

## SECOND DIVISION

[ G.R. No. 194964-65, January 11, 2016 ]

**UNIVERSITY OF MINDANAO, INC., PETITIONER, VS. BANGKO  
SENTRAL PILIPINAS, ET AL., RESPONDENTS.**

### 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<sup>[1]</sup> of the Court of Appeals' December 17, 2009 Decision<sup>[2]</sup> and December 20, 2010 Resolution.<sup>[3]</sup> The 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.<sup>[4]</sup>

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.<sup>[5]</sup>

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.<sup>[6]</sup>

Upon Guillermo B. Torres' request, Bangko Sentral ng Pilipinas issued a P1.9 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 P500,000.00, P600,000.00, and P800,000.00, 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.<sup>[7]</sup>

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.<sup>[8]</sup> "The mortgage served as security for FISLAI's P1.9 Million loan[.]"<sup>[9]</sup> It was allegedly executed on University of Mindanao's behalf.<sup>[10]</sup>

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.<sup>[11]</sup> The Secretary's Certificate stated:

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."<sup>[12]</sup>

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.<sup>[13]</sup> 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
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.<sup>[14]</sup>

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).<sup>[15]</sup>

On October 21, 1982, Bangko Sentral ng Pilipinas granted FISLAI an additional loan of P620,700.00. Guillermo B. Torres and Edmundo Ramos executed a promissory note on October 21, 1982 to cover that amount.<sup>[16]</sup>

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.<sup>[17]</sup>

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.<sup>[18]</sup> 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.<sup>[19]</sup>

Bangko Sentral ng Pilipinas also granted emergency advances to DSLAI on May 27, 1983 and on August 20, 1984 in the amounts of P1,633,900.00 and P6,489,000.00, respectively.<sup>[20]</sup>

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).<sup>[21]</sup>

Guillermo B. Torres died on March 2, 1989.<sup>[22]</sup>

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

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 P12,534,907.73 remained unpaid.<sup>[24]</sup>

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.<sup>[25]</sup>

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.<sup>[26]</sup>

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 involving Lot 421-A located in Cagayan de Oro City with an area of 482 square meters covered by TCT No. T-14345 as annulled [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.<sup>[34]</sup>

Similarly, the Regional Trial Court of Iligan City rendered a Decision on December 7, 2001 in favor of University of Mindanao.<sup>[35]</sup> 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:

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 [foreclosure [proceedings 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.<sup>[36]</sup> (Citation omitted)

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

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.<sup>[40]</sup>

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<sup>[41]</sup> of the Civil Code.<sup>[42]</sup> The mortgage contract and the subsequent acts of