

Title: Francisco de Asis & Co., Inc. vs. Court of Appeals and Mercedes Prieto Delgado

Facts:

1. ****Incorporation and Guarantee****: Francisco de Asis & Co., Inc. was founded in 1967, with Francisco de Asis as president and Leocadio de Asis as a director. As a stock brokerage firm at the Makati Stock Exchange, it required at least two directors, owning 95% of the shares, to execute a joint and several liability undertaking against corporate obligations related to the Exchange.
2. ****Request for Loan****: In June 1970, Francisco de Asis approached Mercedes Delgado, a friend, for P200,000 to resolve the corporation's cash flow issues. Delgado secured P100,000 from Resource & Finance Corporation (RFC) and P100,000 from her brother Benito Prieto, Jr. Delgado deposited the total sum in Francisco de Asis & Co.'s account at the Bank of Asia.
3. ****Subsequent Developments****: In August 1973, Francisco de Asis informed Delgado of having P100,000 as partial repayment, suggesting investment in Philex Mining shares. However, this payment never materialized due to the corporation's suspension and subsequent rush of claims leading to its collapse.
4. ****Continuing Assurance and Default****: Despite continued assurances from Francisco and cable messages from Leocadio, the debt remained unpaid. Delgado continued her payments to RFC and her brother.
5. ****Testimony and Defense****: Leocadio de Asis testified, admitting to executing the joint and several undertaking solely for corporate obligations in relation to the Makati Stock Exchange, arguing non-liability for the loan transaction, claiming the corporation did not authorize the said loan, and had no knowledge of it until the suit.
6. ****Trial and Appellate Proceedings****: The trial court ruled in favor of Delgado, holding Francisco, Leocadio, and the corporation liable. The Court of Appeals affirmed this decision, leading to the petition to the Supreme Court.

Issues:

1. ****Nature of the Loan****: Whether the P200,000 transaction was a corporate loan for Francisco de Asis & Co., Inc. or a personal loan to Francisco de Asis.
2. ****Liability under the Joint and Several Undertaking****: Whether Leocadio de Asis is liable

under the joint and several undertaking despite his claims of unauthorized borrowing for the specific transaction.

Court's Decision:

1. **Corporate Nature of the Loan**:

- **Evidence and Reasoning**: The Supreme Court affirmed the factual determination by the lower courts that the transaction was corporate and not personal. The sum was deposited to the corporation's account, retained, and disbursed for corporate purposes.
- The friendship and lack of formal documentation did not negate the loan's existence. The relationships allowed for relaxed formalities.

2. **Liability under the Undertaking**:

- **Articles and Corporate By-Laws**: The Court emphasized that the joint and several undertaking executed by Francisco and Leocadio guaranteed all valid corporate liabilities connected to the stock exchange membership.
- **Law and Equity Application**: Under Civil Code Article 2154, even if the corporation claimed unauthorized borrowing, it was still obliged to return the amount received mistakenly, which in this case was used and retained for corporate purposes.

Doctrine:

- **Corporate vs. Personal Liability**: Funds deposited and utilized by a corporation for corporate purposes substantiate a corporate loan, making the corporation, regardless of internal authorizations or lack thereof, liable for repayment.
- **Joint and Several Liability**: Shareholders who undertake a joint and several guarantees for corporate obligations are compelled to honor these guarantees for all approved corporate liabilities, including those validly transacted in practice.

Class Notes:

1. **Elements of Corporate Funding Liability**:

- Corporate purpose and fund utilization.
- Depositing in corporate accounts.
- Absence of explicit authorizations overshadowed by actual benefit and use.

2. **Joint and Several Guarantees**:

- Signatories are liable for all corporate obligations within the scope defined, not merely

stated intentions.

- Legal instruments executed by knowledgeable parties (lawyers, directors) are binding.

3. **Contract Law Applications**:

- Civil Code Article 2154 (Quasi-Contracts - Solutio Indebiti): Obligation to return funds mistakenly received without entitlement.

Historical Background:

This case occurred during a period of rebuilding transparencies and reforms within the financial sectors in the Philippines. The early 1970s marked a phase where procedural and financial accountability within corporate frameworks was under stringent scrutiny, leading to robust reinforcement of corporate liability doctrines. The case underscores judicial tendencies to uphold creditor protections and meticulous execution of corporate guarantees, fostered by evolving corporate governance practices.