

# Contents

<i>Acknowledgments</i>	xxxvii
<i>Introduction</i>	xli

## BOOK ONE

<b>Sales Systems</b>	<b>1</b>
<b>Chapter 1. Formation</b>	<b>3</b>
<b>Assignment 1:</b> The Role and Scope of Codes in Sales Systems	3
A. Fundamental Aspects of Sales	3
B. The Real World of Sales	5
C. Functions of a Code in Sales Systems	7
D. Scope of Article 2	9
<i>Ragus Co. v. City of Chicago</i>	11
<i>Challenge Printing Co. v. Electronics for Imaging, Inc.</i>	15
<i>Cook v. Downing</i>	20
Problem Set 1	23
<b>Assignment 2:</b> Scope Issues with Leases, CISG, and Real Estate	29
A. Scope of Article 2A	29
<i>Carlson v. Giacchetti</i>	31
<i>In re Roberts</i>	34
B. Scope of the CISG	41
<i>Microgem Corp. v. Homecast Co.</i>	42
C. Real Estate	45
Problem Set 2	46
<b>Assignment 3:</b> The Process of Sales Contract Formation	51
<i>Hill v. Gateway 2000, Inc.</i>	51
<i>Belden, Inc. v. American Electronic Components, Inc.</i>	59
Problem Set 3	70
<b>Assignment 4:</b> Formation with Leases, International Sales, and Real Estate	75
A. Formation of Contracts for Leases	75
B. Formation of Contracts for International Sales	76
<i>VLM Food Trading Int'l, Inc. v. Illinois Trading Co.</i>	77
C. Formation of Real Estate Contracts	82
<i>Ellis v. Chambers</i>	84
Problem Set 4	89

<b>Assignment 5:</b>	Statute of Frauds with Sales of Goods	93
	<i>DF Activities Corp. v. Brown</i>	95
	<i>General Trading Int'l v. Wal-Mart Stores</i>	101
	Problem Set 5	105
<b>Assignment 6:</b>	Parol Evidence with Sales of Goods	109
	<i>Rienzi &amp; Sons, Inc. v. I Buonatavola Sini S.R.L.</i>	109
	<i>Cravotta v. Deggingers' Foundry, Inc.</i>	114
	Problem Set 6	120
<b>Assignment 7:</b>	Requisites to Formalization in Leases, International Sales, and Real Estate Sales	124
A.	Requisites to Formalization in Leases	124
	<i>Kost v. Kraft</i>	124
B.	Requisites to Formalization in International Sales	128
	<i>TeeVee Toons, Inc. v. Gerhard Schubert GmbH</i>	129
C.	Requisites to Formalization in the Real Estate System	135
	<i>Fox v. Barker</i>	136
	Problem Set 7	140
<b>Chapter 2. Terms</b>		<b>143</b>
<b>Assignment 8:</b>	Warranties with Sales of Goods	143
A.	The Effects of Warranty Law on Business Practice	143
B.	The Basic UCC Quality Warranties	144
	<i>Phillips v. Cricket Lighters</i>	145
	<i>Williams v. Amazon, Inc.</i>	150
	<i>Faulhaber v. Petzl America, Inc.</i>	153
C.	Extended Warranties and Maintenance Agreements	158
	Problem Set 8	159
<b>Assignment 9:</b>	Lease, International, and Real Estate Warranties	164
A.	Lease Warranties: The Case of Finance Leases	164
	<i>Construction Resources Group, LLC v. Element Financial Corp.</i>	164
B.	Warranties with International Sales	171
C.	Real Estate Warranties	172
	1. Warranties Generally	172
	<i>Hershey v. Rich Rosen Construction Co.</i>	172
	2. Third-Party Home Warranties	178
	Problem Set 9	179
<b>Assignment 10:</b>	Reducing or Eliminating Warranty Liability: Basics	183
A.	Warranty Reduction with Sales of Goods	183
	<i>Wilbur v. Toyota Motor Sales, U.S.A.</i>	186
	<i>Sanchelima Int'l, Inc. v. Walker Stainless Equipment Co.</i>	189
B.	Warranty Reduction with Leases	194

