Title: State Investment House, Inc. vs. Court of Appeals and Nora B. Moulic

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Facts:

Initial Transaction:
– Nora B. Moulic issued two post-dated Equitable Banking Corporation checks (P50,000 each, dated August 30 and September 30, 1979) to Corazon Victoriano as security for jewelry to be sold on commission.
– The payee, Victoriano, negotiated the checks to State Investment House, Inc. (State).

Events Leading to Dishonor:
– Moulic couldn't sell the jewelry and returned it to Victoriano before the checks' maturity.
– The checks were already negotiated, and Moulic withdrew her funds from the drawee bank before the checks' maturity.

Resulting Legal Actions:
– Upon presentment, the checks were dishonored due to insufficient funds.
– State allegedly notified Moulic of the dishonor, which Moulic denies.

Procedural Chains:
– On October 6, 1983, State filed a case to recover the value of the checks plus attorney's fees.
– Moulic contended no obligation because the jewelry was unsold, and the checks were negotiated without her knowledge. She filed a Third-Party Complaint against Victoriano, who then assumed responsibility for the checks.
– On May 26, 1988, the trial court dismissed the complaint and the Third-Party Complaint, awarding P3,000 in attorney's fees to Moulic.
– State appealed to the Court of Appeals, which affirmed the trial court's decision based on the untimely notice of dishonor and the conditional nature of the checks (for security).

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Issues:

1. **Holder in Due Course Status:**
– Was State a holder in due course of the negotiated checks?

2. **Notice of Dishonor:**
– Was the lack of timely notice of dishonor to Moulic relevant in determining her liability?

3. **Recovery on the Checks:**
– Did allowing State to recover on the checks result in unjust enrichment?

4. **Security Purpose of the Checks and Liability:**
– Can the drawer, Moulic, evade liability because the checks were issued as security and no sale of jewelry occurred?

5. **Deficiency Claim Post-Foreclosure:**
– Does extrajudicial foreclosure allow for deficiency claims on the underlying obligation?

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Court's Decision:

1. **Holder in Due Course:**
– State was deemed a holder in due course. The checks were complete and regular on their face, negotiated before overdue, taken in good faith and for value, and without notice of any infirmity in the title.
– Prima facie presumption exists favoring State, and Moulic failed to prove otherwise.

2. **Notice of Dishonor:**
– The court held that notice of dishonor was unnecessary because Moulic, by withdrawing her funds (countermanding payment), made the notice futile (Sec. 114 of the Negotiable Instruments Law).

3. **Recovery and Unjust Enrichment:**
– The Court of Appeals erred; recovery does not constitute unjust enrichment as State's rights to enforce the checks stand unimpeded when dealing with a holder in due course.

4. **Checks as Security and Drawer's Liability:**
– Security issuance is not grounds for discharge against a holder in due course. Moulic's withdrawal of funds indicated her inability to expect the checks to be honored.

5. **Deficiency Claims Post-Foreclosure:**
– The mortgagee's right to recover deficiency post-foreclosure is valid and allowed by law. Act 3135 doesn't disallow such actions unless explicitly stated by law, unlike pledge and

chattel mortgage provisions that expressly prohibit deficiency recovery.

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Doctrine:
– **Holder in Due Course Presumption**: Sec. 52 and Sec. 119 of the Negotiable Instruments Law. The holder is presumed free from prior infirmities unless proven otherwise, holding the instrument free from prior defects.
– **Notice of Dishonor Exceptions**: Sec. 114 of the Negotiable Instruments Law states conditions where notice of dishonor is unnecessary.
– **Deficiency Claims**: In real estate foreclosures, lacking explicit prohibition, recovery of deficiencies is permissible under general rule practionces and jurisprudence.

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Class Notes:
– **Holder in Due Course** (Sec. 52 N.I.L.): Complete/regular instrument, prior to overdue, in good faith/for value, no notice of infirmity.
– **Notice of Dishonor Exceptions** (Sec. 114 N.I.L.): No notice necessary in cases of identical drawer and drawee, fictitious drawee, countermanded payment, among others.
– **Deficiency Claims** (Act No. 3135): Silent on prohibition of deficiency recovery post-extrajudicial foreclosure unlike explicit Civil Code provisions for pledge and installment sales (Art. 2115, Art. 1484).

Historical Background:
During the late 20th century, Philippine jurisprudence increasingly clarified the roles and protections afforded under the Negotiable Instruments Law (Act No. 2031) and the rights of mortgagees post-foreclosure. This case reinforces these principles, ensuring the stability and reliability of financial instruments and creditor rights within the dynamically evolving financial landscape.