Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

UNIVERSITY OF MINDANAO, INC., Petitioner,	**G.R. No. 194964-65** Present:
-versus-	CARPIO, *J., Chairperson,* BRION, DEL CASTILLO, MENDOZA, and LEONEN, *JJ.*
BANGKO SENTRAL NG PILIPINAS, ET AL., Respondents.	**Promulgated:** 11 JAN 2016

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DECISION

LEONEN, *J.*:

Acts of an officer that are not authorized by the board of directors/trustees do not bind the corporation unless the corporation ratifies the acts or holds the officer out as a person with authority to transact on its behalf.

This is a Petition for Review on Certiorari[1] of the Court of Appeals' December 17, 2009 Decision[2] and December 20, 2010 Resolution.[3] The

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1 *Rollo*, pp. 69–98.

2 Id. at 13–45. The Decision was penned by Associate Justice Edgardo A. Camello (Chair) and concurred in by Associate Justices Edgardo T. Lloren and Leoncia R. Dimagiba of the Twenty-second Division.

Court of Appeals reversed the Cagayan De Oro City trial court's and the Iligan City trial court's Decisions to nullify mortgage contracts involving University of Mindanao's properties.[4]

University of Mindanao is an educational institution. For the year 1982, its Board of Trustees was chaired by Guillermo B. Torres. His wife, Dolores P. Torres, sat as University of Mindanao's Assistant Treasurer.[5]

Before 1982, Guillermo B. Torres and Dolores P. Torres incorporated and operated two (2) thrift banks: (1) First Iligan Savings & Loan Association, Inc. (FISLAI); and (2) Davao Savings and Loan Association, Inc. (DSLAI). Guillermo B. Torres chaired both thrift banks. He acted as FISLAI's President, while his wife, Dolores P. Torres, acted as DSLAI's President and FISLAI's Treasurer.[6]

Upon Guillermo B. Torres' request, Bangko Sentral ng Pilipinas issued a ₱1.9 million standby emergency credit to FISLAI. The release of standby emergency credit was evidenced by three (3) promissory notes dated February 8, 1982, April 7, 1982, and May 4, 1982 in the amounts of ₱500,000.00, ₱600,000.00, and ₱800,000.00, respectively. All these promissory notes were signed by Guillermo B. Torres, and were co-signed by either his wife, Dolores P. Torres, or FISLAI's Special Assistant to the President, Edmundo G. Ramos, Jr.[7]

On May 25, 1982, University of Mindanao's Vice President for Finance, Saturnino Petalcorin, executed a deed of real estate mortgage over University of Mindanao's property in Cagayan de Oro City (covered by Transfer Certificate of Title No. T-14345) in favor of Bangko Sentral ng Pilipinas.[8] "The mortgage served as security for FISLAI's P1.9 Million loan[.]"[9] It was allegedly executed on University of Mindanao's behalf.[10]

As proof of his authority to execute a real estate mortgage for University of Mindanao, Saturnino Petalcorin showed a Secretary's Certificate signed on April 13, 1982 by University of Mindanao's Corporate Secretary, Aurora de Leon.[11] The Secretary's Certificate stated:

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3 Id. at 63–67. The Resolution was penned by Associate Justice Edgardo A. Camello (Chair) and concurred in by Associate Justices Edgardo T. Lloren and Leoncia R. Dimagiba of the Former Twenty-second Division.
4 Id. at 25, 27, and 44, Court of Appeals Decision.
5 Id. at 14.
6 Id.
7 Id. at 14–15.
8 Id. at 15.
9 Id.
10 Id.
11 Id. at 16.

> That at the regular meeting of the Board of Trustees of the aforesaid corporation [University of Mindanao] duly convened on March 30, 1982, at which a quorum was present, the following resolution was unanimously adopted:
>
> > "Resolved that the University of Mindanao, Inc. be and is hereby authorized, to mortgage real estate properties with the Central Bank of the Philippines to serve as security for the credit facility of First Iligan Savings and Loan Association, hereby authorizing the President and/or Vice-president for Finance, Saturnino R. Petalcorin of the University of Mindanao, Inc. to sign, execute and deliver the covering mortgage document or any other documents which may be proper[l]y required."[12]

The Secretary's Certificate was supported by an excerpt from the minutes of the January 19, 1982 alleged meeting of University of Mindanao's Board of Trustees. The excerpt was certified by Aurora de Leon on March 13, 1982 to be a true copy of University of Mindanao's records on file.[13] The excerpt reads:

> 3 – Other Matters:
>
> (a) Cagayan de Oro and Iligan properties:
> Resolution No. 82-1-8
>
> Authorizing the Chairman to appoint Saturnino R. Petalcorin, Vice-President for Finance, to represent the University of Mindanao to transact, transfer, convey, lease, mortgage, or otherwise hypothecate any or all of the following properties situated at Cagayan de Oro and Iligan City and authorizing further Mr. Petalcorin to sign any or all documents relative thereto:
>
> 1. A parcel of land situated at Cagayan de Oro City, covered and technically described in TRANSFER CERTIFICATE OF TITLE No. T-14345 of the Registry of Deeds of Cagayan de Oro City;
>
> 2. A parcel of land situated at Iligan City, covered and technically described in TRANSFER CERTIFICATE OF TITLE NO. T-15696 (a.t.) of the Registry of Deeds of Iligan City; and
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> 3. A parcel of land situated at Iligan City, covered and technically described in TRANSFER CERTIFICATE OF TITLE NO. T-15697 (a.f.) of the Registry of Deeds of Iligan City.[14]

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12 Id.
13 Id.
14 Id. at 16–17.

The mortgage deed executed by Saturnino Petalcorin in favor of Bangko Sentral ng Pilipinas was annotated on the certificate of title of the Cagayan de Oro City property (Transfer Certificate of Title No. 14345) on June 25, 1982. Aurora de Leon's certification was also annotated on the Cagayan de Oro City property's certificate of title (Transfer Certificate of Title No. 14345).[15]

On October 21, 1982, Bangko Sentral ng Pilipinas granted FISLAI an additional loan of ₱620,700.00. Guillermo B. Torres and Edmundo Ramos executed a promissory note on October 21, 1982 to cover that amount.[16]

On November 5, 1982, Saturnino Petalcorin executed another deed of real estate mortgage, allegedly on behalf of University of Mindanao, over its two properties in Iligan City. This mortgage served as additional security for FISLAI's loans. The two Iligan City properties were covered by Transfer Certificates of Title Nos. T-15696 and T-15697.[17]

On January 17, 1983, Bangko Sentral ng Pilipinas' mortgage lien over the Iligan City properties and Aurora de Leon's certification were annotated on Transfer Certificates of Title Nos. T-15696 and T-15697.[18] On January 18, 1983, Bangko Sentral ng Pilipinas' mortgage lien over the Iligan City properties was also annotated on the tax declarations covering the Iligan City properties.[19]

Bangko Sentral ng Pilipinas also granted emergency advances to DSLAI on May 27, 1983 and on August 20, 1984 in the amounts of ₱1,633,900.00 and ₱6,489,000.00, respectively.[20]

On January 11, 1985, FISLAI, DSLAI, and Land Bank of the Philippines entered into a Memorandum of Agreement intended to rehabilitate the thrift banks, which had been suffering from their depositors' heavy withdrawals. Among the terms of the agreement was the merger of FISLAI and DSLAI, with DSLAI as the surviving corporation. DSLAI later became known as Mindanao Savings and Loan Association, Inc. (MSLAI).[21]

Guillermo B. Torres died on March 2, 1989.[22]

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15 Id. at 17.
16 Id. at 15.
17 Id.
18 Id. at 17.
19 Id.
20 Id.
21 Id. at 18.
22 Id. at 19.

MSLAI failed to recover from its losses and was liquidated on May 24, 1991.[23]

On June 18, 1999, Bangko Sentral ng Pilipinas sent a letter to University of Mindanao, informing it that the bank would foreclose its properties if MSLAI's total outstanding obligation of ₱12,534,907.73 remained unpaid.[24]

In its reply to Bangko Sentral ng Pilipinas' June 18, 1999 letter, University of Mindanao, through its Vice President for Accounting, Gloria E. Detoya, denied that University of Mindanao's properties were mortgaged. It also denied having received any loan proceeds from Bangko Sentral ng Pilipinas.[25]

On July 16, 1999, University of Mindanao filed two Complaints for nullification and cancellation of mortgage. One Complaint was filed before the Regional Trial Court of Cagayan de Oro City, and the other Complaint was filed before the Regional Trial Court of Iligan City.[26]

University of Mindanao alleged in its Complaints that it did not obtain any loan from Bangko Sentral ng Pilipinas. It also did not receive any loan proceeds from the bank.[27]

University of Mindanao also alleged that Aurora de Leon's certification was anomalous. It never authorized Saturnino Petalcorin to execute real estate mortgage contracts involving its properties to secure FISLAI's debts. It never ratified the execution of the mortgage contracts. Moreover, as an educational institution, it cannot mortgage its properties to secure another person's debts.[28]

On November 23, 2001, the Regional Trial Court of Cagayan de Oro City rendered a Decision in favor of University of Mindanao,[29] thus:

> WHEREFORE, premises considered, judgment is hereby rendered in favor of plaintiff and against defendants:
>
> 1. DECLARING the real estate mortgage Saturnino R. Petalcorin executed in favor of BANGKO SENTRAL NG PILIPINAS

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23 Id.
24 Id. at 19–20.
25 Id. at 20.
26 Id.
27 Id. at 21.
28 Id.
29 Id. at 27.