C. Warranty Reduction with International Sales	195
D. Disclaiming the Real Estate Implied Warranty of Habitability	195
<i>Axline v. Kutner</i>	196
Problem Set 10	198
<b>Assignment 11: Commercial Impracticability</b>	202
A. Commercial Impracticability with Sales of Goods	202
<i>Oregon Potato Co. v. Kerry, Inc.</i>	205
B. Commercial Impracticability with Leases	213
C. Commercial Impracticability with International Sales	214
<i>Raw Materials, Inc. v. Manfred Forberich GmbH &amp; Co.</i>	214
D. Commercial Impracticability with Real Estate	221
Problem Set 11	221
<b>Assignment 12: Unconscionability</b>	226
A. Unconscionability with Sales of Goods	226
<i>Duncan v. Nissan North America, Inc.</i>	227
B. Unconscionability with Leases	234
<i>Pantoja-Cahue v. Ford Motor Credit Co.</i>	234
<i>BMW Financial Services v. Smoke Rise Corp.</i>	237
C. Unconscionability with International Sales	238
D. Unconscionability with Real Estate	238
Problem Set 12	239
<b>Chapter 3. Performance</b>	<b>243</b>
<b>Assignment 13: Closing the Sale with Sales of Goods</b>	243
<i>North American Lighting, Inc. v. Hopkins Manufacturing Corp.</i>	246
<i>Sinco, Inc. v. Metro-North Commuter R. Co.</i>	251
Problem Set 13	257
<b>Assignment 14: Closing with Leases, International Sales, and Real Estate</b>	262
A. Closing with Leases	262
<i>In re Rafter Seven Ranches, L.P.</i>	262
B. Closing with International Sales	275
<i>Topp Paper Co. v. Eti Converting Equipment</i>	275
C. Real Estate Closings	283
<i>Ponder v. Culp</i>	284
Problem Set 14	290
<b>Assignment 15: Risk of Loss with Sales of Goods</b>	294
<i>Stampede Presentation Products, Inc. v. Productive Transportation, Inc.</i>	295
<i>Cook Specialty Co. v. Schrlock</i>	302
Problem Set 15	307

<b>Assignment 16:</b>	Risk of Loss with Leases, International Sales, and Real Estate	312
A.	Risk of Loss with Leases	312
	<i>In re Jawad</i>	312
B.	Risk of Loss with International Sales	319
	<i>Citgo Petroleum Corp. v. Odfjell Seachem</i>	319
	<i>Chicago Prime Packers, Inc. v. Northam Food Trading Co.</i>	326
C.	Risk of Loss with Real Estate	332
	<i>Voorde Poorte v. Evans</i>	333
	Problem Set 16	335
<b>Chapter 4. Remedies</b>		<b>339</b>
<b>Assignment 17:</b>	Seller's Remedies with Sales of Goods	339
A.	Why Do Legal Remedies Matter at All?	339
B.	What Are a Seller's Legal Remedies?	340
	1. Action for the Price	342
	<i>Granvia Trading Ltd. v. Sutton Creations, Inc.</i>	342
	2. Resale Damages	347
	<i>Firwood Mfg. Co. v. General Tire</i>	347
	3. Contract-Market Difference (Without Resale)	352
	4. Lost Profits	352
	Problem Set 17	353
<b>Assignment 18:</b>	Lessor's and Seller's Remedies with Leases, International Sales, and Real Estate	357
A.	Lessor's Remedies	357
	<i>BP Group, Inc. v. Kloeber</i>	358
B.	Seller's Remedies with International Sales	362
	<i>Sunrise Foods Int'l, Inc. v. Ryan Hinton Inc.</i>	363
C.	Seller's Remedies with Real Estate Sales	370
	<i>Williams v. Ubaldo</i>	371
	Problem Set 18	374
<b>Assignment 19:</b>	Buyer's Remedies with Sales of Goods	378
	<i>Lincoln Composites, Inc. v. Firetrace USA, LLC</i>	379
	Problem Set 19	386
<b>Assignment 20:</b>	Buyer's and Lessee's Remedies with Leases, International Sales, and Real Estate	392
A.	Lessee's Remedies	392
B.	Buyer's Remedies with International Sales	393
	<i>Profi-Parkiet Sp. Zoo v. Seneca Hardwoods LLC</i>	394
C.	Buyer's Remedies with Real Estate	401
	<i>Jue v. Smiser</i>	402
	Problem Set 20	405

<b>BOOK TWO</b>	
<b>Financial Systems</b>	<b>409</b>
<b>Part One</b>	
<b>Payment Systems</b>	<b>411</b>
Introduction to Part One	413
Typologies of Payment Systems	414
Developing Payment Systems	418
<b>Chapter 5. Paying with a Card</b>	<b>421</b>
<b>Assignment 21: The Credit-Card System</b>	421
A. The Issuer-Cardholder Relationship	421
B. Using the Credit-Card Account	424
C. Collection by the Payee	425
1. The Mechanics of Collection	425
2. Finality of Payment	428
<i>Singer v. Chase Manhattan Bank</i>	430
<i>Hasan v. Chase Bank USA</i>	431
Problem Set 21	434
<b>Assignment 22: Error and Fraud in Credit-Card Transactions</b>	437
A. Erroneous Charges	437
<i>Belmont v. Associates National Bank (Delaware)</i>	438
B. Unauthorized Charges	448
<i>Roundtree v. Chase Bank USA, N.A.</i>	448
<i>Azur v. Chase Bank, USA, N.A.</i>	452
Problem Set 22	460
<b>Assignment 23: Debit Cards</b>	462
A. Payment with a Debit Card	462
1. Establishing the Debit-Card Relationship	463
2. Transferring Funds with a Debit Card	464
3. Collection by the Payee	464
B. Error and Fraud in Debit-Card Transactions	465
1. Erroneous Transactions	465
2. Fraudulent Transactions	466
<i>Hospicomm, Inc. v. Fleet Bank, N.A.</i>	470
Problem Set 23	473
<b>Assignment 24: Prepaid Cards</b>	476
A. Mechanics	476
B. Legal Issues	479
1. EFTA	479

