**CHAPTER 14-NEGOTIABLE INSTRUMENTS**

**TRUE/FALSE**

1. There are two types of commercial paper: express and implied.

2. A possessor of non-negotiable paper has the same rights as the person who made the original contract.

3. The possessor of non-negotiable commercial paper has the same rights—no more, no

less—as the person who made the original contract.

4. There are three parties on a promise instrument: the maker, the drawee, and the payee.

5. To be a holder in due course, one must possess bearer paper. No endorsement is necessary.

6. To be negotiated, bearer paper must simply be delivered to the recipient.

7. Margo is in possession of a check issued to her by Felix. The check states, "Pay to the order of Margo." If Margo wishes to transfer the check to Pete to pay a debt she owes him, all she needs to do is strike out her name on the front of the check, write in Felix’s name and give it to him.

8. To be negotiated order paper must first be indorsed but does not need to be delivered to the transferee.

9. A draft is always a check, but a check is not always a draft.

10. Charlene Brown has possession of a check made out to the order of Charlene Brown (herself) which she received in payment for writing a manuscript for her publisher. Charlene is a holder in due course and the publisher has no defenses to payment. Charlene has an unconditional right to be paid for the check.

11. Good Faith means not only that someone not have notice of dishonesty in a transaction but the transaction must also have all appearance of commercial reasonableness.

12. With non-negotiable commercial paper, a transferee’s rights are conditional.

13. A consumer credit contract is one between two consumers to buy and sell goods.

14. Tim wrote a negotiable note. Subsequently, Tim's debts were discharged in bankruptcy. If a holder in due course presents the note for payment, Tim does not have to pay.

15. Trisha loaned Brian $600 evidenced by a promissory note. When Brian paid off the loan, he did not ask Trisha for the note. She sold it to Carin, a holder in due course. Brian does not have to pay Carin since he already paid Trisha the full $600.

**MULTIPLE CHOICE**

1. The term “issuer”:

|  |  |
| --- | --- |
| a. | is not used in relation to commercial paper. |
| b. | is an all-purpose term that means both maker and drawer. |
| c. | is synonymous with drawee. |
| d. | is used in relation to commercial paper only to indicate the bank which creates a certificate of deposit. |

2. Micah signed a check in the lower right-hand corner and Andrew signed on the back. The presumption is that:

|  |  |
| --- | --- |
| a. | Micah is the issuer. |
| b. | Micah is the acceptor. |
| c. | Andrew is the drawer. |
| d. | Andrew is the maker and Micah is an indorsor. |

3. The possessor of a piece of commercial paper has an unconditional right to be paid, so long

as:

|  |  |
| --- | --- |
| a. | the paper is negotiable |
| b. | it has been negotiated to the possessor; |
| c. | the issuer cannot claim a valid defense |
| d. | all of these answers are correct. |

4. Francenie has a checking account at Corner Bank. She wants tickets to an upcoming concert. She writes a check to Ticketmaster for the cost of two tickets. In this scenario:

|  |  |
| --- | --- |
| a. | Francenie is the drawee, Corner Bank is the drawer, and Ticketmaster is the payee. |
| b. | Francenie is the maker, Corner Bank is the drawee, and Ticketmaster is the payee. |
| c. | Francenie is the drawer, Corner Bank is the drawee, and Ticketmaster is the payee. |
| d. | Francenie is the payee, Corner Bank is the drawer, and Ticketmaster is the maker. |

5. How are ambiguities interpreted in a check:

|  |  |
| --- | --- |
| a. | Parole evidence is necessary to clear up any ambiguities |
| b. | Numbers over words; handwritten over typed, typed over printed. |
| c. | Words over numbers; handwritten over typed; typed over printed. |
| d. | Words over numbers; handwritten over typed; printed over typed |

6. Hayden owes Luther $5000. Hayden will only be able to pay this debt if he is able to sell his one-year-old Harley motorcycle, valued at $20,000. Hayden writes a check to Luther that reads, "Payable to the order of Luther the sum of $5000 as soon as my Harley motorcycle sells for a reasonable amount." This check is:

|  |  |
| --- | --- |
| a. | negotiable, assuming Luther accepts delivery of the check. |
| b. | negotiable if Hayden also includes a date that he expects the motorcycle to sell. |
| c. | non-negotiable because it does not state a definite amount of money. |
| d. | non-negotiable because the check is conditional. |

7. Sophie issues a promissory note made "payable to the order of Molly." Molly indorses the note by signing her name and gives the note to Dana. Which of the following is correct?