> involving Lot 421-A located in Cagayan de Oro City with an area of 482 square meters covered by TCT No. T-14345 as annuled [sic];
>
> 2. ORDERING the Register of Deeds of Cagayan de Oro City to cancel Entry No. 9951 and Entry No. 9952 annotated at the back of said TCT No. T-14345, Registry of Deeds of Cagayan de Oro City;
>
> Prayer for attorney's fee [sic] is hereby denied there being no proof that in demanding payment of the emergency loan, defendant BANGKO SENTRAL NG PILIPINAS was motivated by evident bad faith,
>
> SO ORDERED.[30] (Citation omitted)

The Regional Trial Court of Cagayan de Oro City found that there was no board resolution giving Saturnino Petalcorin authority to execute mortgage contracts on behalf of University of Mindanao. The Cagayan de Oro City trial court gave weight to Aurora de Leon's testimony that University of Mindanao's Board of Trustees did not issue a board resolution that would support the Secretary's Certificate she issued. She testified that she signed the Secretary's Certificate only upon Guillermo B. Torres' orders.[31]

Saturnino Petalcorin testified that he had no authority to execute a mortgage contract on University of Mindanao's behalf. He merely executed the contract because of Guillermo B. Torres' request.[32]

Bangko Sentral ng Pilipinas' witness Daciano Pagui, Jr. also admitted that there was no board resolution giving Saturnino Petalcorin authority to execute mortgage contracts on behalf of University of Mindanao.[33]

The Regional Trial Court of Cagayan de Oro City ruled that Saturnino Petalcorin was not authorized to execute mortgage contracts for University of Mindanao. Hence, the mortgage of University of Mindanao's Cagayan de Oro City property was unenforceable. Saturnino Petalcorin's unauthorized acts should be annulled.[34]

Similarly, the Regional Trial Court of Iligan City rendered a Decision on December 7, 2001 in favor of University of Mindanao.[35] The dispositive portion of the Decision reads:

> WHEREFORE, premises considered, judgment is hereby rendered in favor of the plaintiff and against the defendants, as follows:

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30 Id. at 27–28.
31 Id. at 28.
32 Id.
33 Id.
34 Id.
35 Id. at 23.

> 1. Nullifying and canceling [sic] the subject Deed of Real Estate Mortgage dated November 5, 1982 for being unenforceable or void contract;
>
> 2. Ordering the Office of the Register of Deeds of Iligan City to cancel the entries on TCT No. T-15696 and TCT No. T-15697 with respect to the aforesaid Deed of Real Estate Mortgage dated November 5, 1982 and all other entries related thereto;
>
> 3. Ordering the defendant Bangko Sentral ng Pilipinas to return the owner's duplicate copies of TCT No. T-15696 and TCT No. 15697 to the plaintiff;
>
> 4. Nullifying the subject [f]oreclosure [p]roceedings and the [a]uction [s]ale conducted by defendant Atty. Gerardo Paguio, Jr. on October 8, 1999 including all the acts subsequent thereto and ordering the Register of Deeds of Iligan City not to register any Certificate of Sale pursuant to the said auction sale nor make any transfer of the corresponding titles, and if already registered and transferred, to cancel all the said entries in TCT No. T-15696 and TCT No. T-15697 and/or cancel the corresponding new TCTs in the name of defendant Bangko Sentral ng Pilipinas;
>
> 5. Making the Preliminary Injunction per Order of this Court dated October 13, 2000 permanent.
>
> No pronouncement as to costs.[36] (Citation omitted)

The Iligan City trial court found that the Secretary's Certificate issued by Aurora de Leon was fictitious[37] and irregular for being unnumbered.[38] It also did not specify the identity, description, or location of the mortgaged properties.[39]

The Iligan City trial court gave credence to Aurora de Leon's testimony that the University of Mindanao's Board of Trustees did not take up the documents in its meetings. Saturnino Petalcorin corroborated her testimony.[40]

The Iligan City trial court ruled that the lack of a board resolution authorizing Saturnino Petalcorin to execute documents of mortgage on behalf of University of Mindanao made the real estate mortgage contract unenforceable under Article 1403[41] of the Civil Code.[42] The mortgage

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36 Id. at 23–24.
37 Id. at 25.
38 Id. at 24.
39 Id.
40 Id.
41 CIVIL CODE, art. 1403 provides:
ART. 1403. The following contracts are unenforceable, unless they are ratified:
(1) Those entered into in the name of another person by one who has been given no authority or legal representation, or who has acted beyond his powers;

contract and the subsequent acts of foreclosure and auction sale were void because the mortgage contract was executed without University of Mindanao's authority.[43]

The Iligan City trial court also ruled that the annotations on the titles of University of Mindanao's properties do not operate as notice to the University because annotations only bind third parties and not owners.[44] Further, Bangko Sentral ng Pilipinas' right to foreclose the University of Mindanao's properties had already prescribed.[45]

Bangko Sentral ng Pilipinas separately appealed the Decisions of both the Cagayan de Oro City and the Iligan City trial courts.[46]

After consolidating both cases, the Court of Appeals issued a Decision on December 17, 2009 in favor of Bangko Sentral ng Pilipinas, thus:

> **FOR THE REASONS STATED,** the Decision dated 23 November 2001 of the Regional Trial Court of Cagayan de Oro City, Branch 24 in Civil Case No. 99-414 and the Decision dated 7 December 2001 of the Regional Trial Court of Iligan City, Branch 1 in Civil Case No. 4790 are **REVERSED** and **SET ASIDE.** The Complaints in both cases before the trial courts are **DISMISSED.** The Writ of Preliminary Injunction issued by the Regional Trial Court of Iligan City, Branch 1 in Civil Case No. 4790 is **LIFTED** and **SET ASIDE.**
>
> **SO ORDERED**.[47]

The Court of Appeals ruled that "[a]lthough BSP failed to prove that the UM Board of Trustees actually passed a Board Resolution authorizing

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(2) Those that do not comply with the Statute of Frauds as set forth in this number. In the following cases an agreement hereafter made shall be unenforceable by action, unless the same, or some note or memorandum, thereof, be in writing, and subscribed by the party charged, or by his agent; evidence, therefore, of the agreement cannot be received without the writing, or a secondary evidence of its contents:

(a) An agreement that by its terms is not to be performed within a year from the making thereof;
(b) A special promise to answer for the debt, default, or miscarriage of another;
(c) An agreement made in consideration of marriage, other than a mutual promise to marry;
(d) An agreement for the sale of goods, chattels or things in action, at a price not less than five hundred pesos, unless the buyer accept and receive part of such goods and chattels, or the evidences, or some of them, of such things in action, or pay at the time some part of the purchase money; but when a sale is made by auction and entry is made by the auctioneer in his sales book, at the time of the sale, of the amount and kind of property sold, terms of sale, price, names of the purchasers and person on whose account the sale is made, it is a sufficient memorandum;
(e) An agreement for the leasing for a longer period than one year, or for the sale of real property or of an interest therein;
(f) A representation as to the credit of a third person.

(3) Those where both parties are incapable of giving consent to a contract.

42 *Rollo*, p. 25, Court of Appeals Decision.
43 Id.
44 Id.
45 Id. at 26.
46 Id. at 26 and 29.
47 Id. at 44.

Petalcorin to mortgage the subject real properties,"[48] Aurora de Leon's Secretary's Certificate "clothed Petalcorin with apparent and ostensible authority to execute the mortgage deed on its behalf[.]"[49] Bangko Sentral ng Pilipinas merely relied in good faith on the Secretary's Certificate.[50] University of Mindanao is estopped from denying Saturnino Petalcorin's authority.[51]

Moreover, the Secretary's Certificate was notarized. This meant that it enjoyed the presumption of regularity as to the truth of its statements and authenticity of the signatures.[52] Thus, "BSP cannot be faulted for relying on the [Secretary's Certificate.]"[53]

The Court of Appeals also ruled that since University of Mindanao's officers, Guillermo B. Torres and his wife, Dolores P. Torres, signed the promissory notes, University of Mindanao was presumed to have knowledge of the transaction.[54] Knowledge of an officer in relation to matters within the scope of his or her authority is notice to the corporation.[55]

The annotations on University of Mindanao's certificates of title also operate as constructive notice to it that its properties were mortgaged.[56] Its failure to disown the mortgages for more than a decade was implied ratification.[57]

The Court of Appeals also ruled that Bangko Sentral ng Pilipinas' action for foreclosure had not yet prescribed because the due date extensions that Bangko Sentral ng Pilipinas granted to FISLAI extended the due date of payment to five (5) years from February 8, 1985.[58] The bank's demand letter to Dolores P. Torres on June 18, 1999 also interrupted the prescriptive period.[59]

University of Mindanao and Bangko Sentral ng Pilipinas filed a Motion for Reconsideration[60] and Motion for Partial Reconsideration respectively of the Court of Appeals' Decision. On December 20, 2010, the Court of Appeals issued a Resolution, thus:

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48 Id. at 32.
49 Id.
50 Id. at 32–33.
51 Id. at 33.
52 Id. at 34.
53 Id. at 36.
54 Id. at 37–38.
55 Id. at 38.
56 Id. at 40.
57 Id.
58 Id. at 42.
59 Id.
60 Id. at 46–58.