2. Other Issues	480
Problem Set 24	482
<b>Chapter 6. Electronic Consumer Payments</b>	<b>485</b>
<b>Assignment 25: Automated Clearing House Payments</b>	485
A. The Basics of ACH Transfers	485
1. The Basic Terminology	486
2. The Mechanics	487
3. Types of ACH Entries	489
4. Finality, Error, and Fraud in ACH Transfers	490
<i>In re Ocean Petroleum, Inc. (Fleet Bank, N.A. v. Business Alliance Capital Corp.)</i>	492
<i>Clinton Plumbing and Heating v. Ciacco</i>	498
B. POS Conversion	501
C. Telephone-Initiated Payments	504
Problem Set 25	505
<b>Assignment 26: Internet Payments</b>	507
A. Credit Cards on the Internet	507
1. Processing the Transactions	507
2. Problems	508
(a) Fraud	508
(b) Privacy	511
(c) Micropayments	512
B. Debit Cards on the Internet	513
C. ACH Transfers (WEB Entries)	514
D. Foreign and Cross-Border Payments	515
E. A Note on Mobile Payments	517
Problem Set 26	518
<b>Assignment 27: Virtual Currencies</b>	519
A. The Mechanics of Bitcoin	519
Stephen T. Middlebrook, Bitcoin for Merchants: Legal Considerations for Businesses Wishing to Accept Bitcoin as a Form of Payment	520
B. Legal Issues	521
<i>Florida v. Espinoza</i>	522
Problem Set 27	528
<b>Chapter 7. Paying with Paper (Checks)</b>	<b>531</b>
<b>Assignment 28: The Basic Checking Relationship</b>	531
A. The Basic Relationship	531
B. The Bank's Right to Pay	532
1. When Is It Proper for the Bank to Pay?	532
<i>McGuire v. Bank One, Louisiana, N.A.</i>	533
2. Remedies for Improper Payment	537
<i>McIntyre v. Harris</i>	538

C. The Bank's Obligation to Pay	540
1. When Are Funds Available for Payment?	540
2. Wrongful Dishonor: What Happens If the Bank Refuses to Pay?	544
Problem Set 28	545
<b>Assignment 29:</b> Risk of Loss in the Checking System	547
A. The Basic Framework	547
1. Nonpayment	547
2. Forged Signatures	549
(a) Forged Drawers' Signatures and the Rule of Price v. Neal	550
(i) What If the Payor Bank Pays the Forged Check?	550
(ii) What If the Payor Bank Dishonors the Forged Check?	552
(iii) The Special Case of Telephone Checks	553
(b) Forged Indorsements	554
(i) What If the Payor Bank Dishonors the Check Because of the Forged Indorsement?	554
(ii) What If the Payor Bank Pays the Check Despite the Forged Indorsement?	554
(iii) Conversion	555
3. Alteration	556
B. Special Rules	557
1. Negligence	557
<i>Thompson v. First BancoAmericano</i>	558
2. Theft by Employees	563
<i>Halifax Corp. v. Wachovia Bank</i>	564
3. Impostors	566
<i>State Security Check Cashing, Inc. v. American General Financial Services (DE)</i>	566
Problem Set 29	576
<b>Assignment 30:</b> Collection of Checks	578
A. The Payor Bank's Obligation to the Payee	578
B. The Traditional Process of Collection	579
1. Obtaining Payment Directly	579
2. Obtaining Payment Through Intermediaries	580
(a) Payee/Customer to Depository Bank	581
(b) Depository Bank to Payor Bank	581
(c) Dishonor and Return	583
(i) The UCC's "Midnight" Deadline	584
(ii) The Regulation CC Expeditious Return Rule	584
(iii) Regulation CC and the UCC's Midnight Deadline	585
<i>Troy Bank &amp; Trust Co. v. The Citizens Bank</i>	585
C. Truncation and Check 21	588
1. Payor-Bank Truncation	589

2. Depository-Bank Truncation	589
<i>Wachovia Bank, N.A. v. Foster Bancshares, Inc.</i>	590
3. Check 21	592
Problem Set 30	596
<b>Chapter 8. Wire Transfers</b>	<b>601</b>
<b>Assignment 31: The Wire-Transfer System</b>	601
A. Introduction	601
B. How Does It Work?	602
1. Initiating the Wire Transfer: From the Originator to the Originator's Bank	602
<i>Trustmark Insurance Co. v. Bank One</i>	603
<i>Receivers of Sabena SA v. Deutsche Bank A.G.</i>	608
2. Executing the Transfer: From the Originator's Bank to the Beneficiary's Bank	614
(a) Bilateral Systems (Including SWIFT)	614
(b) CHIPS	615
(c) Fedwire	616
3. Completing the Funds Transfer: From the Beneficiary's Bank to the Beneficiary	618
C. Discharge of the Originator's Underlying Obligation	620
D. Finality of Payment	621
<i>Aleo International, Ltd. v. CitiBank, N.A.</i>	621
Problem Set 31	622
<b>Assignment 32: Error in Wire-Transfer Transactions</b>	626
A. Recovering from Parties in the System	626
1. Errors by the Originator	627
<i>Phil &amp; Kathy's Inc. v. Safra National Bank</i>	627
2. Errors in the System	631
(a) Sending Excessive Funds	631
(b) Sending Inadequate Funds	632
(c) Bank-Statement Rule	633
<i>Regatos v. North Fork Bank</i>	634
3. Circuity of Recovery	638
<i>Grain Traders, Inc. v. CitiBank, N.A.</i>	638
B. Recovering from the Mistaken Recipient	643
<i>Citibank, N.A. v. Brigade Capital Management, LP</i>	643
Problem Set 32	664

