**CHAPTER 15-SECURED TRANSACTIONS**

**TRUE/FALSE**

1. Pharm-Ace holds a patent on a drug. Pharm-Ace used the patent (evidenced by the patent certificate) to secure a $1 million loan from First Bank. The patent is chattel paper.

2. Revised Article 9 of the UCC only applies to goods and does not include intangibles such as accounts or chattel paper.

3. A PMSI can be created only in goods and software.

4. Fixtures are goods which are attached to real estate so they are not covered by article ( of the UCC.

5. Bagsby owns a business selling insects for organic gardening. Bagsby is seeking a loan from First Natural Bank. The loan officer is asking that the loan be secured by Bagsby's inventory of insects, now owned or hereafter acquired. In order to do this, a new security agreement will need to be signed each time Bagsby gets new insects or sells his insects.

6. Maddie enters into a secured consumer debt transaction with Friendly Bank. When Maddie pays the loan in full, Friendly Bank is required to file a statement indicating that it no longer claims a secured interest in the collateral. This statement must be filed within one month from the date the debt is fully paid.

7. One of the more secure methods of perfection is taking possession of the collateral.

8. Micky, a mechanic, repaired Daphane's Dodge. Daphane failed to pay the repair bill of $595. Since Micky was still had possession of the car, he could therefore give notice of foreclosure on the car.

9. Great State Bank and First Federal Bank have a security interest in TriColor's equipment. If neither secured party is perfected, the first to sue or repossess has priority over the collateral.

10. Article 9 applies to any transaction intended to create a security interest in real property.

11. Spicy & Hot, Inc. is interested in expanding its Mexican food restaurant into a Mexican food catering business. Spicy & Hot, Inc. buys a new delivery van from Van World. Spicy & Hot, Inc. is a buyer in the ordinary course of business when purchasing the van.

12. For a security interest to attach, there must be an agreement.

13. Patents and copyrights are considered goods in which a security interest can attach and be perfected.

14. First Federal had a perfected security interest in Vicor's printing press. Second Credit had a security interest in the same press, but its interest was not perfected. First Federal takes priority over Second Credit.

15. First Federal loaned Madeline $20,000 to purchase a new van. The van was for Madeline's personal and family use. First Federal's security interest is a purchase money security interest which perfects only upon filing a financing statement.

**MULTIPLE CHOICE**

1. In 2012 The National Conference of Commissioners on Uniform Satte Laws created a set of amendments to Article 9 of the UCC. What is true about these amendments.

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| a. | The amendments are binding on all 50 states. |
| b. | require that a party’s name be that contained on his or her birth certificate. |
| c. | .six states have voted to adopt the amendments to Article 9 of the UCC. |
| d. | none of the above |

2. Donna defaulted on her loan owed to Second State Savings and Loan. The loan was secured with Donna's car. Donna used the car for personal and family reasons. Which statement is correct?

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| a. | Second State may take Donna's car without a court order if this can be done without a breach of the peace. |
| b. | Second State may take Donna's car without a court order even if it means a breach of the peace. |
| c. | Second State may not take Donna's car because it is a consumer good. |
| d. | Second State may not take Donna's car because perfection was automatic. |

3. To perfect a security interest in a negotiable instrument, Second State Savings and Loan should:

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| a. | file a financing statement. |
| b. | take possession of the instrument. |
| c. | do nothing. Perfection is automatic. |
| d. | secure a court order. |

4. George's Wholesale agrees to purchase 1,000 pounds of bananas from Chickadee Exports at 39 cents per pound. George's does not have the money for the bananas now, but promises to pay in two months. Chickadee Exports wants to make the sale, but is worried about waiting for the payment, knowing the bananas are not “appealing” collateral. So, Chickadee prepares an instrument claiming George’s $400 sorting machine as collateral. George's never signs the agreement, but accepts the shipment of bananas. This is an example of a:

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| a. | check. |
| b. | security interest. |
| c. | promissory note. |
| d. | None of the above. |

5. Great State Bank loans money to Seth, securing the loan with property owned by Seth. Great State Bank is advised by its attorney to file a financing statement. Great State Bank doesn't understand why it should spend the extra money for this filing, since Seth has told them that he has no other creditors. Why should Great State Bank file a financing statement?