|  |  |
| --- | --- |
| a. | Sophie issued a bearer instrument and Molly kept it in bearer form. |
| b. | Sophie issued an order instrument, but Molly changed it to bearer form. |
| c. | Sophie issued an order instrument and Molly kept it in order form. |
| d. | Sophie issued a bearer instrument and Molly changed it to bearer form. |

8. Antoine makes a check out to cash and delivers it to Barley. What is it?

|  |  |
| --- | --- |
| a. | A promissory note |
| b. | A check |
| c. | Bearer paper |
| d. | Order paper. |

9. An instrument is negotiable if it satisfies six standards. Which of the following is a standard of negotiability?

|  |  |
| --- | --- |
| a. | The instrument can be oral provided there is proof beyond a reasonable doubt. |
| b. | The instrument must be payable on demand. |
| c. | The instrument must be conditional. |
| d. | The instrument must state a definite sum of money. |

10. A "holder" of order paper can be described as:

|  |  |
| --- | --- |
| a. | the payee. |
| b. | any person in possession of the instrument. |
| c. | any person in possession of the instrument if it is payable to or indorsed to him. |
| d. | the first party to come in contact with a negotiable instrument. |

11. Which of the following would be notice of an overdue instrument?

|  |  |
| --- | --- |
| a. | Taking a demand instrument after a request for payment is made and denied. |
| b. | Taking an instrument one day after the due date. |
| c. | Taking a check 91 days after its issue date. |
| d. | All of the above illustrate overdue instruments. |

12. What are some defenses against a holder in due course?

|  |  |
| --- | --- |
| a. | check.is forged |
| b. | maker was underage. |
| c. | the check was based on an illegal transaction. |
| d. | All of these answers are correct. |

13. In good faith, Clinton gave Jane $500 for a negotiable promissory note made out to Jane for $550. She needed some money before the due date on the note, and Clinton had no notice of outstanding claims or other defects of the note. Clinton:

|  |  |
| --- | --- |
| a. | has more rights than Jane. |
| b. | has the same rights as Jane. |
| c. | has only conditional rights because they depend on Jane’s rights. |
| d. | cannot transfer the note to anyone else. |

14. What are the requirement of Holders in Due Course?

|  |  |
| --- | --- |
| a. | Possession of the instrument |
| b. | Must have given value for the instrument |
| c. | Mist not have any notice of outstanding claims |
| d. | All of these answers are correct. |

15. Lucky loses in a high-stakes poker game to Fat Chance. To pay his debt, Lucky writes a check to Fat Chance, who negotiates the check to Convenient, who then tries to cash the check at Lucky's bank. Lucky has already stopped payment on the check, so the check is not honored by her bank. Convenient then tries to collect the check by suing Lucky. High-stakes poker games are illegal in this state. Which statement is correct?

|  |  |
| --- | --- |
| a. | If Convenient can demonstrate that he is a holder in due course, he will prevail. |
| b. | If Convenient can demonstrate that he was a buyer in the ordinary course of business, he will prevail. |
| c. | If Convenient can demonstrate that he gave value without notice, he will prevail. |
| d. | Convenient will not prevail. |

16. Which of the following can be negotiable?

|  |  |
| --- | --- |
| a. | A promissory note that states, "Pay to Floyd Burchett $3000 on September 1, 2015." |
| b. | A check written on the standard check form that does not state the date it was issued. |
| c. | A promissory note from Farmer Douglas to Hainey Seeds, Inc. promising to pay for the seed purchased in the spring with bushels of grain harvested in the fall. |
| d. | An oral promise to pay to the order of Justin $500 on demand. |

17. Maia wrote a check which said, “Pay to the order of Kevin Mathews $10.97.” The next line of the check stated, “One thousand ninety-seven Dollars.” In applying the rules of interpretation, how much should the drawee pay?

|  |  |
| --- | --- |
| a. | Nothing; when the instrument is ambiguous it is declared non-negotiable. |
| b. | Ten dollars and 97 cents. Numbers control over words. |
| c. | One thousand, ninety-seven dollars or $1,097.00. Words control over numbers. |
| d. | Parol evidence would be needed to determine the purpose of the check. |

18. Sprock is a holder in due course on an instrument issued by Klingon. Which of the following defenses could be successfully raised by Klingon?

|  |  |
| --- | --- |
| a. | Forgery. |
| b. | Prior payment. |
| c. | Breach of contract. |
| d. | Fraud in the inducement. |

19. Under the UCC, a holder in due course is a holder who has given value for the instrument. Which of the following holders have given value for the instrument?