<b>Part Two</b>	
<b>Credit Enhancement and Letters of Credit</b>	<b>667</b>
<b>Chapter 9. Credit Enhancement</b>	<b>669</b>
<b>Assignment 33: Credit Enhancement by Guaranty</b>	669
A. The Role of Guaranties	669
B. Rights of the Creditor Against the Guarantor	672
<i>In re Caesars Entertainment Operating Co. (Caesars Entertainment Operating Co. v. BOKE, N.A.)</i>	673
Problem Set 33	677
<b>Assignment 34: Protections for Guarantors</b>	679
A. Rights of the Guarantor Against the Principal	679
1. Performance	679
2. Reimbursement	679
3. Subrogation	680
<i>Chemical Bank v. Meltzer</i>	681
<i>Stahl v. Simon (In re Adamson Apparel, Inc.)</i>	686
B. Rights of the Guarantor Against the Creditor	693
1. Suretyship Defenses	693
2. Waiver of Suretyship Defenses	695
<i>Data Sales Co. v. Diamond Z Manufacturing</i>	695
C. Bankruptcy of the Guarantor	701
<i>Trimec, Inc. v. Zale Corporation</i>	701
Problem Set 34	703
Guaranty Agreement	705
<b>Chapter 10. Letters of Credit</b>	<b>715</b>
<b>Assignment 35: Letters of Credit—The Basics</b>	715
A. The Underlying Transaction	716
B. Advising and Confirming Banks	717
C. The Terms of the Credit	718
D. Drawing on the Credit	720
<i>Gilday v. Suffolk County National Bank</i>	721
<i>Carter Petroleum Products, Inc. v. Brotherhood Bank &amp; Trust Co.</i>	724
<i>LaBarge Pipe &amp; Steel Co. v. First Bank</i>	728
E. Reimbursement	739
<i>Banco Nacional De Mexico v. Societe Generale</i>	740
Problem Set 35	744
<b>Assignment 36: Letters of Credit—Advanced Topics</b>	748
A. Error and Fraud in Letter-of-Credit Transactions	748
1. Wrongful Honor	748

2. Wrongful Dishonor	750
3. Fraud	752
(a) Forged Drafts	752
(b) Fraudulent Submissions by the Beneficiary	753
B. Assigning Letters of Credit	754
C. Choice-of-Law Rules	756
Problem Set 36	757
<b>Assignment 37:</b> Third-Party Credit Enhancement—Standby Letters of Credit	759
A. The Standby Letter-of-Credit Transaction	759
<i>Nobel Insurance Co. v. First National Bank</i>	761
<i>Wood v. State Bank</i>	766
<i>3M Co. v. HSBC Bank USA, N.A.</i>	768
B. Problems in Standby Letter-of-Credit Transactions	777
1. Bankruptcy of the Applicant	778
<i>In re Ocana</i>	779
2. The Issuer's Right of Subrogation	780
<i>CRM Collateral II, Inc. v. Tri-County Metropolitan Transportation District</i>	781
Problem Set 37	787

## Part Three

### Liquidity Systems

789

#### Chapter 11. Negotiability

791

<b>Assignment 38:</b> Negotiable Instruments	791
A. Negotiability and Liquidity	791
B. A Typical Transaction	793
C. The Negotiability Requirements	794
1. The Promise or Order Requirement	795
2. The Unconditional Requirement	797
3. The Money Requirement	798
4. The Fixed-Amount Requirement	798
5. The Payable-to-Bearer-or-Order Requirement	799
6. The Demand or Definite-Time Requirement	800
7. The No-Extraneous-Undertakings Requirement	801
<i>In re Walker</i>	802
Problem Set 38	805
Promissory Note	807

