completions. It emphasizes the sector's reliance on legal frameworks to resolve commercial disputes and underscores the importance of clear corporate governance and documented authorizations to safeguard corporate and investor interests.