Acting on the foregoing incidents, the Court **RESOLVES** to:

1. **GRANT** the appellant's twin motions for extension of time to file comment/opposition and **NOTE** the Comment on the appellee's Motion for Reconsideration it subsequently filed on June 23, 2010;

2. **GRANT** the appellee's three (3) motions for extension of time to file comment/opposition and **NOTE** the Comment on the appellant's Motion for Partial Reconsideration it filed on July 26, 2010;

3. **NOTE** the appellant's "Motion for Leave to File Attached Reply Dated August 11, 2010" filed on August 13, 2010 and **DENY** the attached "Reply to Comment Dated July 26, 2010";

4. **DENY** the appellee's Motion for Reconsideration as it does not offer any arguments sufficiently meritorious to warrant modification or reversal of the Court's 17 December 2009 Decision. The Court finds that there is no compelling reason to reconsider its ruling; and

5. **GRANT** the appellant's Motion for Partial Reconsideration, as the Court finds it meritorious, considering that it ruled in its Decision that "BSP can still foreclose on the UM's real property in Cagayan de Oro City covered by TCT No. T-14345." It then follows that the injunctive writ issued by the RTC of Cagayan de Oro City, Branch 24 must be lifted. The Court's 17 December 2009 Decision is accordingly **MODIFIED** and **AMENDED** to read as follows:

> "**FOR THE REASONS STATED,** the Decision dated 23 November 2001 of the Regional Trial Court of Cagayan de Oro City, Branch 24 in Civil Case No. 99-414 and the Decision dated 7 December 2001 of the Regional Trial Court of Iligan City, Branch 1 in Civil Case No. 4790 are **REVERSED** and **SET ASIDE.** The Complaints in both cases before the trial courts are **DISMISSED.** The Writs of Preliminary Injunction issued by the Regional Trial Court of Iligan City, Branch 1 in Civil Case No. 4790 and in the Regional Trial Court of Cagayan de Oro City, Branch 24 in Civil Case No. 99-414 are **LIFTED** and **SET ASIDE.**"

SO ORDERED.[61] (Citation omitted)

Hence, University of Mindanao filed this Petition for Review.

The issues for resolution are:

First, whether respondent Bangko Sentral ng Pilipinas' action to foreclose the mortgaged properties had already prescribed; and

Second, whether petitioner University of Mindanao is bound by the real estate mortgage contracts executed by Saturnino Petalcorin.

We grant the Petition.

I

Petitioner argues that respondent's action to foreclose its mortgaged properties had already prescribed.

Petitioner is mistaken.

Prescription is the mode of acquiring or losing rights through the lapse of time.[62] Its purpose is "to protect the diligent and vigilant, not those who sleep on their rights."[63]

The prescriptive period for actions on mortgages is ten (10) years from the day they may be brought.[64] Actions on mortgages may be brought

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61 Id. at 65–67, Court of Appeals Resolution.

62 CIVIL CODE, art. 1106 provides:
ART. 1106. By prescription, one acquires ownership and other real rights through the lapse of time in the manner and under the conditions laid down by law.
In the same way, rights and conditions are lost by prescription.

63 *Vda. de Rigonan v. Derecho*, 502 Phil. 202, 209 (2005) [Per J. Panganiban, Third Division].

64 CIVIL CODE, arts. 1142, 1144, and 1150 provide:
ART. 1142. A mortgage action prescribes after ten years.
. . . .
ART. 1144. The following actions must be brought within ten years from the time the right of action accrues:
(1) Upon a written contract;
(2) Upon an obligation created by law;
(3) Upon a judgment.
. . . .
ART. 1150. The time for prescription for all kinds of actions, where there is no special provision which ordains otherwise, shall be counted from the day they may be brought.

not upon the execution of the mortgage contract but upon default in payment of the obligation secured by the mortgage.[65]

A debtor is considered in default when he or she fails to pay the obligation on due date and, subject to exceptions, after demands for payment were made by the creditor. Article 1169 of the Civil Code provides:

> ART. 1169. Those obliged to deliver or to do something incur in delay from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.
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> However, the demand by the creditor shall not be necessary in order that delay may exist:
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> (1) When the obligation or the law expressly so declare; or
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> (2) When from the nature and the circumstances of the obligation it appears that the designation of the time when the thing is to be delivered or the service is to be rendered was a controlling motive for the establishment of the contract; or
>
> (3) When demand would be useless, as when the obligor has rendered it beyond his power to perform.

Article 1193 of the Civil Code provides that an obligation is demandable only upon due date. It provides:

> ART. 1193. Obligations for whose fulfillment a day certain has been fixed, shall be demandable only when that day comes.
>
> Obligations with a resolutory period take effect at once, but terminate upon arrival of the day certain.
>
> A day certain is understood to be that which must necessarily come, although it may not be known when.
>
> If the uncertainty consists in whether the day will come or not, the obligation is conditional, and it shall be regulated by the rules of the preceding Section.

In other words, as a general rule, a person defaults and prescriptive period for action runs when (1) the obligation becomes due and demandable; and (2) demand for payment has been made.

The prescriptive period neither runs from the date of the execution of a contract nor does the prescriptive period necessarily run on the date when

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[65] *See Cando v. Sps. Olazo*, 547 Phil. 630, 637 (2007) [Per J. Tinga, Second Division]; *See also Tambunting, Jr. v. Sps. Sumabat*, 507 Phil. 94, 99–100 (2005) [Per J. Corona, Third Division].

the loan becomes due and demandable.[66] Prescriptive period runs from the date of demand,[67] subject to certain exceptions.

In other words, ten (10) years may lapse from the date of the execution of contract, without barring a cause of action on the mortgage when there is a gap between the period of execution of the contract and the due date or between the due date and the demand date in cases when demand is necessary.[68]

The mortgage contracts in this case were executed by Saturnino Petalcorin in 1982. The maturity dates of FISLAI's loans were repeatedly extended until the loans became due and demandable only in 1990.[69] Respondent informed petitioner of its decision to foreclose its properties and demanded payment in 1999.

The running of the prescriptive period of respondent's action on the mortgages did not start when it executed the mortgage contracts with Saturnino Petalcorin in 1982.

The prescriptive period for filing an action may run either (1) from 1990 when the loan became due, if the obligation was covered by the exceptions under Article 1169 of the Civil Code; (2) or from 1999 when respondent demanded payment, if the obligation was not covered by the exceptions under Article 1169 of the Civil Code.

In either case, respondent's Complaint with cause of action based on the mortgage contract was filed well within the prescriptive period.

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66 *See De la Rosa v. Bank of the Philippine Islands*, 51 Phil. 926, 929 (1924) [Per J. Romualdez, En Banc].

67 *See De la Rosa v. Bank of the Philippine Islands*, 51 Phil. 926, 929 (1924) [Per J. Romualdez, En Banc]; *See also Philippine Charter Insurance Corporation v. Central Colleges of the Philippines, et al.*, 682 Phil. 507, 520–521 (2012) [Per J. Mendoza, Third Division].

68 *See also Mesina v. Garcia*, 538 Phil. 920, 930–931 (2006) [Per J. Chico-Nazario, First Division], on the interruption of prescriptive period.

69 *Rollo*, pp. 41–42, Court of Appeals Decision. The following Monetary Board Resolutions granted extension of the maturity date of FISLAI's loans:

1. Monetary Board Resolution No. 792 dated April 23, 1982 (payable on demand but not to exceed 60 days);
2. Monetary Board Resolution No. 1127 dated June 18, 1982 (60-day extension);
3. Monetary Board Resolution No. 1950 dated October 22, 1982 (180-day extension);
4. Monetary Board Resolution No. 2137 dated November 19, 1982 (180-day extension);
5. Monetary Board Resolution No. 2307 dated December 17, 1982 (180-day extension);
6. Monetary Board Resolution No. 893 dated May 27, 1983 (180-day extension);
7. Monetary Board Resolution No. 142 dated February 8, 1985 (approval of FISLAI and DSLAI's rehabilitation plan, which made loans due after five years)

The loans became due in 1990. Bangko Sentral ng Pilipinas' demand letter to petitioner dated June 18, 1999 interrupted the prescriptive period.

Given the termination of all traces of FISLAI's existence,[70] demand may have been rendered unnecessary under Article 1169(3)[71] of the Civil Code. Granting that this is the case, respondent would have had ten (10) years from due date in 1990 or until 2000 to institute an action on the mortgage contract.

However, under Article 1155[72] of the Civil Code, prescription of actions may be interrupted by (1) the filing of a court action; (2) a written extrajudicial demand; and (3) the written acknowledgment of the debt by the debtor.

Therefore, the running of the prescriptive period was interrupted when respondent sent its demand letter to petitioner on June 18, 1999. This eventually led to petitioner's filing of its annulment of mortgage complaints before the Regional Trial Courts of Iligan City and Cagayan De Oro City on July 16, 1999.

Assuming that demand was necessary, respondent's action was within the ten (10)-year prescriptive period. Respondent demanded payment of the loans in 1999 and filed an action in the same year.

II

Petitioner argues that the execution of the mortgage contract was ultra vires. As an educational institution, it may not secure the loans of third persons.[73] Securing loans of third persons is not among the purposes for which petitioner was established.[74]

Petitioner is correct.

