

Title:

Rural Bank of Bombon (Camarines Sur), Inc. vs. Court of Appeals, Ederlinda M. Gallardo, Daniel Manzo, and Rufino S. Aquino

Facts:

- Special Power of Attorney** (January 12, 1981): Ederlinda M. Gallardo authorized Rufino S. Aquino to secure loans or mortgage her paraphernal property covered by TCT No. S-79238 situated in Las Piñas, Rizal.
- Execution of Mortgage** (August 26, 1981): Aquino, acting under the special power of attorney, mortgaged the property in favor of Rural Bank of Bombon (Camarines Sur) as security for a loan of PHP 350,000. The deed mentioned the attorney-in-fact authority but listed Aquino as the mortgagor.
- Discovery of Unauthorized Use**: Gallardo and her husband Daniel Manzo discovered that the property was mortgaged to pay for personal loans taken by Aquino, not for Gallardo's benefit. They also noted irregularities like correspondence being addressed to Aquino instead of Gallardo.
- Complaint Filed** (January 6, 1984): Gallardo and Manzo sued Aquino and the bank for unauthorized mortgage, highlighting the absence of explicit authority for Aquino to use the funds for personal benefit.
- Temporary Restraining Order** (January 23, 1984): The trial court temporarily restrained the bank from enforcing the real estate mortgage.
- Bank and Aquino's Defense**: Aquino claimed Gallardo authorized him to mortgage the property to liquidate her PHP 350,000 debt to him. The bank moved to dismiss the complaint, claiming the mortgage was valid under the special power of attorney.
- Foreclosure Proceedings Initiated** (August 30, 1984): The bank filed a foreclosure case against Gallardo and Aquino in RTC Makati.
- Consolidation and Summary Judgment** (January 16, 1986): The trial court consolidated both cases and rendered a summary judgment dismissing Gallardo's complaint, awarding damages to the bank.
- Appeal to the Court of Appeals**: Gallardo appealed, and the Court of Appeals declared

the mortgage unauthorized, void, and unenforceable against Gallardo, making the preliminary injunction permanent.

Issues:

1. ****Validity of the Real Estate Mortgage****: Whether the mortgage executed by Aquino was valid considering Gallardo's special power of attorney did not explicitly authorize loans for Aquino's personal use.
2. ****Liability of Gallardo's Property****: Whether Gallardo's property could be held liable for a mortgage executed by Aquino in his personal capacity.

Court's Decision:

1. ****Authority of the Agent****: The Supreme Court agreed with the Court of Appeals that Aquino's execution of the mortgage deed in his name, without indicating he was acting for Gallardo, invalidated the mortgage. The Court emphasized that under the law of agency, the agent must act explicitly in the name and on behalf of the principal, which Aquino failed to do.
2. ****Exclusive Benefit of the Agent****: The Court found that the loans were for Aquino's personal use (bangus and sugpo production), which was beyond the scope authorized by Gallardo. The special power of attorney did not include the authority for Gallardo to act as a surety for Aquino's debts.
3. ****Invalid Mortgage****: Applying Article 1878 of the Civil Code, the Court ruled that no special power of attorney authorized Gallardo to guarantee Aquino's loans, making the mortgage unenforceable against her property.

Doctrine:

1. ****Agency Law (Philippine Sugar Estates Development Co. vs. Poizat)****: Mortgages executed by an agent must be explicitly on behalf of the principal to be binding on the principal. Agents acting in their name bind only themselves unless clearly acting for the principal.
2. ****Special Power of Attorney Requirements****: To obligate a principal as a surety or guarantor, a special power of attorney must be explicit.

Class Notes:

- **Agency Law (Civil Code Article 1883)**:
 - Agent must act in the name of the principal.
 - Personal capacity actions bind the agent, not the principal.
- **Special Power of Attorney**:
 - Required for acts obligating the principal as a surety (Civil Code Article 1878).
- **Mortgage Execution Requirements**:
 - Agent must clearly bind the principal in executing documents.
- **Case Precedent**:
 - Philippine Sugar Estates Development Co. vs. Poizat: Establishes execution requirements for binding principals.

Historical Background:

This case occurred in the legal context of Philippine agency law and special power of attorney requirements. Historically, the ruling underscores the importance of precise legal documentation and clear definitions of authority in real estate transactions, reflecting a jurisprudential effort to safeguard property owners from unauthorized debts incurred by agents. It reinforces the legal principle that an agent's authority must be explicit and exercised in the principal's name to bind the principal legally.