<b>Assignment 39:</b>	Transfer and Enforcement of Negotiable Instruments	815
A.	Transferring a Negotiable Instrument	815
	1. Negotiation and Status as a Holder	815
	2. Special and Blank Indorsements	816
	3. Restrictive and Anomalous Indorsements	818
B.	Enforcement and Collection of Instruments	818
	1. The Right to Enforce an Instrument	818
	<i>In re Kang Jin Hwang</i>	819
	2. Presentment and Dishonor	824
	3. Defenses to Enforcement	825
	<i>Turman v. Ward's Home Improvement, Inc.</i>	825
C.	Liability on an Instrument	826
	<i>State Bank v. Smith</i>	827
D.	The Effect of the Instrument on the Underlying Obligation	830
	Problem Set 39	832
<b>Assignment 40:</b>	Holders in Due Course	835
A.	Holder-in-Due-Course Status	835
	1. The Requirements for Holder-in-Due-Course Status	835
	2. Rights of Holders in Due Course	837
	<i>State Street Bank &amp; Trust Co. v. Strawser</i>	839
	<i>Langley v. FDIC</i>	841
	3. Payment and Discharge	846
	4. Transferees Without Holder-in-Due-Course Status	848
B.	The Fading Role of Negotiability	848
	1. The Declining Use of Negotiable Instruments	849
	2. The Decreasing Relevance of Negotiability to Negotiable Instruments	850
C.	New Horizons: Article 12 and Controllable Electronic Records	852
	1. Controllable Electronic Records	852
	2. Purchasers of Controllable Electronic Records	853
	3. Rights Tethered to a Controllable Electronic Record	854
	Problem Set 40	855
<b>Chapter 12. Securities</b>		<b>859</b>
<b>Assignment 41:</b>	Securities	859
A.	Securitization and Liquidity	859
B.	The Rise of Securitization	860
C.	Investment Securities and Article 8	861
	<i>Davis v. Stern, Agee &amp; Leach, Inc.</i>	862
	1. The Subject Matter: What Is a Security?	867
	2. The Obligation of the Issuer	868
	3. The Two Holding Systems	870

(a) The Direct Holding System	871
(i) Making the Transfer Effective Against the Issuer	871
(ii) The Effect of a Transfer on Third Parties	871
<i>Meadow Homes Development Corp. v. Bowens</i>	872
(b) The Indirect Holding System	877
(i) The Basic Framework	877
(ii) Rights Against the Intermediary	879
<i>Rider v. Estate of Rider (In re Estate of Rider)</i>	879
(iii) Rights Against Third Parties	886
Problem Set 41	888

## BOOK THREE

### Secured Credit 891

#### Part One

### The Creditor-Debtor Relationship 893

#### Chapter 13. Creditors' State Law Remedies 895

<b>Assignment 42:</b> Unsecured Creditors State Law Remedies	895
A. Who Is an Unsecured Creditor?	895
B. How Do Unsecured Creditors Compel Payment?	896
<i>Vitale v. Hotel California, Inc.</i>	898
<i>Ellerbee v. County of Los Angeles</i>	903
C. Limitations on Compelling Payment	905
Wisconsin Statutes—Exemptions	907
D. Voidable Transfers	909
E. Is the Law Serious About Collecting Unsecured Debts?	910
Problem Set 42	911
<b>Assignment 43:</b> Security and Foreclosure	914
A. The Necessity of Foreclosure	916
The Invention of Security: A Pseudo History	916
B. Transactions Intended as Security	919
<i>In re 364 N.B.E. Corp.</i>	919
1. Conditional Sales	922
2. Leases Intended as Security Interests	922
3. Sales of Accounts and Asset Securitizations	924
C. Foreclosure Procedure	926
1. Judicial Foreclosure	926
Kate Berry, California Couple Held Off Foreclosure for	
13 Years in Mortgage Servicer Nightmare	927
2. Real Property Power of Sale Foreclosure	928
3. UCC Foreclosure by Sale	929
Problem Set 43	929

<b>Assignment 44:</b>	Repossession of Collateral	933
A.	The Importance of Possession Pending Foreclosure	933
B.	The Right to Possession Pending Foreclosure—Personal Property	933
	Wisconsin Statutes—Use of Force	935
	12 Oklahoma Statutes—Use of Force	935
C.	The Article 9 Right to Self-Help Repossession	936
D.	The Limits of Self-Help: Breach of the Peace	937
	<i>Duke v. Garcia</i>	937
E.	Self-Help Against Accounts as Collateral	943
F.	The Right to Possession Pending Foreclosure—Real Property	945
	1. The Debtor's Right to Possession During Foreclosure	945
	2. Appointment of a Receiver	945
	California Code of Civil Procedure—Receiver	946
	735 Illinois Compiled Statutes—Possession during Foreclosure	947
	3. Assignments of Rents	947
	Problem Set 44	947
<b>Assignment 45:</b>	Judicial Sale and Deficiency	950
A.	Strict Foreclosure	950
B.	Foreclosure Sale Procedure	951
	California Civil Code—Bidding at a Trustee's Sale	951
C.	Foreclosure Sale Prices	953
	<i>First Bank v. Fischer &amp; Frichtel, Inc.</i>	953
D.	Factors that Depress Foreclosure Sale Prices	956
	1. Advertising	957
	Wisconsin Statutes—Notice of Sale	957
	2. Inspection	958
	Homebuyer Finds Remains of Owner	958
	3. Title and Condition	959
	<i>Klein v. Oakland/Red Oak Holdings, LLC</i>	959
	4. Hostile Situation	962
	5. The Statutory Right to Redeem	962
E.	Antideficiency Statutes	963
	California Code of Civil Procedure—Deficiency	963
F.	Credit Bidding at Judicial Sales	964
G.	Judicial Sale Procedure: A Functional Analysis	966
	Problem Set 45	966
<b>Assignment 46:</b>	Article 9 Sale and Deficiency	969
A.	Acceptance of Collateral	969
	<i>McDonald v. Yarchenko</i>	970
B.	Sale Procedure Under Article 9	972
C.	Problems with Article 9 Sale Procedure	974
	1. Failure to Sell the Collateral	974