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70 FISLAI was merged with DSLAI, with DSLAI as the surviving corporation. DSLAI became known later as MSLAI. MSLAI was liquidated in 1991.

71 CIVIL CODE, art. 1169 provides:
ART. 1169. Those obliged to deliver or to do something incur in delay from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.
However, the demand by the creditor shall not be necessary in order that delay may exist:
. . . .
(3) When demand would be useless, as when the obligor has rendered it beyond his power to perform.

72 CIVIL CODE, art. 1155 provides:
ART. 1155. The prescription of actions is interrupted when they are filed before the court, when there is a written extrajudicial demand by the creditors, and when there is any written acknowledgment of the debt by the debtor.
See Sps. Larrobis, Jr. v. Philippine Veterans Bank, 483 Phil. 33, 48 (2004) [Per J. Austria-Martinez, Second Division]; *Development Bank of the Philippines v. Prudential Bank*, 512 Phil. 267, 280 (2005) [Per J. Corona, Third Division].

73 *Rollo*, p. 80, University of Mindanao, Inc.'s Petition.

74 Id. at 82.

Corporations are artificial entities granted legal personalities upon their creation by their incorporators in accordance with law. Unlike natural persons, they have no inherent powers. Third persons dealing with corporations cannot assume that corporations have powers. It is up to those persons dealing with corporations to determine their competence as expressly defined by the law and their articles of incorporation.[75]

A corporation may exercise its powers only within those definitions. Corporate acts that are outside those express definitions under the law or articles of incorporation or those "committed outside the object for which a corporation is created"[76] are ultra vires.

The only exception to this rule is when acts are necessary and incidental to carry out a corporation's purposes, and to the exercise of powers conferred by the Corporation Code and under a corporation's articles of incorporation.[77] This exception is specifically included in the general powers of a corporation under Section 36 of the Corporation Code:

> SEC. 36. *Corporate powers and capacity.*—Every corporation incorporated under this Code has the power and capacity:
>
> 1. To sue and be sued in its corporate name;
> 2. Of succession by its corporate name for the period of time stated in the articles of incorporation and the certificate of incorporation;
> 3. To adopt and use a corporate seal;
> 4. To amend its articles of incorporation in accordance with the provisions of this Code;
> 5. To adopt by-laws, not contrary to law, morals, or public policy, and to amend or repeal the same in accordance with this Code;
> 6. In case of stock corporations, to issue or sell stocks to subscribers and to sell treasury stocks in accordance with the provisions of this Code; and to admit members to the corporation if it be a non-stock corporation;
> 7. To purchase, receive, take or grant, hold, convey, sell, lease, pledge, mortgage and otherwise deal with such real and personal property, including securities and bonds of other corporations, as the transaction of the lawful business of the corporation may reasonably and necessarily require, subject to the limitations prescribed by law and the Constitution;

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75 CORP. CODE, sec. 45 provides:
SEC. 45. *Ultra vires acts of corporations.*—No corporation under this Code shall possess or exercise any corporate powers except those conferred by this Code or by its articles of incorporation and except such as are necessary or incidental to the exercise of the powers so conferred.

76 *Republic v. Acoje Mining Company, Inc.*, 117 Phil. 379, 383 (1963) [Per J. Bautista Angelo, En Banc].

77 CORP. CODE, sec. 45; *See also Republic v. Acoje Mining Company, Inc.*, 117 Phil. 379, 383 (1963) [Per J. Bautista Angelo, En Banc].

> 8. To enter into merger or consolidation with other corporations as provided in this Code;
> 9. To make reasonable donations, including those for the public welfare or for hospital, charitable, cultural, scientific, civic, or similar purposes: *Provided,* That no corporation, domestic or foreign, shall give donations in aid of any political party or candidate or for purposes of partisan political activity;
> 10. To establish pension, retirement, and other plans for the benefit of its directors, trustees, officers and employees; and
> 11. *To exercise such other powers as may be essential or necessary to carry out its purpose or purposes as stated in its articles of incorporation.* (Emphasis supplied)

Montelibano, et al. v. Bacolod-Murcia Milling Co., Inc.[78] stated the test to determine if a corporate act is in accordance with its purposes:

> It is a question, therefore, in each case, of the *logical relation of the act to the corporate purpose expressed in the charter*. If that act is one which is lawful in itself, and not otherwise prohibited, is done for the purpose of serving corporate ends, and is reasonably tributary to the promotion of those ends, *in a substantial, and not in a remote and fanciful, sense,* it may fairly be considered within charter powers. The test to be applied is whether the act in question is in *direct and immediate furtherance of the corporation's business, fairly incident to the express powers and reasonably necessary to their exercise*. If so, the corporation has the power to do it; otherwise, not.[79] (Emphasis supplied)

As an educational institution, petitioner serves:

> a. To establish, conduct and operate a college or colleges, and/or university;
> b. To acquire properties, real and/or personal, in connection with the establishment and operation of such college or colleges;
> c. To do and perform the various and sundry acts and things permitted by the laws of the Philippines unto corporations like classes and kinds;
> d. To engage in agricultural, industrial, and/or commercial pursuits in line with educational program of the corporation and to acquire all properties, real and personal[,] necessary for the purposes[;]
> e. To establish, operate, and/or acquire broadcasting and television stations also in line with the educational program of the corporation and for such other purposes as the Board of Trustees may determine from time to time;

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78 115 Phil. 18 (1962) [Per J. J. B. L. Reyes, En Banc].
79 Id. at 25, *quoting* 6 FLETCHER CYC. CORP. 266–268 (1950).

> f. To undertake housing projects of faculty members and employees, and to acquire real estates for this purpose;
> g. To establish, conduct and operate and/or invest in educational foundations; [As amended on December 15, 1965][;]
> h. To establish, conduct and operate housing and dental schools, medical facilities and other related undertakings;
> i. To invest in other corporations. [As amended on December 9, 1998]. [Amended Articles of Incorporation of the University of Mindanao, Inc. – the Petitioner].[80]

Petitioner does not have the power to mortgage its properties in order to secure loans of other persons. As an educational institution, it is limited to developing human capital through formal instruction. It is not a corporation engaged in the business of securing loans of others.

Hiring professors, instructors, and personnel; acquiring equipment and real estate; establishing housing facilities for personnel and students; hiring a concessionaire; and other activities that can be directly connected to the operations and conduct of the education business may constitute the necessary and incidental acts of an educational institution.

Securing FISLAI's loans by mortgaging petitioner's properties does not appear to have even the remotest connection to the operations of petitioner as an educational institution. Securing loans is not an adjunct of the educational institution's conduct of business.[81] It does not appear that securing third-party loans was necessary to maintain petitioner's business of providing instruction to individuals.

This court upheld the validity of corporate acts when those acts were shown to be clearly within the corporation's powers or were connected to the corporation's purposes.

In *Pirovano, et al. v. De la Rama Steamship Co.*,[82] this court declared valid the donation given to the children of a deceased person who contributed to the growth of the corporation.[83] This court found that this donation was within the broad scope of powers and purposes of the corporation to "aid in any other manner any person . . . in which any interest is held by this corporation or in the affairs or prosperity of which this corporation has a lawful interest."[84]

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80 *Rollo*, p. 81, University of Mindanao, Inc.'s Petition.
81 *Cf. Republic v. Acoje Mining Company, Inc.*, 117 Phil. 379, 383 (1963) [Per J. Bautista Angelo, En Banc].
82 96 Phil. 335 (1954) [Per J. Bautista Angelo, En Banc].
83 Id. at 367.
84 Id. at 355.

In *Twin Towers Condominium Corporation v. Court of Appeals, et al.*,[85] this court declared valid a rule by Twin Towers Condominium denying delinquent members the right to use condominium facilities.[86] This court ruled that the condominium's power to promulgate rules on the use of facilities and to enforce provisions of the Master Deed was clear in the Condominium Act, Master Deed, and By-laws of the condominium.[87] Moreover, the promulgation of such rule was "reasonably necessary" to attain the purposes of the condominium project.[88]

This court has, in effect, created a presumption that corporate acts are valid if, on their face, the acts were within the corporation's powers or purposes. This presumption was explained as early as in 1915 in *Coleman v. Hotel De France*[89] where this court ruled that contracts entered into by corporations in the exercise of their incidental powers are not ultra vires.[90]

Coleman involved a hotel's cancellation of an employment contract it executed with a gymnast. One of the hotel's contentions was the supposed ultra vires nature of the contract. It was executed outside its express and implied powers under the articles of incorporation.[91]

In ruling in favor of the contract's validity, this court considered the incidental powers of the hotel to include the execution of employment contracts with entertainers for the purpose of providing its guests entertainment and increasing patronage.[92]

This court ruled that a contract executed by a corporation shall be presumed valid if on its face its execution was not beyond the powers of the corporation to do.[93] Thus:

> When a contract is not on its face necessarily beyond the scope of the power of the corporation by which it was made, it will, in the absence of proof to the contrary, be presumed to be valid. Corporations are presumed to contract within their powers. The doctrine of ultra vires, when invoked for or against a corporation, should not be allowed to prevail where it would defeat the ends of justice or work a legal wrong.[94]

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85 446 Phil. 280 (2003) [Per J. Carpio, First Division].
86 Id. at 303–304.
87 Id. at 305–307.
88 Id. at 307.
89 29 Phil. 323 (1915) [Per J. Carson, En Banc].
90 Id. at 326.
91 Id. at 324–326.
92 Id. at 326–327.
93 Id. at 326.
94 Id., *quoting Chicago, Rock Island & Pacific R. R. Co. v. Union Pacific Ry. Co.*, 47 Fed. Rep. 15, 22, *which in turn quoted Railway Co. v. McCarthy*, 96 U.S. 267.

