

**BATAAN CIGAR AND CIGARETTE FACTORY, INC., PETITIONER, VS.
THE COURT OF APPEALS AND STATE INVESTMENT HOUSE, INC.,
RESPONDENTS.***G.R. No. 93048. March 03, 1994*

Ponente: NOCON, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-93048/>**NOCON, J.:**

For our review is the decision of the Court of Appeals in the case entitled “State Investment House, Inc. v. Bataan Cigar & Cigarette Factory, Inc.,”[1] affirming the decision of the Regional Trial Court[2] in a complaint filed by State Investment House, Inc. (hereinafter referred to as SIHI) for collection on three unpaid checks issued by Bataan Cigar & Cigarette Factory, Inc. (hereinafter referred to as BCCFI). The foregoing decisions unanimously ruled in favor of SIHI, the private respondent in this case.

Emanating from the records are the following facts. Petitioner, Bataan Cigar and Cigarette Factory, Inc. (BCCFI), a corporation involved in the manufacturing of cigarettes, engaged one of its suppliers, King Tim Pua George (herein after referred to as George King), to deliver 2,000 bales of tobacco leaf starting October 1978. In consideration thereof, BCCFI, on July 13, 1978 issued crossed checks post dated sometime in March 1979 in the total amount of P820,000.00.[3]

Relying on the supplier’s representation that he would complete delivery within three months from December 5, 1978, petitioner agreed to purchase additional 2,500 bales of tobacco leaves, despite the supplier’s failure to deliver in accordance with their earlier agreement. Again petitioner issued postdated crossed checks in the total amount of P1,100,000.00, payable sometime in September 1979.[4]

During these times, George King was simultaneously dealing with private respondent SIHI. On July 19, 1978, he sold at a discount check TCBT 551826[5] bearing an amount of P164,000.00, post dated March 31, 1979, drawn by petitioner, naming George King as payee to SIHI. On December 19 and 26, 1978, he again sold to respondent checks TCBT Nos. 608967 & 608968,[6] both in the amount of P100,000.00, post dated September 15 & 30, 1979 respectively, drawn by petitioner in favor of George King.

In as much as George King failed to deliver the bales of tobacco leaf as agreed despite petitioner’s demand, BCCFI issued on March 30, 1979, a stop payment order on all checks payable to George King, including check TCBT 551826. Subsequently, stop payment was also ordered on checks TCBT Nos. 608967 & 608968 on September 14 & 28, 1979, respectively, due to George King’s failure to deliver the tobacco leaves.

Efforts of SIHI to collect from BCCFI having failed, it instituted the present case, naming only BCCFI as party defendant. The trial court pronounced SIHI as having a valid claim being a holder in due course. It further said that the non-inclusion of King Tim Pua George as party defendant is immaterial in this case, since he, as payee, is not an indispensable party.

The main issue then is whether SIHI, a second indorser, and holder of crossed checks, is a holder in due course, to

be able to collect from the drawer, BCCFI.

The Negotiable Instruments Law states what constitutes a holder in due course, thus:

“Sec. 52 - A holder in due course is a holder who has taken the instrument under the following conditions:

- (a) That it is complete and regular upon its face;
- (b) That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such was the fact;
- (c) That he took it in good faith and for value;
- (d) That at the time it was negotiated to him he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.”

Section 59 of the NIL further states that every holder is deemed prima facie a holder in due course. However, when it is shown that the title of any person who has negotiated the instrument was defective, the burden is on the holder to prove that he or some person under whom he claims, acquired the title as holder in due course.

The facts in this present case are on all fours to the case of *State Investment House, Inc. (the very respondent in this case) v. Intermediate Appellate Court*[7] wherein we made a discourse on the effects of crossing of checks.

As a preliminary, a check is defined by law as a bill of exchange drawn on a bank payable on demand.[8] There are a variety of checks, the more popular of which are the memorandum check, cashier's check, traveler's check and crossed check. Crossed check is one where two parallel lines are drawn across its face or across a corner thereof. It may be crossed generally or specially.

A check is crossed specially when the name of a particular banker or a company is written between the parallel lines drawn. It is crossed generally when only the words “and company” are written or nothing is written at all between the parallel lines. It may be issued so that presentment can be made only by a bank. Veritably the Negotiable Instruments Law (NIL) does not mention “crossed checks,” although Article 541[9] of the Code of Commerce refers to such instruments.

According to commentators, the negotiability of a check is not affected by its being crossed, whether specially or generally. It may legally be negotiated from one person to another as long as the one who encashes the check with the drawee bank is another bank, or if it is specially crossed, by the bank mentioned between the parallel lines.[10] This is specially true in England where the Negotiable Instrument Law originated.

In the Philippine business setting, however, we used to be beset with bouncing checks, forging of checks, and so forth that banks have become quite guarded in encashing checks, particularly those which name a specific payee. Unless one is a valued client, a bank will not even accept second indorsements on checks.

In order to preserve the credit worthiness of checks, jurisprudence has pronounced that crossing of a check should have the following effects: (a) the check may not be encashed but only deposited in the bank; (b) the check may be negotiated only once - to one who has an account with a bank; (c) and the act of crossing the check serves as warning to the holder that the check has been issued for a definite purpose so that he must inquire if he has received the check pursuant to that purpose, otherwise, he is not a holder in due course.[11]

The foregoing was adopted in the case of *SIHI v. IAC*, supra. In that case, *New Sikatuna Wood Industries, Inc.* also sold at a discount to SIHI three postdated crossed checks, issued by Anita Peña Chua naming as payee *New Sikatuna Wood Industries, Inc.* Ruling that SIHI was not a holder in due course, we then said:

“The three checks in the case at bar had been crossed generally and issued payable to New Sikatuna Wood Industries, Inc. which could only mean that the drawer had intended the same for deposit only by the rightful person, i.e. the payee named therein. Apparently, it was not the payee who presented the same for payment and therefore, there was no proper presentment, and the liability did not attach to the drawer. Thus, in the absence of due presentment, the drawer did not become liable. Consequently, no right of recourse is available to petitioner (SIHI) against the drawer of the subject checks, private respondent wife (Anita), considering that petitioner is not the proper party authorized to make presentment of the checks in question.

x x x

“That the subject checks had been issued subject to the condition that private respondents (Anita and her husband) on due date would make the back up deposit for said checks but which condition apparently was not made, thus resulting in the non-consumation of the loan intended to be granted by private respondents to New Sikatuna Wood Industries, Inc., constitutes a good defense against petitioner who is not a holder in due course.”[12]

It is then settled that crossing of checks should put the holder on inquiry and upon him devolves the duty to ascertain the indorser’s title to the check or the nature of his possession. Failing in this respect, the holder is declared guilty of gross negligence amounting to legal absence of good faith, contrary to Sec. 52(c) of the Negotiable Instruments Law,[13] and as such the consensus of authority is to the effect that the holder of the check is not a holder in due course.

In the present case, BCCFI’s defense in stopping payment is as good to SIHI as it is to George King. Because, really, the checks were issued with the intention that George King would supply BCCFI with the bales of tobacco leaf. There being failure of consideration, SIHI is not a holder in due course. Consequently, BCCFI cannot be obliged to pay the checks.

The foregoing does not mean, however, that respondent could not recover from the checks. The only disadvantage of a holder who is not a holder in due course is that the instrument is subject to defenses as if it were non-negotiable.[14] Hence, respondent can collect from the immediate indorser, in this case, George King.

WHEREFORE, finding that the court a quo erred in the application of law, the instant petition is hereby GRANTED. The decision of the Regional Trial Court as affirmed by the Court of Appeals is hereby REVERSED. Cost against private respondent.

SO ORDERED.

Narvasa, C.J., (Chairman), Regalado, and Puno, JJ., concur.

Padilla, J., no part.

[1] CA-G.R. CV No. 03032, Justice Jorge R. Coquia, ponente, Justices Josue N. Bellosillo and Venancio D. Aldecoa, Jr., concurring, November 13, 1987.

[2] Judge Agosto E. Villarin, presiding, Branch XL, National Capital Region, Manila.

[3] Exhibit “1”, Folder of Exhibits, p. 11.

[4] Exhibit “4”, Folder of Exhibits, p. 14.

[5] Annex “A”, Folder of Exhibits, p. 3.

[6] Annexes “B” and “C”, Folder of Exhibits, pp. 4-5.

[7] G.R. No. 72764, 175 SCRA 310.

[8] Sec. 185, Negotiable Instruments Law.

[9] Article 541 - The maker or any legal holder of a check shall be entitled to indicate therein that it be paid to a certain banker or institution, which he shall do by writing across the face the name of said banker or institution, or only the words "and company."

[10] CAMPOS AND LOPEZ-CAMPOS, Negotiable Instruments Law, p. 574-575; AGBAYANI, AGUEDO, Commercial Laws of the Philippines, Vol. 1, 1987 Ed., p. 446.

[11] Ocampo v. Gatchalian, G.R. No. L-15126, 3 SCRA 603 (1961); Associated Bank v. Court of Appeals, G.R. No. 89802, 208 SCRA 465; SIHI v. IAC, supra.

[12] Id at pp. 316-317.

[13] quoted supra.

[14] Chan Wan v. Tan Kim and Chen So, L-15380, 109 Phil. 706 (1960); SIHI v. IAC, supra.

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.