Court of Appeals of the State of New York

C. Olivia Sabine v. Maggie Paine

223 N.Y. 401 (N.Y. 1918)

Case Brief Summary

Facts:

This action is upon a promissory note.

The note was made by the defendant Maggie Paine in the sum of $2100.

The note was payable, four months after its date, to the order of Eugene F. Vacheron, a former Assemblyman and attorney.

The note was delivered to Mr. Vacheron as the agent of the defendant, for the purpose of having it discounted. He after, indorsing it, transferred it to the plaintiff for the sum of $1850.

It is undisputed that plaintiff, C. Olivia Sabine is a Holder in Due Course, and that such note collects a sum greater than allowed by the New York State Usuary Laws.

Issue:

Is an usurious promissory note enforcible by a holder in due course.

Holding and Rule:

No. A Negotiable Instrument, which a statute, expressly or through necessary implication, declares void, strictly speaking, is a simulacrum only. It is without legal efficacy. It cannot obligate a party or support a right.

Discussion:

The Court found the plaintiff a Holder in Due Course, quoting the NYS Statute stating that: "A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves, and may enforce payment of the instrument for the full amount thereof against all parties liable thereon."

They further continued that: "A holder in due course is a holder who has taken the instrument under the following conditions:
1. That it is complete and regular upon its face;
2. 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;
3. That he took it in good faith and for value; and
4. 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.

But despite the fact the court found the plaintiff to be a holder in due course in accordance with the accepted definition, they also found the promissory note in question to violate the state's usuary laws, which establishes the maximum amount of interest that can be charged to a borrower.

With the finding of usuary, the court found such to be a universal defense to payment of the note, holding that "it was an established rule of law in this state and many other jurisdictions that a holder of a note void by virtue of a statutory declaration because of usury, who became such before the maturity of the note for value and without notice of the usury, could not enforce the note. The rule is an exception to the general principle that a negotiable instrument, in the hands of an innocent holder, who had received it in good faith in the ordinary course of business, for value, and without notice of a defense, is not invalid and is enforcible by the holder."

The court further continued that "A note void in its inception for usury continues void forever, whatever its subsequent history may be. It is as void in the hands of an innocent holder for value as it was in the hands of those who made the usurious contract. No vitality can be given to it by sale or exchange, because that which the statute has declared void cannot be made valid by passing through the channels of trade."