However, this should not be interpreted to mean that such presumption applies to all cases, even when the act in question is on its face beyond the corporation's power to do or when the evidence contradicts the presumption.

Presumptions are "inference[s] as to the existence of a fact not actually known, arising from its usual connection with another which is known, or a conjecture based on past experience as to what course human affairs ordinarily take."[95] Presumptions embody values and revealed behavioral expectations under a given set of circumstances.

Presumptions may be conclusive[96] or disputable.[97]

Conclusive presumptions are presumptions that may not be overturned by evidence, however strong the evidence is.[98] They are made conclusive not because there is an established uniformity in behavior whenever identified circumstances arise. They are conclusive because they are declared as such under the law or the rules. Rule 131, Section 2 of the Rules of Court identifies two (2) conclusive presumptions:

> SEC. 2. *Conclusive presumptions*.— The following are instances of conclusive presumptions:
>
> (a) Whenever a party has, by his own declaration, act, or omission, intentionally and deliberately led another to believe a particular thing true, and to act upon such belief, he cannot, in any litigation arising out of such declaration, act or omission, be permitted to falsify it;
>
> (b) The tenant is not permitted to deny the title of his landlord at the time of the commencement of the relation of landlord and tenant between them.

On the other hand, disputable presumptions are presumptions that may be overcome by contrary evidence.[99] They are disputable in recognition of

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95 *Martin v. Court of Appeals*, G.R. No. 82248, January 30, 1992, 205 SCRA 591, 595 [Per J. Cruz, First Division], *citing* 6 Manuel V. Moran, COMMENTS ON THE RULES OF COURT 12 (1980) and *Perez v. Ysip*, 81 Phil. 218 (1948) [Per J. Briones, En Banc].

96 RULES OF COURT, Rule 131, sec. 2 provides:
SEC. 2. *Conclusive presumptions*.— The following are instances of conclusive presumptions:
(a) Whenever a party has, by his own declaration, act, or omission, intentionally and deliberately led another to believe a particular thing true, and to act upon such belief, he cannot, in any litigation arising out of such declaration, act or omission, be permitted to falsify it;
(b) The tenant is not permitted to deny the title of his landlord at the time of the commencement of the relation of landlord and tenant between them.

97 RULES OF COURT, Rule 131, sec. 3 provides:
SEC. 3. *Disputable presumptions*.— The following presumptions are satisfactory if uncontradicted, but may be contradicted and overcome by other evidence: . . . .

98 *Mercado v. Santos and Daza*, 66 Phil. 215, 222 (1938) [Per J. Laurel, En Banc], *citing Brant v. Morning Journal Association*, 80 N.Y.S. 1002, 1004; 81 App. Div. 183 and *Joslyn v. Puloer*, 59 Hun. 129, 140; 13 N.Y.S. 311.

99 RULES OF COURT, Rule 131, sec. 3.

the variability of human behavior. Presumptions are not always true. They may be wrong under certain circumstances, and courts are expected to apply them, keeping in mind the nuances of every experience that may render the expectations wrong.

Thus, the application of disputable presumptions on a given circumstance must be based on the existence of certain facts on which they are meant to operate. "[P]resumptions are not allegations, nor do they supply their absence[.]"[100] Presumptions are conclusions. They do not apply when there are no facts or allegations to support them.

If the facts exist to set in motion the operation of a disputable presumption, courts may accept the presumption. However, contrary evidence may be presented to rebut the presumption.

Courts cannot disregard contrary evidence offered to rebut disputable presumptions. Disputable presumptions apply only in the absence of contrary evidence or explanations. This court explained in *Philippine Agila Satellite Inc. v. Usec. Trinidad-Lichauco*:[101]

> We do not doubt the existence of the presumptions of "good faith" or "regular performance of official duty," yet *these presumptions are disputable and may be contradicted and overcome by other evidence*. Many civil actions are oriented towards overcoming any number of these presumptions, and a cause of action can certainly be geared towards such effect. *The very purpose of trial is to allow a party to present evidence to overcome the disputable presumptions involved. Otherwise, if trial is deemed irrelevant or unnecessary, owing to the perceived indisputability of the presumptions, the judicial exercise would be relegated to a mere ascertainment of what presumptions apply in a given case, nothing more*. Consequently, the entire Rules of Court is rendered as excess verbiage, save perhaps for the provisions laying down the legal presumptions.
>
> If this reasoning of the Court of Appeals were ever adopted as a jurisprudential rule, no public officer could ever be sued for acts executed beyond their official functions or authority, or for tortious conduct or behavior, since such acts would "enjoy the presumption of good faith and in the regular performance of official duty." Indeed, few civil actions of any nature would ever reach the trial stage, if a case can be adjudicated by a mere determination from the complaint or answer as to which legal presumptions are applicable. For example, the presumption that a person is innocent of a wrong is a disputable presumption on the same level as that of the regular performance of official duty. A civil complaint for damages necessarily alleges that the defendant committed a wrongful act or omission that would serve as basis for the award of damages. With the rationale of the Court of Appeals, such complaint can be dismissed upon a

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[100] *De Leon v. Villanueva*, 51 Phil. 676, 683 (1928) [Per J. Romualdez, En Banc].
[101] 522 Phil. 565 (2006) [Per J. Tinga, Third Division].

> motion to dismiss solely on the ground that the presumption is that a person is innocent of a wrong.[102] (Emphasis supplied, citations omitted)

In this case, the presumption that the execution of mortgage contracts was within petitioner's corporate powers does not apply. Securing third-party loans is not connected to petitioner's purposes as an educational institution.

III

Respondent argues that petitioner's act of mortgaging its properties to guarantee FISLAI's loans was consistent with petitioner's business interests, since petitioner was presumably a FISLAI shareholder whose officers and shareholders interlock with FISLAI. Respondent points out that petitioner and its key officers held substantial shares in MSLAI when DSLAI and FISLAI merged. Therefore, it was safe to assume that when the mortgages were executed in 1982, petitioner held substantial shares in FISLAI.[103]

Parties dealing with corporations cannot simply assume that their transaction is within the corporate powers. The acts of a corporation are still limited by its powers and purposes as provided in the law and its articles of incorporation.

Acquiring shares in another corporation is not a means to create new powers for the acquiring corporation. Being a shareholder of another corporation does not automatically change the nature and purpose of a corporation's business. Appropriate amendments must be made either to the law or the articles of incorporation before a corporation can validly exercise powers outside those provided in law or the articles of incorporation. In other words, without an amendment, what is ultra vires before a corporation acquires shares in other corporations is still ultra vires after such acquisition.

Thus, regardless of the number of shares that petitioner had with FISLAI, DSLAI, or MSLAI, securing loans of third persons is still beyond petitioner's power to do. It is still inconsistent with its purposes under the law[104] and its articles of incorporation.[105]

In attempting to show petitioner's interest in securing FISLAI's loans by adverting to their interlocking directors and shareholders, respondent disregards petitioner's separate personality from its officers, shareholders, and other juridical persons.

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102 Id. at 584–585.
103 *Rollo*, pp. 272–273, Bangko Sentral ng Pilipinas' Comment on Petition for Review.
104 CORP. CODE, sec. 36.
105 *Rollo*, p. 81, University of Mindanao's Petition.

The separate personality of corporations means that they are "vest[ed] [with] rights, powers, and attributes [of their own] as if they were natural persons[.]"[106] Their assets and liabilities are their own and not their officers', shareholders', or another corporation's. In the same vein, the assets and liabilities of their officers and shareholders are not the corporations'. Obligations incurred by corporations are not obligations of their officers and shareholders. Obligations of officers and shareholders are not obligations of corporations.[107] In other words, corporate interests are separate from the personal interests of the natural persons that comprise corporations.

Corporations are given separate personalities to allow natural persons to balance the risks of business as they accumulate capital. They are, however, given limited competence as a means to protect the public from fraudulent acts that may be committed using the separate juridical personality given to corporations.

Petitioner's key officers, as shareholders of FISLAI, may have an interest in ensuring the viability of FISLAI by obtaining a loan from respondent and securing it by whatever means. However, having interlocking officers and stockholders with FISLAI does not mean that petitioner, as an educational institution, is or must necessarily be interested in the affairs of FISLAI.

Since petitioner is an entity distinct and separate not only from its own officers and shareholders but also from FISLAI, its interests as an educational institution may not be consistent with FISLAI's.

Petitioner and FISLAI have different constituencies. Petitioner's constituents comprise persons who have committed to developing skills and acquiring knowledge in their chosen fields by availing the formal instruction provided by petitioner. On the other hand, FISLAI is a thrift bank, which constituencies comprise investors.

While petitioner and FISLAI exist ultimately to benefit their stockholders, their constituencies affect the means by which they can maintain their existence. Their interests are congruent with sustaining their constituents' needs because their existence depends on that. Petitioner can exist only if it continues to provide for the kind and quality of instruction that is needed by its constituents. Its operations and existence are placed at risk when resources are used on activities that are not geared toward the

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[106] *Lanuza, Jr. v. BF Corporation*, G.R. No. 174938, October 1, 2014, 737 SCRA 275, 296 [Per J. Leonen, Second Division].

