

SAN CARLOS MILLING CO., LTD., PLAINTIFF AND APPELLANT, VS. BANK OF THE PHILIPPINE ISLANDS AND CHINA BANKING CORPORATION, DEFENDANTS AND APPELLEES.

G.R. No. 37467. December 11, 1933

Ponente: HULL, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-37467/>

HULL, J.:

Plaintiff corporation, organized under the laws of the Territory of Hawaii, is authorized to engage in business in the Philippine Islands, and maintains its main office in these Islands in the City of Manila.

The business in the Philippine Islands was in the hands of Alfred D. Cooper, its agent under general power of attorney with authority of substitution. The principal employee in the Manila office was one Joseph L. Wilson, to whom had been given a general power of attorney but without power of substitution. In 1926 Cooper, desiring to go on vacation, gave a general power of attorney to Newland Baldwin and at the same time revoked the power of Wilson relative to the dealings with the Bank of the Philippine Islands, one of the banks in Manila in which plaintiff maintained a deposit.

About a year thereafter Wilson, conspiring together with one Alfredo Dolores, a messenger-clerk in plaintiff's Manila office, sent a cablegram in code to the company in Honolulu requesting a telegraphic transfer to the China Banking Corporation of Manila of \$100,000. The money was transferred by cable, and upon its receipt the China Banking Corporation, likewise a bank in which plaintiff maintained a deposit, sent an exchange contract to plaintiff corporation offering the sum of P201,000, which was then the current rate of exchange. On this contract was forged the name of Newland Baldwin and typed on the body of the contract was a note:

"Please send us certified check in our favor when transfer is received."

A manager's check on the China Banking Corporation for P201,000 payable to San Carlos Milling Company or order was receipted for by Dolores. On the same date, September 28, 1927, the manager's check was deposited with the Bank of the Philippine Islands by the following endorsement:

"For deposit only with Bank of the Philippine Islands, to credit of account of San Carlos Milling Co., Ltd.

"By (Sgd.) NEWLAND BLADWIN

"For Agent"

The endorsement to which the name of Newland Baldwin was affixed was spurious.

The Bank of the Philippine Islands thereupon credited the current account of plaintiff in the sum of P201,000 and passed the cashier's check in the ordinary course of business through the clearing house, where it was paid by the China Banking Corporation.

On the same day the cashier of the Bank of the Philippine Islands received a letter, purporting to be signed by

Newland Baldwin, directing that P200,000 in bills of various denominations, named in the letter, be packed for shipment and delivery the next day. The next day, Dolores witnessed the counting and packing of the money, and shortly afterwards returned with the check for the sum of P200,000, purporting to be signed by Newland Baldwin as agent.

Plaintiff had frequently withdrawn currency for shipment to its mill from the Bank of the Philippine Islands but never in so large an amount, and according to the record, never under the sole supervision of Dolores as the representative of plaintiff.

Before delivering the money, the bank asked Dolores for P1 to cover the cost of packing the money, and he left the bank and shortly afterwards returned with another check for P1, purporting to be signed by Newland Baldwin. Whereupon the money was turned over to Dolores, who took it to plaintiff's office, where he turned the money over to Wilson and received as his share, P10,000.

Shortly thereafter the crime was discovered, and upon the defendant bank refusing to credit plaintiff with the amount withdrawn by the two forged checks of P200,000 and P1, suit was brought against the Bank of the Philippine Islands, and finally on the suggestion of the defendant bank, an amended complaint was filed by plaintiff against both the Bank of the Philippine Islands and the China Banking Corporation.

At the trial the China Banking Corporation contended that they had drawn a check to the credit of the plaintiff company, that the check had been endorsed for deposit, and that as the prior endorsement had in law been guaranteed by the Bank of the Philippine Islands, when they presented the cashier's check to it for payment, the China Banking Corporation was absolved even if the endorsement of Newland Baldwin on the check was a forgery.

The Bank of the Philippine Islands presented many special defenses, but in the main their contentions were that they had been guilty of no negligence, that they had dealt with the accredited representatives of the company in the due course of business, and that the loss was due to the dishonesty of plaintiff's employees and the negligence of plaintiff's general agent.

In plaintiff's Manila office, besides the general agent, Wilson, and Dolores, most of the time there was employed a woman stenographer and cashier. The agent did not keep in his personal possession either the code-book or the blank checks of either the Bank of the Philippine Islands or the China Banking Corporation. Baldwin was authorized to draw checks on either of the depositories. Wilson could draw checks in the name of the plaintiff on the China Banking Corporation.

After trial in which much testimony was taken, the trial court held that the deposit of P201,000 in the Bank of the Philippine Islands being the result of a forged endorsement, the relation of depositor and banker did not exist, but the bank was only a gratuitous bailee; that the Bank of the Philippine Islands acted in good faith in the ordinary course of its business, was not guilty of negligence, and therefore under article 1902 of the Civil Code which should control the case, plaintiff could not recover; and that as the cause of loss was the criminal actions of Wilson and Dolores, employees of plaintiff, and as Newland Baldwin, the agent, had not exercised adequate supervision over plaintiff's Manila office, therefore plaintiff was guilty of negligence, which ground would likewise defeat recovery.