|  |  |
| --- | --- |
| a. | Beth promises to paint the neighbor's house in exchange for a promissory note as an advance payment for the job. |
| b. | Steve gives a note and mortgage on his house to his attorney as a retainer to handle his pending divorce. |
| c. | Todd, a newspaper carrier, accepts a properly indorsed two-party check for the past two months of deliveries. |
| d. | All of the above are correct. |

20. Kent Weston wrote a check for $500 payable to the order of Chester Jones. Chester indorsed the back of the check as follows: "Chester Jones." The check is now:

|  |  |
| --- | --- |
| a. | order paper. |
| b. | bearer paper. |
| c. | a cashier's check. |
| d. | special paper. |

21. Felicia, an elderly woman, does not speak or read English well. Felicia is a recent immigrant to this country. A dishonest immigration officer tells Felicia to sign several documents as being necessary to maintain her legal alien status. Unknown to Felicia, she signs a promissory note. The immigration officer thereafter sells the note to Neighborhood Bank, a holder in due course, who goes after Felicia for payment of the note. Felicia's defense to the Neighborhood Bank is:

|  |  |
| --- | --- |
| a. | fraud in the completion. |
| b. | fraud in the execution. |
| c. | unauthorized completion. |
| d. | breach of contract. |

22. Laurel Speckle received a check from State University. She indorsed the check as follows: "For Deposit only, /s/ Laurel Speckle." Laurel's endorsement is a:

|  |  |
| --- | --- |
| a. | blank endorsement. |
| b. | special endorsement. |
| c. | restrictive endorsement. |
| d. | None of the above is correct. |

23. In June, The Seascape Gallery sells an oil painting to Collegiate Systems, Inc. Collegiate promises to pay for the painting in three months. The gallery prepares a draft ordering Collegiate Systems to pay $3,000 to First Bank on September 15. Collegiate Systems signs the draft. The draft is a:

|  |  |
| --- | --- |
| a. | sight draft. |
| b. | time draft. |
| c. | trade acceptance. |
| d. | Both b and c. |

24. The evening news was full of stories about how Levine sold fraudulent negotiable instruments to investors around the country. Two days later, Brighty, who did not hear the news reports, bought some of the fraudulent negotiable instruments from a swindled investor. Can Brighty claim the position of a holder in due course considering the publicity of the scam?

|  |  |
| --- | --- |
| a. | Brighty is presumed to have knowledge of the scam and therefore did not purchase the instruments in good faith. |
| b. | Although Brighty passes the subjective test of good faith, he fails the objective test and therefore cannot claim to have purchased the instruments in good faith. |
| c. | Brighty can claim to have purchased the instruments in good faith if he subjectively believed the instruments were valid and if objectively his purchase of the instruments was commercially reasonable. |
| d. | None of the above are correct. |

**ESSAY**

1. TriColor purchased an industrial stamping machine from Vicy, Inc. TriColor paid for the machine with a negotiable note. The note was payable to the order of Vicy, Inc. Vicy, Inc. indorsed the note and gave it to CCLoans to satisfy a debt. CCLoans knew nothing about the contract between TriColor and Vicy, Inc. CCLoans indorsed the note and gave it to Great River Youth Club as a charitable donation. When Great River Youth Club presented the note for payment on its due date, TriColor refused to pay, claiming that the stamping machine was defective.

|  |  |
| --- | --- |
| (A) | Is Great River Youth Club a holder in due course? |
| (B) | Will TriColor be able to avoid liability to Great River Youth Club on the basis that the machine was defective? |

2. Matt wrote a $500 check to Alistar for some yard work that Alistar had done. What will Alistar have to do negotiate this instrument to Totally Tough, Inc. in payment for some yard equipment Alistar had bought?

3. On March 1 Donna wrote a check for $296 to Sun Services. When will the check be overdue? What is the effect of the check’s being overdue? What is the effect if the check is stamped “Insufficient Funds” by Donna’s bank?

4. It was payday. Navidida decided to run some errands and then deposit her check in the bank over her lunch hour. So that she wouldn't have to spend too long at the bank, Navidida indorsed the back of the paycheck as follows, "Navidida Jones," before leaving work. While window shopping, Navidida lost the check. Roger finds Navidida's paycheck.

|  |  |
| --- | --- |
| (A) | Will Roger be able to cash Navidida's check? |
| (B) | How could have Navidida indorsed the check so that she would not have to be concerned about losing the check? |

5. Explain when presentment warranties apply. Identify the presentment warranties on a check and a promissory note.