

CLASS:- B. COM

SEM. :- 4th

SUBJECT :- BUSINESS LAW-II

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TOPIC: HOLDER IN DUE COURSE

Definition

According to Sec. (9) of Negotiable Instrument Act, holder in due course, is a person who acquires the negotiable instrument bonafide for some consideration, in good faith, whose payment is still due, is called holder in due course & fulfil any of following conditions:-

- (i) He must be the holder of the instrument (entitled on his name)
- (ii) The instrument received must be for some consideration.
- (iii) The instrument must be obtained in due course (before maturity)
- (iv) The instrument must be obtained in good faith.

★ Lets consider one example :-

- 'A' sold some goods to 'B' on credit.
- Since 'B' has received the goods from 'A', he must make a payment to 'A' in consideration
- 'B' issued a cheque to 'A' against the goods received, to complete the transaction.

★ Lets see, if 'A' becomes the Holder in Due Course (HDC) or not :-

- 1) The cheque is prepared on the name of 'A' (Yes, Holder)
- 2) 'B' gave cheque to A, against goods received (Yes, Consideration)
- 3) 'A' received the cheque before maturity date (Yes, Before due date)

1) 'A' received the cheque (Yes, Good Faith)
against goods sold

Since 'A' satisfies all the four conditions of section (9), he becomes the Holder in Due Course.

Important fact

→ A holder of a negotiable instrument will not be the holder in due course, if :-

- 1) He has obtained the instrument as a gift or for an unlawful consideration or by some illegal methods or
- 2) He has obtained the instrument after its maturity date.
- 3) He has not obtained the instrument from a bonafide payer.