[107] Id. at 295–296.

attainment of its purpose. Petitioner has no business in securing FISLAI, DSLAI, or MSLAI's loans. This activity is not compatible with its business of providing quality instruction to its constituents.

Indeed, there are instances when we disregard the separate corporate personalities of the corporation and its stockholders, directors, or officers. This is called piercing of the corporate veil.

Corporate veil is pierced when the separate personality of the corporation is being used to perpetrate fraud, illegalities, and injustices.[108] In *Lanuza, Jr. v. BF Corporation*:[109]

> Piercing the corporate veil is warranted when "[the separate personality of a corporation] is used as a means to perpetrate fraud or an illegal act, or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, or to confuse legitimate issues." It is also warranted in alter ego cases "where a corporation is merely a farce since it is a mere alter ego or business conduit of a person, or where the corporation is so organized and controlled and its affairs are so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation."[110]

These instances have not been shown in this case. There is no evidence pointing to the possibility that petitioner used its separate personality to defraud third persons or commit illegal acts. Neither is there evidence to show that petitioner was merely a farce of a corporation. What has been shown instead was that petitioner, too, had been victimized by fraudulent and unauthorized acts of its own officers and directors.

In this case, instead of guarding against fraud, we perpetuate fraud if we accept respondent's contentions.

IV

Petitioner argues that it did not authorize Saturnino Petalcorin to mortgage its properties on its behalf. There was no board resolution to that effect. Thus, the mortgages executed by Saturnino Petalcorin were unenforceable.[111]

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108 Id. at 299.

109 G.R. No. 174938, October 1, 2014, 737 SCRA 275 [Per J. Leonen, Second Division].

110 Id. at 299, *citing Heirs of Fe Tan Uy v. International Exchange Bank*, G.R. No. 166282, February 13, 2013, 690 SCRA 519, 526 [Per J. Mendoza, Third Division] and *Pantranco Employees Association (PEA-PTGWO), et al. v. National Labor Relations Commission, et al.*, 600 Phil. 645, 663 (2009) [Per J. Nachura, Third Division].

111 *Rollo*, p. 88, University of Mindanao, Inc.'s Petition.

The mortgage contracts executed in favor of respondent do not bind petitioner. They were executed without authority from petitioner.

Petitioner must exercise its powers and conduct its business through its Board of Trustees. Section 23 of the Corporation Code provides:

> SEC. 23. *The board of directors or trustees.*—Unless otherwise provided in this Code, the corporate powers of all corporations formed under this Code shall be exercised, all business conducted and all property of such corporations controlled and held by the board of directors or trustees to be elected from among the holders of stocks, or where there is no stock, from among the members of the corporation, who shall hold office for one (1) year and until their successors are elected and qualified.

Being a juridical person, petitioner cannot conduct its business, make decisions, or act in any manner without action from its Board of Trustees. The Board of Trustees must act as a body in order to exercise corporate powers. Individual trustees are not clothed with corporate powers just by being a trustee. Hence, the individual trustee cannot bind the corporation by himself or herself.

The corporation may, however, delegate through a board resolution its corporate powers or functions to a representative, subject to limitations under the law and the corporation's articles of incorporation.[112]

The relationship between a corporation and its representatives is governed by the general principles of agency.[113] Article 1317 of the Civil Code provides that there must be authority from the principal before anyone can act in his or her name:

> ART. 1317. No one may contract in the name of another without being authorized by the latter, or unless he has by law a right to represent him.

Hence, without delegation by the board of directors or trustees, acts of a person—including those of the corporation's directors, trustees,

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[112] CORP. CODE, sec. 45 provides:
SEC. 45. *Ultra vires acts of corporations.*—No corporation under this Code shall possess or exercise any corporate powers except those conferred by this Code or by its articles of incorporation and except such as are necessary or incidental to the exercise of the powers so conferred.
See also AF Realty & Development, Inc. v. Dieselman Freight Services, Co., 424 Phil. 446, 454 (2002) [Per J. Sandoval-Gutierrez, Third Division].

[113] *See Yasuma v. Heirs of Cecilio S. de Villa*, 531 Phil. 62, 68 (2006) [Per J. Corona, Second Division], *citing San Juan Structural and Steel Fabricators, Inc. v. Court of Appeals*, 357 Phil. 631, 644 (1998) [Per J. Panganiban, First Division].

shareholders, or officers—executed on behalf of the corporation are generally not binding on the corporation.[114]

Contracts entered into in another's name without authority or valid legal representation are generally unenforceable. The Civil Code provides:

> ART. 1317. . . .
>
> A contract entered into in the name of another by one who has no authority or legal representation, or who has acted beyond his powers, shall be unenforceable, unless it is ratified, expressly or impliedly, by the person on whose behalf it has been executed, before it is revoked by the other contracting party.
>
> . . . .
>
> ART. 1403. The following contracts are unenforceable, unless they are ratified:
>
> (1) Those entered into in the name of another person by one who has been given no authority or legal representation, or who has acted beyond his powers[.]

The unenforceable status of contracts entered into by an unauthorized person on behalf of another is based on the basic principle that contracts must be consented to by both parties.[115] There is no contract without meeting of the minds as to the subject matter and cause of the obligations created under the contract.[116]

Consent of a person cannot be presumed from representations of another, especially if obligations will be incurred as a result. Thus, authority is required to make actions made on his or her behalf binding on a person. Contracts entered into by persons without authority from the corporation shall generally be considered ultra vires and unenforceable[117] against the corporation.

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114 *Premium Marble Resources, Inc. v. Court of Appeals*, 332 Phil. 10, 18 (1996) [Per J. Torres, Jr., Second Division]; *See also People's Aircargo and Warehousing Co. Inc. v. Court of Appeals*, 357 Phil. 850, 862 (1998) [Per J. Panganiban, First Division].

115 CIVIL CODE, art. 1318 provides:
ART. 1318. There is no contract unless the following requisites concur:
(1) Consent of the contracting parties;
(2) Object certain which is the subject matter of the contract;
(3) Cause of the obligation which is established.

116 CIVIL CODE, arts. 1305 and 1318 provide:
ART. 1305. A contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service.
. . . .
ART. 1318. There is no contract unless the following requisites concur:
(1) Consent of the contracting parties;
(2) Object certain which is the subject matter of the contract;
(3) Cause of the obligation which is established.

117 CIVIL CODE, arts. 1403(1), 1404, and 1317 provide:

Two trial courts[118] found that the Secretary's Certificate and the board resolution were either non-existent or fictitious. The trial courts based their findings on the testimony of the Corporate Secretary, Aurora de Leon herself. She signed the Secretary's Certificate and the excerpt of the minutes of the alleged board meeting purporting to authorize Saturnino Petalcorin to mortgage petitioner's properties. There was no board meeting to that effect. Guillermo B. Torres ordered the issuance of the Secretary's Certificate. Aurora de Leon's testimony was corroborated by Saturnino Petalcorin.

Even the Court of Appeals, which reversed the trial courts' decisions, recognized that "BSP failed to prove that the UM Board of Trustees actually passed a Board Resolution authorizing Petalcorin to mortgage the subject real properties[.]"[119]

Well-entrenched is the rule that this court, not being a trier of facts, is bound by the findings of fact of the trial courts and the Court of Appeals when such findings are supported by evidence on record.[120] Hence, not having the proper board resolution to authorize Saturnino Petalcorin to execute the mortgage contracts for petitioner, the contracts he executed are unenforceable against petitioner. They cannot bind petitioner.

However, personal liabilities may be incurred by directors who assented to such unauthorized act[121] and by the person who contracted in excess of the limits of his or her authority without the corporation's knowledge.[122]

ART. 1403. The following contracts are unenforceable, unless they are ratified:
(1) Those entered into in the name of another person by one who has been given no authority or legal representation, or who has acted beyond his powers;
. . . .
ART. 1404. Unauthorized contracts are governed by article 1317 and the principles of agency in Title X of this Book.
. . . .
ART. 1317. No one may contract in the name of another without being authorized by the latter, or unless he has by law a right to represent him.
A contract entered into in the name of another by one who has no authority or legal representation, or who has acted beyond his powers, shall be unenforceable, unless it is ratified, expressly or impliedly, by the person on whose behalf it has been executed, before it is revoked by the other contracting party.

118 Two Complaints were filed before two separate trial courts: Iligan City Regional Trial Court and Cagayan de Oro City Regional Trial Court.

119 *Rollo*, p. 32, Court of Appeals Decision.

120 *See Ramos, Sr. v. Gatchalian Realty, Inc.*, 238 Phil. 689, 698 (1987) [Per J. Gutierrez, Jr., Third Division].

121 CORP. CODE, sec. 31 provides:
SEC. 31. *Liability of directors, trustees or officers.*—Directors or trustees who wilfully and knowingly vote for or assent to patently unlawful acts of the corporation or who are guilty of gross negligence or bad faith in directing the affairs of the corporation . . . shall be liable jointly and severally for all damages resulting therefrom suffered by the corporation, its stockholders or members and other persons[.]

122 CIVIL CODE, art. 1897 provides:
ART. 1897. The agent who acts as such is not personally liable to the party with whom he contracts, unless he expressly binds himself or exceeds the limits of his authority without giving such party sufficient notice of his powers.