From the decision of the trial court absolving the defendants, plaintiff brings this appeal and makes nine assignments of error which we do not deem it necessary to discuss in detail.

There is a mild assertion on the part of the defendant bank that the disputed signatures of Newland Baldwin were genuine and that he had been in the habit of signing checks in blank and turning the checks so signed over to

Wilson.

The proof as to the falsity of the questioned signatures of Baldwin places the matter beyond reasonable doubt, nor is it believed that Baldwin signed checks in blank and turned them over to Wilson.

As to the China Banking Corporation, it will be seen that it drew its check payable to the order of plaintiff and delivered it to plaintiff's agent who was authorized to receive it. A bank that cashes a check must know to whom it pays. In connection with the cashier's check, this duty was therefore upon the Bank of the Philippine Islands, and the China Banking Corporation was not bound to inspect and verify all endorsements of the check, even if some of them were also those of depositors in that bank. It had a right to rely upon the endorsement of the Bank of the Philippine Islands when it gave the latter bank credit for its own cashier's check. Even if we would treat the China Banking Corporation's cashier's check the same as the check of a depositor and attempt to apply the doctrines of the *Great Eastern Life Insurance Co. vs. Hongkong & Shanghai Banking Corporation and National Bank* (43 Phil., 678), and hold the China Banking Corporation indebted to plaintiff, we would at the same time have to hold that the Bank of the Philippine Islands was indebted to the China Banking Corporation in the same amount. As, however, the money was in fact paid to plaintiff corporation, we must hold that the China Banking Corporation is indebted neither to plaintiff nor to the Bank of the Philippine Islands, and the judgment of the lower court so far as it absolves the China Banking Corporation from responsibility is affirmed.

Returning to the relation between plaintiff and the Bank of the Philippine Islands, we will now consider the effect of the deposit of P201,000. It must be noted that this was not a presenting of the check for cash payment but for deposit only. It is a matter of general knowledge that most endorsements for deposit only, are informal. Most are by means of a rubber stamp. The bank would have been justified in accepting the check for deposit even with only a typed endorsement. It accepted the check and duly credited plaintiff's account with the amount on the face of the check. Plaintiff was not harmed by the transaction as the only result was the removal of that sum of money from a bank from which Wilson could have drawn it out in his own name to a bank where Wilson would not have authority to draw checks and where funds could only be drawn out by the check of Baldwin.

Plaintiff in its letter of December 23, 1928, to the Bank of the Philippine Islands said in part:

"* * * we now beg leave to demand that you pay over to us the entire amount of said manager's check of two hundred one thousand (P201,000) pesos, together with interest thereon at the agreed rate of 3 ½ per cent per annum on daily balances of our credit in account current with your bank to this date. In the event of your refusal to pay, we shall claim interest at the legal rate of 6 per cent from and after the date of this demand inasmuch as we desire to withdraw and make use of the money." Such language might well be treated as a ratification of the deposit.

The contention of the bank that it was a gratuitous bailee is without merit. In the first place, it is absolutely contrary to what the bank did. It did not take it up as a separate account but it transferred the credit to plaintiff's current account as a depositor of that bank. Furthermore, banks are not gratuitous bailees of the funds deposited with them by their customers. Banks are run for gain, and they solicit deposits in order that they can use the money for that very purpose. In this case the action was neither gratuitous nor was it a bailment.

On the other hand, we cannot agree with the theory of plaintiff that the Bank of the Philippine Islands was an intermeddling bank. In the many cases cited by plaintiff where the bank that cashed the forged endorsement was held as an intermeddler, in none was the claimant a regular depositor of the bank, nor in any of the cases cited, was the endorsement for deposit only. It is therefore clear that the relation of plaintiff with the Bank of the Philippine Islands in regard to this item of P201,000 was that of depositor and banker, creditor and debtor.

We now come to consider the legal effect of payment by the bank to Dolores of the sum of P200,001, on two

checks on which the name of Baldwin was forged as drawer. As above stated, the fact that these signatures were forged is beyond question. It is an elementary principle both of banking and of the Negotiable Instruments Law that—

"A bank is bound to know the signatures of its customers; and if it pays a forged check, it must be considered as making the payment out of its own funds, and cannot ordinarily charge the amount so paid to the account of the depositor whose name was forged." (7 C. J., 683.)

There is no act of the plaintiff that led the Bank of the Philippine Islands astray. If it was in fact lulled into a false sense of security, it was by the effrontery of Dolores, the messenger to whom it entrusted this large sum of money.

The bank paid out its money because it relied upon the genuineness of the purported signatures of Baldwin. These, they never questioned at the time its employees should have used care. In fact, even today the bank represents that it has a belief that they are genuine signatures.

The signatures to the checks being forged, under section 23 of the Negotiable Instruments Law they are not a charge against plaintiff nor are the checks of any value to the defendant.

It must therefore be held that the proximate cause of loss was due to the negligence of the Bank of the Philippine Islands in honoring and cashing the two forged checks.

The judgment absolving the Bank of the Philippine Islands must therefore be reversed, and a judgment entered in favor of plaintiff-appellant and against the Bank of the Philippine Islands, defendant-appellee, for the sum of P200,001, with legal interest thereon from December 23, 1928, until payment, together with costs in both instances. So ordered.

Malcolm, Villa-Real, Vickers, and Imperial, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.