2. The Requirement of Notice of Sale	975
<i>In re Downing</i>	975
3. The Requirement of a Commercially Reasonable Sale	978
<i>D2 Mark LLC v. OREI VI Investments LLC</i>	978
D. Article 9 Sale Procedure: A Functional Analysis	982
Problem Set 46	983
<b>Chapter 14. Creditors' Remedies in Bankruptcy</b>	<b>987</b>
<b>Assignment 47: Bankruptcy and the Automatic Stay</b>	987
A. The Federal Bankruptcy System	987
B. Bankruptcy Concepts	987
C. Types of Bankruptcy Cases	989
D. The Automatic Stay	990
E. Lifting the Stay for Secured Creditors	992
<i>In re Omni Lion's Run, L.P.</i>	995
F. Strategic Uses of Stay Litigation	1000
Problem Set 47	1001
<b>Assignment 48: The Treatment of Secured Creditors in Bankruptcy</b>	1004
A. The Vocabulary of Bankruptcy Claims	1004
B. The Claims Process	1006
C. Calculating Claim Amounts	1008
1. Unsecured Claims	1008
2. Secured Claims	1009
D. Payments on Unsecured Claims	1010
E. Bankruptcy Sales	1011
1. The Sale Process	1011
2. Who Pays the Sale Expenses?	1013
F. Secured Creditor Entitlements	1014
1. General Rules	1014
2. Valuing Future Payments	1016
<i>Till v. SCS Credit Corporation</i>	1017
Problem Set 48	1019
<b>Chapter 15. Creation and Scope of Security Interests</b>	<b>1023</b>
<b>Assignment 49: Formalities for Attachment</b>	1023
A. A Prototypical Secured Transaction	1023
Fisherman's Pier: A Prototypical Secured Transaction	1023
B. Formalities for Article 9 Security Interests	1026
1. Possession or Signed Security Agreement	1026
<i>In re Schwalb</i>	1028
<i>In re Giaimo</i>	1030

2. Value Has Been Given	1034
3. The Debtor Has Rights in the Collateral	1035
C. Formalities for Real Estate Mortgages	1037
Ohio Revised Code Ann.	1037
Problem Set 49	1038
<b>Assignment 50: Which Collateral and Obligations Are Covered?</b>	1042
A. Interpreting Security Agreements	1042
1. Debtor Against Creditor	1042
2. Creditor Against Third Party	1043
3. Interpreting Descriptions of Collateral	1043
B. Sufficiency of Description: Article 9 Security Agreements	1044
<i>In re Murphy</i>	1044
C. Describing After-Acquired Property	1046
<i>ARA Incorporated v. City of Glendale</i>	1047
D. Which Obligations Are Secured?	1049
E. Real Estate Mortgages	1050
Problem Set 50	1052
<b>Assignment 51: Proceeds, Products, and Other Value-Tracing Concepts</b>	1055
A. Proceeds	1056
1. Definition	1056
2. Termination of Security Interest in the Collateral After Authorized Disposition	1059
3. Continuation of Security Interest in the Collateral After Unauthorized Disposition	1059
4. Limitations on the Secured Creditor's Ability to Trace Collateral	1062
<i>In re Oriental Rug Warehouse Club, Inc.</i>	1064
B. Other Value-Tracing Concepts	1067
C. Non-Value-Tracing Concepts	1069
D. Liability of Buyers of Collateral	1069
Problem Set 51	1070
<b>Assignment 52: Tracing Collateral Value During Bankruptcy</b>	1073
A. After-Acquired Property and the Proceeds Dilemma	1073
B. The "Equities of the Case" Solution to the Proceeds Dilemma	1075
<i>In re Delbridge</i>	1076
<i>In re Gunnison Center Apartments, LP</i>	1078
C. The "Redefining Proceeds" Solution to the Proceeds Dilemma	1080
<i>In Matter of Strick Chex Columbus Two, LLC</i>	1080
D. Cash Collateral in Bankruptcy	1083
Problem Set 52	1085

<b>Chapter 16. Default: The Gateway to Remedies</b>	<b>1089</b>
<b>Assignment 53:</b> Default, Acceleration, and Cure Under State Law	1089
A. Default	1089
Standard Default Provisions	1089
B. When Is Payment Due?	1090
1. Installment Loans	1091
2. Single Payment Loans	1091
3. Lines of Credit	1092
C. Acceleration and Cure	1093
1. Acceleration	1093
2. The Debtor's Right to Cure	1094
<i>Old Republic Insurance Co. v. Lee</i>	1095
735 Illinois Compiled Statutes—Reinstatement	1096
3. Limits on the Enforceability of Acceleration Clauses	1096
<i>J.R. Hale Contracting Co. v. United New Mexico Bank at Albuquerque</i>	1096
D. Good Faith and the Enforceability of Contract Terms	1100
<i>In re Moon Group, Inc.</i>	1101
E. Procedures After Default	1105
Problem Set 53	1106
<b>Assignment 54:</b> Default, Acceleration, and Cure Under Bankruptcy Law	1109
<i>In re Moffett</i>	1109
A. Stage One: Protection of the Defaulting Debtor Pending Reorganization	1112
B. Stage Two: Reinstatement and Cure	1113
1. Modification Distinguished from Reinstatement and Cure	1113
2. Reinstatement and Cure Under Chapter 11	1114
3. Reinstatement and Cure Under Chapter 13	1116
4. When Is It Too Late to File Bankruptcy to Reinstatement and Cure or to Modify?	1117
C. Binding Lenders in the Absence of a Fixed Schedule for Repayment	1118
Problem Set 54	1118
<b>Chapter 17. The Prototypical Secured Transaction</b>	<b>1121</b>
<b>Assignment 55:</b> The Prototypical Secured Transaction	1121
A. The Parties	1121
B. Otis Approves Bonnie's Loan	1122
C. Otis and Bonnie's Document the Loan	1123
1. Security Agreement and Statement of Transaction	1123
2. The Financing Statement	1131

3. The Personal Guarantee	1131
D. Bonnie's Buys Some Boats	1133
1. The Floorplan Agreement	1133
2. The Buy	1135
E. Bonnie's Sells a Boat	1136
F. Monitoring the Existence of the Collateral	1137
G. The Role of Criminal Law	1138
810 Illinois Compiled Statutes—Criminal Sale of Collateral	1138
New York Penal Law—Criminal Sale of Collateral	1138
Problem Set 55	1139
<i>United States v. Gabler</i>	1139

## Part Two

### The Creditor-Third Party Relationship 1143

#### Chapter 18. Perfection 1145

<b>Assignment 56:</b> The Personal Property Filing Systems	1145
A. Competition for the Secured Creditor's Collateral	1145
B. What Is Priority?	1146
<i>Peerless Packing Co. v. Malone &amp; Hyde, Inc.</i>	1147
C. How Do Creditors Get Priority?	1149
D. The Theory of the Filing System	1151
E. The Multiplicity of Filing Systems	1153
<i>In re Peregrine Entertainment, Limited</i>	1154
<i>Raffel Systems, LLC v. Man Wah Holdings Ltd, Inc.</i>	1156
<i>In re Pasteurized Eggs Corporation</i>	1158
F. Methods and Costs of Searching	1159
Problem Set 56	1160
<b>Assignment 57:</b> Article 9 Financing Statements: The Debtor's Name	1163
A. The Components of a Filing System	1163
1. Financing Statements	1164
2. The Index	1164
3. Search Systems	1165
B. Correct Names for Use on Financing Statements	1166
1. Individual Names	1167
2. Corporate Names	1169
3. Partnership Names	1170
4. Trade Names	1170
5. The Entity Problem	1171
C. Errors in the Debtors' Names on Financing Statements	1172
<i>In re EDM Corporation</i>	1172
Problem Set 57	1177

<b>Assignment 58:</b>	Article 9 Financing Statements: Other Information	1180
A.	Introduction	1180
B.	Filing Office Errors in Acceptance or Rejection	1181
	1. Wrongly Accepted Filings	1181
	2. Wrongly Rejected Filings	1181
C.	Filer Errors in Accepted Filings	1182
	1. Information Necessary Only to Qualify for Filing	1182
	2. Information Necessary for Effectiveness	1183
	(a) Name of the Secured Party	1184
	(b) Indication of Collateral	1184
	<i>In re Pickle Logging, Inc.</i>	1186
D.	Authorization to File a Financing Statement	1188
E.	UCC Insurance	1189
	Problem Set 58	1189
<b>Assignment 59:</b>	Exceptions to the Article 9 Filing Requirement	1193
A.	Collateral in the Possession of the Secured Party	1193
	1. The Possession-Gives-Notice Theory	1193
	2. What Is Possession?	1194
	3. Possession as a Means of Perfection	1196
B.	Collateral in the Control of the Secured Party	1198
	1. Deposit Accounts	1198
	2. Investment Property	1199
	3. Controllable Electronic Records (CERs)	1201
	4. Controllable Accounts and Payment Intangibles	1201
C.	Automatic Perfection of Purchase-Money Security Interests in Consumer Goods	1202
	1. Purchase-Money Security Interest (PMSI)	1202
	2. Consumer Goods	1203
D.	Security Interests Not Governed by Article 9 or Another Filing Statute	1205
E.	What Became of the Notice Requirement?	1206
	Problem Set 59	1206
<b>Chapter 19.</b>	<b>Maintaining Perfection</b>	<b>1211</b>
<b>Assignment 60:</b>	Maintaining Perfection Through Lapse and Bankruptcy	1211
A.	Removing Filings from the Public Record	1211
	1. Satisfaction	1211
	Arizona Revised Statutes Annotated—Satisfaction of Mortgage	1212
	Florida Statutes Annotated—Satisfaction of Mortgage	1213
	2. Release	1213
	3. Article 9 Termination and Release	1214
	<i>In re Motors Liquidation Co.</i>	1215

B. Self-Clearing and Continuation in the Article 9 Filing System	1219
<i>The Four County Bank v. Tidewater Equipment Co.</i>	1221
C. The Effect of Bankruptcy on Lapse and Continuation	1225
Problem Set 60	1226
<b>Assignment 61:</b> Maintaining Perfection Through Changes of Name, Identity, and Use	1229
A. Changes in the Debtor's Name	1230
B. New Debtors	1233
C. Changes Affecting the Description of Collateral	1233
D. Exchange of Collateral for Proceeds	1235
<i>In re Seaway Express Corporation</i>	1236
Problem Set 61	1238
<b>Assignment 62:</b> Maintaining Perfection Through Relocation of Debtor or Collateral	1240
A. State-Based Filing in a National Economy	1240
B. Initial Perfection	1241
1. At the Location of the Debtor	1241
<i>Dayka &amp; Hackett, LLC v. Del Monte Fresh Produce N.A., Inc.</i>	1243
2. At the Location of the Collateral	1245
C. Perfection Maintenance	1246
1. Through Debtor Relocation	1246
(a) Individuals	1246
(b) Unregistered Organizations	1247
(c) Registered Organizations	1247
2. Through Collateral Transfer	1248
D. Nation-Based Filing in a World Economy	1249
E. International Filing Systems	1251
Problem Set 62	1252
<b>Assignment 63:</b> Maintaining Perfection in Certificate of Title Systems	1254
A. Perfection in a Certificate of Title System	1257
<i>In re Thompson</i>	1259
B. Accessions	1261
C. In What State Should a Motor Vehicle Be Titled?	1263
D. Motor Vehicle Registration	1264
E. Maintaining Perfection on Interstate Movement of Collateral	1265
1. How It Is Supposed to Work	1265
2. Some Things That Can Go Wrong	1266
3. Movement of Goods Between Non-Certificate and Certificate Jurisdictions	1267
Problem Set 63	1269

<b>Chapter 20. Priority</b>	<b>1271</b>
<b>Assignment 64:</b> The Concept of Priority: State Law	1271
A. Priority in Foreclosure and Judicial Sales	1271
B. Credit Bidding Revisited	1274
C. Reconciling Inconsistent Priorities	1275
D. The Right to Possession Between Lien Holders	1277
<i>Legacy Bank v. Fab Tech Drilling Equipment, Inc.</i>	1278
E. UCC Notice of Sale	1282
F. Rule Variation Across Systems	1283
Problem Set 64	1284
<b>Chapter 21. Competitions for Collateral</b>	<b>1287</b>
<b>Assignment 65:</b> Lien Creditors Against Secured Creditors: The Basics	1287
A. How Creditors Become “Lien Creditors”	1287
California Code of Civil Procedure—Judgment Liens on Real and Personal Property	1288
B. Priority Among Lien Creditors	1289
C. Priority Between Lien Creditors and Secured Creditors	1290
<i>People v. Green</i>	1291
D. Priority Between Lien Creditors and Mortgage Creditors	1294
E. Purchase-Money Priority	1294
Problem Set 65	1295
<b>Assignment 66:</b> Lien Creditors Against Secured Creditors: Future Advances	1298
A. Priority of Future Advances: Personal Property	1298
B. Priority of Nonadvances: Personal Property	1300
<i>UNI Imports, Inc. v. Aparacor, Inc.</i>	1300
C. Priority of Future Advances and Nonadvances: Real Property	1304
<i>Shutze v. Credithrift of America, Inc.</i>	1305
Problem Set 66	1309
<b>Assignment 67:</b> Secured Creditors Against Secured Creditors: The Basics	1311
A. Nonpurchase-Money Security Interests	1311
1. The Basic Rule: First to File or Perfect	1311
2. Priority of Future Advances	1313
<i>In re Reckart Equipment Co., Inc.</i>	1314
3. Priority in After-Acquired Property	1316
B. Purchase-Money Security Interests	1318
1. Purchase-Money Security Interests Generally	1318
2. Multiple Purchase-Money Security Interests	1319
3. Purchase-Money Security Interests in Inventory	1320
4. Purchase-Money Priority in Proceeds	1321

---

C. Priority in Commingled Collateral	1323
Problem Set 67	1324
<b>Assignment 68:</b> Buyers Against Secured Creditors	1327
A. Introduction	1327
B. Buyers of Personal Property	1328
1. The Buyer-in-the-Ordinary-Course Exception: UCC §9-320(a)	1328
<i>Daniel v. Bank of Hayward</i>	1331
2. The Failure-to-Perfect Exception: UCC §§9-323(d) and (e), 9-317(b) and (d)	1335
3. The Authorized Disposition Exception: UCC §9-315(a)(1)	1336
<i>RFC Capital Corporation v. EarthLink, Inc.</i>	1337
4. The Consumer-to-Consumer-Sale Exception: UCC §9-320(b)	1339
C. Buyers of Real Property	1340
Problem Set 68	1342
<i>Table of Cases</i>	1347
<i>Table of Statutes, Regulations, and Restatements</i>	1357
<i>Index</i>	1385