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| a. | There are criminal penalties for failing to file. |
| b. | The financing statement allows Great State Bank to repossess the collateral on default without a court order. |
| c. | The financing statement will protect Great State's priority rights with other creditors by giving notice to other creditors that it claims a security interest in the collateral. |
| d. | Filing the financing statement is necessary to complete the attachment requirement in order to create a security interest. |

6. First Bank loaned $400,000 to Thomas, taking a security interest in his yacht. Thomas defaulted on the loan and First Bank repossessed the boat. First Bank sold the yacht at a public sale. The sale yielded $50,000 more than the debt. First Bank:

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| a. | must pay Thomas the $50,000. |
| b. | is entitled keep the $50,000. |
| c. | must share the $50,000 equally with Thomas. |
| d. | must pay the surplus to the Secretary of State. |

7. Which of the following parties can defeat a *perfected security interest*?

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| a. | A "buyer in ordinary course of business." |
| b. | A buyer of consumer goods if the buyer is not aware of the security interest, gives value for the goods, will continue to use the goods as consumer goods, and the secured party has not filed a financing statement. |
| c. | A buyer who purchases chattel paper or an instrument in the ordinary course of business, and then takes possession. |
| d. | All of the above are correct. |

8. At her neighbor's garage sale, Constance buys a vanity dressing table from her neighbor, Carlos, for $160. Constance purchased the vanity table for her own personal use, without any knowledge that Carlos had signed a security agreement giving All Purpose Furniture, Inc. a security interest in the vanity table. All Purpose Furniture did not file a financing statement. Constance does not know that Carlos is still paying off the purchase money security interest and owes All Purpose Furniture, Inc. $400. Under these circumstances:

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| a. | Constance takes the vanity table subject to All Purpose's security interest because All Purpose's security interest automatically perfected. A perfected security interest takes priority. |
| b. | Constance takes the vanity table free of All Purpose's security interest because she is a buyer of consumer goods |
| c. | Constance takes the vanity table free of All Purpose's security interest because she is a buyer in the ordinary course of business. |
| d. | Constance must pay All Purpose $400 or the table must be resold, and she and All Purpose will proportionately share the proceeds from the sale of the table. |

9. Wanderlust gave a security interest in his Conestoga wagon to Iowa Bank who perfected its security interest by filing a financing statement with the appropriate officials in Iowa. What is true about the filing of this security interest.

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| a. | It is effective for 5 years. |
| b. | after 5 years the security interest expires and cannot be refiled. |
| c. | it must be filed where the collateral is located. |
| d. | It is effective for 30 years. |

10. Which of the following is true about a PMSI?

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| a. | It perfects automatically. |
| b. | It must involve consumer goods. |
| c. | It must be taken by someone selling or financing the goods. |
| d. | all of these answers are true. |

11. What must be done when a debtor pays off the debt secured by a security interest in goods?

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| a. | nothing must be done. |
| b. | the collateral must be sold |
| c. | a termination statement must be filed by the creditor. |
| d. | the original note must be returned to the debtor. |

12. Great State Bank took a security interest in Gresham, Inc.'s meat processing equipment. Gresham defaulted on the loan. Which statement is correct?

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| a. | Great State Bank may take possession of the collateral. |
| b. | Great State Bank may ignore its rights in the collateral and sue Gresham for the money owed. |
| c. | Both a and b are courses of action that Great State Bank may follow. |
| d. | Neither a nor b are courses of action that Great State Bank may follow. |

13. What is the definition of default?

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| a. | According to the UCC a debtor must be late on 3 consecutive payments and not remedy within 90 days. |
| b. | The parties define default in the security agreement. |
| c. | The debtor failing to maintain insurance/ |
| d. | None of the above. |

14. Which of the following is an example of a purchase money security interest in consumer goods?

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| a. | A doctor purchasing a computer on credit to create a Webpage to make services and information available to her patients. |
| b. | A doctor purchasing on credit a blood glucose monitor to check his own blood sugar levels. |
| c. | A doctor purchasing a TV/VCR unit on credit to place in her office waiting room. |
| d. | A doctor purchasing an exercise bike for his employees to use over the lunch hour. |

15. Wedney, Inc. sold a meat processing machine to Yoro Chickens, taking a security interest in the machine. Yoro Chickens defaulted on the loan. Wedney repossessed the machine. Wedney would like to retain the machine to use as a model. Which of the following statements is correct?

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| a. | Wedney must notify the debtor that it intends to retain the machine. |
| b. | By taking possession, Wedney automatically foreclosed on the collateral. Wedney has valid title and need do nothing else. |
| c. | Since the machine is equipment, Wedney cannot retain the machine. Wedney must dispose of the collateral in a commercially reasonable manner. |
| d. | Wedney can retain the machine but must pay Yoro the surplus, the difference between the fair market value of the machine and the amount of the debt. |

16. Wedney, Inc. has a purchase money security interest in one of Yoro Chicken's meat processing machines. Wedney filed a financing statement on the day the machine was delivered, perfecting its interest. Great State Bank already had a security interest in the machine. Which party has superior priority rights in the meat processing machine?