V

Unauthorized acts that are merely beyond the powers of the corporation under its articles of incorporation are not void ab initio.

In *Pirovano, et al.*, this court explained that corporate acts may be ultra vires but not void.[123] Corporate acts may be capable of ratification:[124]

> [A] distinction should be made between corporate acts or contracts which are illegal and those which are merely ultra vires. The former contemplates the doing of an act which is contrary to law, morals, or public order, or contravene some rules of public policy or public duty, and are, like similar transactions between individuals, void. They cannot serve as basis of a court action, nor acquire validity by performance, ratification, or estoppel. Mere ultra vires acts, on the other hand, or those which are not illegal and void ab initio, but are not merely within the scope of the articles of incorporation, are merely voidable and may become binding and enforceable when ratified by the stockholders.[125]

Thus, even though a person did not give another person authority to act on his or her behalf, the action may be enforced against him or her if it is shown that he or she ratified it or allowed the other person to act as if he or she had full authority to do so. The Civil Code provides:

> ART. 1910. The principal must comply with all the obligations which the agent may have contracted within the scope of his authority.
>
> *As for any obligation wherein the agent has exceeded his power, the principal is not bound except when he ratifies it expressly or tacitly.*
>
> ART. 1911. Even when the agent has exceeded his authority, the principal is solidarily liable with the agent *if the former allowed the latter to act as though he had full powers*. (Emphasis supplied)

Ratification is a voluntary and deliberate confirmation or adoption of a previous unauthorized act.[126] It converts the unauthorized act of an agent into an act of the principal.[127] It cures the lack of consent at the time of the

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123 *Pirovano, et al. v. De la Rama Steamship Co.*, 96 Phil. 335, 360 (1954) [Per J. Bautista Angelo, En Banc].

124 Id.

125 Id.

126 *See Yasuma v. Heirs of Cecilio S. de Villa*, 531 Phil. 62, 68 (2006) [Per J. Corona, Second Division] and *Lim v. Court of Appeals, Mindanao Station*, G.R. No. 192615, January 30, 2013, 689 SCRA 705, 711–712 [Per J. Brion, Second Division].

127 *Yasuma v. Heirs of Cecilio S. de Villa*, 531 Phil. 62, 68 (2006) [Per J. Corona, Second Division].

execution of the contract entered into by the representative, making the contract valid and enforceable.[128] It is, in essence, consent belatedly given through express or implied acts that are deemed a confirmation or waiver of the right to impugn the unauthorized act.[129] Ratification has the effect of placing the principal in a position as if he or she signed the original contract. In *Board of Liquidators v. Heirs of M. Kalaw, et al.*:[130]

> Authorities, great in number, are one in the idea that "ratification by a corporation of an unauthorized act or contract by its officers or others relates back to the time of the act or contract ratified, and is equivalent to original authority;" and that "[t]he corporation and the other party to the transaction are in precisely the same position as if the act or contract had been authorized at the time." The language of one case is expressive: "The adoption or ratification of a contract by a corporation is nothing more nor less than the making of an original contract. The theory of corporate ratification is predicated on the right of a corporation to contract, and any ratification or adoption is equivalent to a grant of prior authority."[131] (Citations omitted)

Implied ratification may take the form of silence, acquiescence, acts consistent with approval of the act, or acceptance or retention of benefits.[132] However, silence, acquiescence, retention of benefits, and acts that may be interpreted as approval of the act do not by themselves constitute implied ratification. For an act to constitute an implied ratification, there must be no acceptable explanation for the act other than that there is an intention to adopt the act as his or her own.[133] "[It] cannot be inferred from acts that a principal has a right to do independently of the unauthorized act of the agent."[134]

No act by petitioner can be interpreted as anything close to ratification. It was not shown that it issued a resolution ratifying the execution of the mortgage contracts. It was not shown that it received proceeds of the loans secured by the mortgage contracts. There was also no

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128 CIVIL CODE, art. 1396 provides:
ART. 1396. Ratification cleanses the contract from all its defects from the moment it was constituted.
Pirovano, et al. v. De la Rama Steamship Co., 96 Phil. 335, 362 (1954) [Per J. Bautista Angelo, En Banc].

129 CIVIL CODE, arts. 1392 and 1393 provide:
ART. 1392. Ratification extinguishes the action to annul a voidable contract.
ART. 1393. Ratification may be effected expressly or tacitly. It is understood that there is a tacit ratification if, with knowledge of the reason which renders the contract voidable and such reason having ceased, the person who has a right to invoke it should execute an act which necessarily implies an intention to waive his right.
See Woodchild Holdings, Inc. v. Roxas Electric and Construction Company, Inc., 479 Phil. 896, 910–911 (2004) [Per J. Callejo, Sr., Second Division].

130 127 Phil. 399 (1967) [Per J. Sanchez, En Banc].

131 Id. at 420; *See also De Jesus v. Daza*, 77 Phil. 152, 160 (1946) [Per J. Hilado, En Banc].

132 *Yasuma v. Heirs of Cecilio S. de Villa*, 531 Phil. 62, 68 (2006) [Per J. Corona, Second Division].

133 *See also Woodchild Holdings, Inc. v. Roxas Electric and Construction Company, Inc.*, 479 Phil. 896, 915 (2004) [Per J. Callejo, Sr., Second Division].

134 *Woodchild Holdings, Inc. v. Roxas Electric and Construction Company, Inc.*, 479 Phil. 896, 915 (2004) [Per J. Callejo, Sr., Second Division].

showing that it received any consideration for the execution of the mortgage contracts. It even appears that petitioner was unaware of the mortgage contracts until respondent notified it of its desire to foreclose the mortgaged properties.

Ratification must be knowingly and voluntarily done.[135] Petitioner's lack of knowledge about the mortgage executed in its name precludes an interpretation that there was any ratification on its part.

Respondent further argues that petitioner is presumed to have knowledge of its transactions with respondent because its officers, the Spouses Guillermo and Dolores Torres, participated in obtaining the loan.[136]

Indeed, a corporation, being a person created by mere fiction of law, can act only through natural persons such as its directors, officers, agents, and representatives. Hence, the general rule is that knowledge of an officer is considered knowledge of the corporation.

However, even though the Spouses Guillermo and Dolores Torres were officers of both the thrift banks and petitioner, their knowledge of the mortgage contracts cannot be considered as knowledge of the corporation.

The rule that knowledge of an officer is considered knowledge of the corporation applies only when the officer is acting within the authority given to him or her by the corporation. In *Francisco v. Government Service Insurance System*:[137]

> Knowledge of facts acquired or possessed by an officer or agent of a corporation in the course of his employment, and in relation to matters within the scope of his authority, is notice to the corporation, whether he communicates such knowledge or not.[138]

The public should be able to rely on and be protected from the representations of a corporate representative acting within the scope of his or her authority. This is why an authorized officer's knowledge is considered knowledge of corporation. However, just as the public should be able to rely on and be protected from corporate representations, corporations should also be able to expect that they will not be bound by unauthorized actions made on their account.

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135 *Yasuma v. Heirs of Cecilio S. de Villa*, 531 Phil. 62, 68 (2006) [Per J. Corona, Second Division].
136 *Rollo*, p. 284, Bangko Sentral ng Pilipinas' Comment on Petition for Review.
137 117 Phil. 586 (1963) [Per J. J. B. L. Reyes, En Banc].
138 Id. at 595, *quoting* BALLENTINE, LAW ON CORPORATIONS, sec. 112.

Thus, knowledge should be actually communicated to the corporation through its authorized representatives. A corporation cannot be expected to act or not act on a knowledge that had not been communicated to it through an authorized representative. There can be no implied ratification without actual communication. Knowledge of the existence of contract must be brought to the corporation's representative who has authority to ratify it. Further, "the circumstances must be shown from which such knowledge may be presumed."[139]

The Spouses Guillermo and Dolores Torres' knowledge cannot be interpreted as knowledge of petitioner. Their knowledge was not obtained as petitioner's representatives. It was not shown that they were acting for and within the authority given by petitioner when they acquired knowledge of the loan transactions and the mortgages. The knowledge was obtained in the interest of and as representatives of the thrift banks.

VI

Respondent argues that Saturnino Petalcorin was clothed with the authority to transact on behalf of petitioner, based on the board resolution dated March 30, 1982 and Aurora de Leon's notarized Secretary's Certificate.[140] According to respondent, petitioner is bound by the mortgage contracts executed by Saturnino Petalcorin.[141]

This court has recognized presumed or apparent authority or capacity to bind corporate representatives in instances when the corporation, through its silence or other acts of recognition, allowed others to believe that persons, through their usual exercise of corporate powers, were conferred with authority to deal on the corporation's behalf.[142]

The doctrine of apparent authority does not go into the question of the corporation's competence or power to do a particular act. It involves the question of whether the officer has the power or is clothed with the appearance of having the power to act for the corporation. A finding that there is apparent authority is not the same as a finding that the corporate act in question is within the corporation's limited powers.

The rule on apparent authority is based on the principle of estoppel. The Civil Code provides:

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139 *Yu Chuck v. "Kong Li Po,"* 46 Phil. 608, 615 (1924) [Per J. Ostrand, En Banc].

140 *Rollo*, pp. 34, Court of Appeals Decision, and 280, Bangko Sentral ng Pilipinas' Comment on Petition for Review.

