

November 19, 2004 (Case Brief / Digest)

Title: State Investment House vs. Intermediate Appellate Court, Anita Peña Chua, and Harris Chua

Facts:

New Sikatuna Wood Industries, Inc. requested a loan from Harris Chua, who agreed to provide the loan in December 1980. In anticipation, Anita Peña Chua issued three postdated crossed checks totaling ₱299,450. These checks were intended for New Sikatuna Wood Industries, Inc. The company later sold and discounted these checks, along with others, totaling ₱1,047,402.91 to State Investment House, Inc. under a deed of sale. Upon presentment by State Investment House, the checks were dishonored due to “insufficient funds,” “stop payment,” and “account closed” issues. State Investment House demanded payment from Anita Peña Chua, who failed to comply, prompting them to file a collection action against the Chuas in the Regional Trial Court (RTC) of Manila, Branch XXXVII. The Chuas filed a third-party complaint for indemnification against New Sikatuna Wood Industries, which was declared in default for non-response.

The RTC found in favor of State Investment House, ordering the Chuas to pay the amount of the checks, interest, and attorney’s fees, with a reimbursement order against New Sikatuna Wood Industries. The Chuas appealed to the Intermediate Appellate Court (IAC), which reversed the RTC decision, leading to State Investment House’s petition with the Supreme Court.

Issues:

1. Whether State Investment House is a holder in due course entitled to recover from the Chuas for the dishonored checks.
2. The applicability of the concept of “crossed checks” under the Negotiable Instruments Law and its implications on the holder’s rights.

Court’s Decision:

1. ****Holder in Due Course****: The Supreme Court affirmed the IAC decision, holding that State Investment House was not a holder in due course. Under Section 52(c) and 52(d) of the Negotiable Instruments Law, a holder in due course must take the instrument for value, in good faith, and without notice of any defect or claim. Given the checks were crossed, indicating they were to be deposited and not cashed, it placed a duty on the holder to inquire about the circumstances. State Investment House’s failure to do so, and its subsequent action of rediscounting the checks, meant it could not claim holder in due course status. Moreover, the lack of consideration due to the unconsummated loan provides

a defense against a holder not in due course.

2. **Crossed Checks**: Although the Negotiable Instruments Law does not explicitly address crossed checks, the Court cited the practice and previous rulings establishing that crossing a check with parallel lines suggests the check is only for deposit. This restricts its negotiation, imposing a duty of inquiry on the holder regarding the purpose of the check. State Investment House's action of rediscounting violated the intention behind crossing, impacting its claim to good faith.

Doctrine:

The case emphasized that being a holder in due course under the Negotiable Instruments Law requires the absence of notice of any issues with the instrument and reinforced the unauthorized conversion of crossed checks. A holder who disregards the crossed nature by failing to comply with its indications is not protected under holder in due course rights.

Class Notes:

- **Holder in Due Course (Sections 52-59, Negotiable Instruments Law)**: To qualify, a holder must take the instrument for value, in good faith, and without notice of defects.
- **Crossed Checks**: Indicates checks are for deposit only, not cashing, putting an obligation on the holder to verify the intent. Not complying means not being a holder in due course.
- **Defense of Lack of Consideration (Section 28)**: Rebuttal available against non holder in due course if the initial transaction lacks backing.

Historical Background:

During this period, the banking and financial systems in the Philippines were evolving with increasing sophistication in financial instruments; the use of postdated and crossed checks became common. The case highlights the legal intricacies involved and the importance of understanding the nature of negotiable instruments within the Philippines' jurisdiction at the time. This decision is integral in affirming the necessity of due diligence when negotiating financial instruments to ensure the holder's legal protections are secured.