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| a. | Wedney. A PMSI in collateral other than inventory takes priority over a conflicting security interest if the PMSI is perfected at the time the debtor receives the collateral or within 20 days after he receives it. |
| b. | Great State Bank, since it had an earlier security interest. |
| c. | The party who is first to repossess the collateral. |
| d. | The creditors have equal priority. |

17. Who has priority

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| a. | perfected over non perfected; |
| b. | when not perfected; first to attach. |
| c. | both perfected ; first to file. |
| d. | all of the above |

18. Wombart Manufacturing sells a machine on credit to Cryslie Printing Co. Wombart insists on a security interest in the machine to:

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| a. | give itself a legal interest in the machine. |
| b. | give itself a legal interest in all of Cryslie’s property. |
| c. | establish a priority claim in the machine ahead of other creditors of Cryslie. |
| d. | Both a and c. |

19. Which of the following may not be used as collateral within the scope of UCC Article 9?

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| a. | Certificates of deposit. |
| b. | Accounts receivable. |
| c. | Goodwill. |
| d. | A 250-acre farm. |

20. On April 10, Amy agreed to buy a riding lawn mower from Mowers Plus, signing a promissory note and security agreement giving Mowers Plus a security interest in the mower. On April 15, Amy took delivery of the mower. On May 1, Mowers Plus filed a financing statement. Which of the following is correct?

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| a. | Despite the agreement, Mowers Plus could not create a security interest in the mower since it is a consumer good. |
| b. | Mowers Plus has attachment of a security interest in Amy's mower. |
| c. | Mowers Plus completed the attachment of a security interest in the mower when it filed the financing statement on May 1. |
| d. | The security interest has not attached, but attachment is unimportant to enforceability of a security interest. |

21. What are the duties of the secured party when it is disposing of collateral upon a default.

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| a. | sell the collateral in a public sale only. |
| b. | dispose of the collateral in any reasonably manner |
| c. | no duty of further notice to the defaulting debtor. |
| d. | all of the above |

22. If repossessed collateral is sold or otherwise disposed of by the creditor, the time, place, manner, and method of disposal must be:

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| a. | commercially reasonable. |
| b. | scheduled with the debtor so that the debtor is able to attend. |
| c. | court ordered. |
| d. | perfected. |

23. A security interest in money may be perfected by:

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| a. | filing a financing statement. |
| b. | creating a PMSI. |
| c. | possession only. |
| d. | redemption. |

24. The initial term for which a financing statement will be effective is:

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| a. | one year. |
| b. | five years. |
| c. | ten years. |
| d. | two years. |

25. Country Bank, located in Indiana, loaned Chmelik $5,000 and obtained a security interest in a copyright Chmelik owns. Chmelik lives in Illinois, but works in Indiana. In order to perfect its interest, Country Bank files a financing statement in Indiana. The financing statement provides Chmelik’s correct name, his business address, and a reasonable description of the copyright used as collateral. Is the financing statement sufficient?

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| a. | Yes, it meets the UCC requirements for contents and filing. |
| b. | No, if the debtor is an individual, the secured party must file in the state of the debtor’s principal residence, which in this case would be Illinois. |
| c. | No, the contents of the financing statement are incomplete. |
| d. | Both b and c are correct. |

**ESSAY**

1. Gateway sold a big-screen TV and entertainment center to Iris for $2000 on credit. Iris signed a promissory note and gave Gateway a security interest in the TV and entertainment center. Gateway filed a financing statement in the appropriate public office. When Iris defaulted on her monthly payments owing a balance of $1780, Gateway's attorney made arrangements to have the TV and entertainment center repossessed. The attorney then placed classified ads in the local newspaper to sell the goods. The attorney's fees are $300, the repo company charged $150, and the advertising costs are $50.

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| (A) | If Iris chooses to redeem the property, how much must she pay to Gateway to recover the property? |
| (B) | If Iris does not redeem and the TV and entertainment center are sold for $1750, how will the money be disbursed? |

2. Explain the difference between attachment and perfection.

3. Fowler Bros. has applied to Gibralter Bank for a $50,000 loan for its business expansion. If Fowler Bros. plans to use its account at Gibralter Bank as collateral, discuss what the bank needs to do for a security interest to attach.

4. Aubry purchased a washing machine, a freezer, and a refrigerator from Gateway Appliances on credit, giving Gateway a security interest in the appliances. The appliances were for Aubry's household use. Gateway did not file a financing statement. Six months later, Aubry had a garage sale and sold the appliances to Tam. Tam bought the appliances for her student rental property. Aubry left town owing money on the appliances. If Gateway can trace the appliances to Tam, can Gateway repossess the appliances? Explain in detail.

5. Ken decided to open a retail boat dealership. He expects that many of his sales will be credit sales. What should Ken do to protect his interests in the collateral in the credit sales that he makes?