141 Id. at 277–278, Bangko Sentral ng Pilipinas' Comment on Petition for Review.

142 *People's Aircargo and Warehousing Co. Inc. v. Court of Appeals*, 357 Phil. 850, 865 (1998) [Per J. Panganiban, First Division]; *Yao Ka Sin Trading v. Court of Appeals*, G.R. No. 53820, June 15, 1992, 209 SCRA 763, 781–782 [Per J. Davide, Jr., Third Division].

> ART. 1431. Through estoppel an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon.
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> . . . .
>
> ART. 1869. Agency may be express, or implied from the acts of the principal, from his silence or lack of action, or his failure to repudiate the agency, knowing that another person is acting on his behalf without authority.
>
> Agency may be oral, unless the law requires a specific form.

A corporation is estopped by its silence and acts of recognition because we recognize that there is information asymmetry between third persons who have little to no information as to what happens during corporate meetings, and the corporate officers, directors, and representatives who are insiders to corporate affairs.[143]

In *People's Aircargo and Warehousing Co. Inc. v. Court of Appeals*,[144] this court held that the contract entered into by the corporation's officer without a board resolution was binding upon the corporation because it previously allowed the officer to contract on its behalf despite the lack of board resolution.[145]

In *Francisco*, this court ruled that Francisco's proposal for redemption of property was accepted by and binding upon the Government Service Insurance System. This court did not appreciate the Government Service Insurance System's defense that since it was the Board Secretary and not the General Manager who sent Francisco the acceptance telegram, it could not be made binding upon the Government Service Insurance System. It did not authorize the Board Secretary to sign for the General Manager. This court appreciated the Government Service Insurance System's failure to disown the telegram sent by the Board Secretary and its silence while it accepted all payments made by Francisco for the redemption of property.[146]

There can be no apparent authority and the corporation cannot be estopped from denying the binding affect of an act when there is no evidence pointing to similar acts and other circumstances that can be interpreted as the corporation holding out a representative as having authority to contract on its

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143 *See Associated Bank v. Spouses Pronstroller*, 580 Phil. 104, 119–120 (2008) [Per J. Nachura, Third Division].

144 357 Phil. 850 (1998) [Per J. Panganiban, First Division].

145 Id. at 864.

146 *Francisco v. Government Service Insurance System*, 117 Phil. 586, 592–595 (1963) [Per J. J. B. L. Reyes, En Banc].

behalf. In *Advance Paper Corporation v. Arma Traders Corporation*,[147] this court had the occasion to say:

> The doctrine of apparent authority does not apply if the principal did not commit any acts or conduct which a third party knew and relied upon in good faith as a result of the exercise of reasonable prudence. Moreover, the agent's acts or conduct must have produced a change of position to the third party's detriment.[148] (Citation omitted)

Saturnino Petalcorin's authority to transact on behalf of petitioner cannot be presumed based on a Secretary's Certificate and excerpt from the minutes of the alleged board meeting that were found to have been simulated. These documents cannot be considered as the corporate acts that held out Saturnino Petalcorin as petitioner's authorized representative for mortgage transactions. They were not supported by an actual board meeting.[149]

VII

Respondent argues that it may rely on the Secretary's Certificate issued by Aurora de Leon because it was notarized.

The Secretary's Certificate was void whether or not it was notarized.

Notarization creates a presumption of regularity and authenticity on the document. This presumption may be rebutted by "strong, complete and conclusive proof"[150] to the contrary. While notarial acknowledgment "attaches full faith and credit to the document concerned[,]"[151] it does not give the document its validity or binding effect. When there is evidence showing that the document is invalid, the presumption of regularity or authenticity is not applicable.

In *Basilio v. Court of Appeals*,[152] this court was convinced that the purported signatory on a deed of sale was not as represented, despite testimony from the notary public that the signatory appeared before him and signed the instrument.[153] Apart from finding that there was forgery,[154] this court noted:

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147 G.R. No. 176897, December 11, 2013, 712 SCRA 313 [Per J. Brion, Second Division].
148 Id. at 330.
149 *Rollo*, p. 24, Court of Appeals Decision.
150 *Sales v. Court of Appeals*, G.R. No. 40145, July 29, 1992, 211 SCRA 858, 865 [Per J. Romero, Third Division].
151 Id.
152 400 Phil. 120 (2000) [Per J. Pardo, First Division].
153 Id. at 125–126.
154 Id. at 125.

> The notary public, Atty. Ruben Silvestre, testified that he was the one who notarized the document and that Dionisio Z. Basilio appeared personally before him and signed the instrument himself. However, he admitted that he did not know Dionisio Z. Basilio personally to ascertain if the person who signed the document was actually Dionisio Z. Basilio himself, or another person who stood in his place. He could not even recall whether the document had been executed in his office or not.
>
> Thus, considering the testimonies of various witnesses and a comparison of the signature in question with admittedly genuine signatures, the Court is convinced that Dionisio Z. Basilio did not execute the questioned deed of sale. *Although the questioned deed of sale was a public document having in its favor the presumption of regularity, such presumption was adequately refuted by competent witnesses showing its forgery and the Court's own visual analysis of the document*.[155] (Emphasis supplied, citations omitted)

In *Suntay v. Court of Appeals*,[156] this court held that a notarized deed of sale was void because it was a mere sham.[157] It was not intended to have any effect between the parties.[158] This court said:

> [I]t is not the intention nor the function of the notary public to validate and make binding an instrument never, in the first place, intended to have any binding legal effect upon the parties thereto.[159]

Since the notarized Secretary's Certificate was found to have been issued without a supporting board resolution, it produced no effect. It is not binding upon petitioner. It should not have been relied on by respondent especially given its status as a bank.

VIII

The banking institution is "impressed with public interest"[160] such that the public's faith is "of paramount importance."[161] Thus, banks are required to exercise the highest degree of diligence in their transactions.[162] In *China Banking Corporation v. Lagon*,[163] this court found that the bank was not a mortgagee in good faith for its failure to question the due execution of a

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155 Id. at 126.
156 321 Phil. 809 (1995) [Per J. Hermosisima, Jr., First Division].
157 Id. at 835–836.
158 Id. at 834.
159 Id.
160 *See Philippine Commercial International Bank v. Court of Appeals*, 403 Phil. 361, 388 (2001) [Per J. Quisumbing, Second Division].
161 Id.
162 Id.
163 527 Phil. 143 (2006) [Per J. Quisumbing, Third Division].

Special Power of Attorney that was presented to it in relation to a mortgage contract.[164] This court said:

> Though petitioner is not expected to conduct an exhaustive investigation on the history of the mortgagor's title, it cannot be excused from the duty of exercising the due diligence required of a banking institution. Banks are expected to exercise more care and prudence than private individuals in their dealings, even those that involve registered lands, for their business is affected with public interest.[165] (Citations omitted)

For its failure to exercise the degree of diligence required of banks, respondent cannot claim good faith in the execution of the mortgage contracts with Saturnino Petalcorin. Respondent's witness, Daciano Paguio, Jr., testified that there was no board resolution authorizing Saturnino Petalcorin to act on behalf of petitioner.[166] Respondent did not inquire further as to Saturnino Petalcorin's authority.

Banks cannot rely on assumptions. This will be contrary to the high standard of diligence required of them.

VI

According to respondent, the annotations of respondent's mortgage interests on the certificates of titles of petitioner's properties operated as constructive notice to petitioner of the existence of such interests.[167] Hence, petitioners are now estopped from claiming that they did not know about the mortgage.

Annotations of adverse claims on certificates of title to properties operate as constructive notice only to third parties—not to the court or the registered owner. In *Sajonas v. Court of Appeals*:[168]

> [A]nnotation of an adverse claim is a measure designed to protect the interest of a person over a piece of real property where the registration of such interest or right is not otherwise provided for by the Land Registration Act or Act 496 (now [Presidential Decree No.] 1529 or the Property Registration Decree), and serves a *warning to third parties dealing with said property* that someone is claiming an interest on the same or a *better right than that of the registered owner thereof*.[169] (Emphasis supplied)

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164 Id. at 152–153.
165 Id. at 153.
166 *Rollo*, p. 28, Court of Appeals Decision.
167 Id. at 285–286.
168 327 Phil. 689 (1996) [Per J. Torres, Jr., Second Division].
169 Id. at 701–702.

Annotations are merely claims of interest or claims of the legal nature and incidents of relationship between the person whose name appears on the document and the person who caused the annotation. It does not say anything about the validity of the claim or convert a defective claim or document into a valid one.[170] These claims may be proved or disproved during trial.

Thus, annotations are not conclusive upon courts or upon owners who may not have reason to doubt the security of their claim as their properties' title holders.

WHEREFORE, the Petition is **GRANTED**. The Court of Appeals' Decision dated December 17, 2009 is **REVERSED** and **SET ASIDE**. The Regional Trial Courts' Decisions of November 23, 2001 and December 7, 2001 are **REINSTATED**.

SO ORDERED.

MARVIC M.V.F. LEONEN
Associate Justice

WE CONCUR:

ANTONIO T. CARPIO
Associate Justice
Chairperson

ARTURO D. BRION
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

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[170] *See Cuaño v. Court of Appeals*, G.R. No. 107159, September 26, 1994, 237 SCRA 122, 136–137 [Per J. Feliciano, Third Division].

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice