

Contents

<i>Acknowledgments</i>	xxxv
<i>Introduction</i>	xxxix

BOOK ONE Sales Systems

	1
Chapter 1. Formation	3
Assignment 1: The Role and Scope of Codes in Sales Systems	3
A. Fundamental Aspects of Sales	3
B. The Real World of Sales	4
C. Functions of a Code in Sales Systems	6
D. Scope of Article 2	8
<i>Ragus Co. v. City of Chicago</i>	10
<i>Dakota Pork Indus. v. City of Huron</i>	13
<i>Cook v. Downing</i>	14
Problem Set 1	18
Assignment 2: Scope Issues with Leases, CISG, and Real Estate	21
A. Scope of Article 2A	21
<i>Carlson v. Giachetti</i>	23
<i>In re Bailey</i>	26
B. Scope of the CISG	32
<i>American Biophysics Corp. v. Dubois Marine Specialties</i>	33
C. Real Estate	36
Problem Set 2	37
Assignment 3: The Process of Sales Contract Formation	40
<i>Hill v. Gateway 2000, Inc.</i>	40
<i>Belden, Inc. v. American Electronic Components, Inc.</i>	48
Problem Set 3	59
Assignment 4: Formation with Leases, International Sales, and Real Estate	62
A. Formation of Contracts for Leases	62
B. Formation of Contracts for International Sales	63
<i>Filanto v. Chilewich International Corp.</i>	63
C. Formation of Real Estate Contracts	66
<i>Dysart v. Cummings</i>	67
<i>Messler v. Phillips</i>	75
Problem Set 4	77

Assignment 5: Statute of Frauds with Sales of Goods	79
<i>DF Activities Corp. v. Brown</i>	82
<i>General Trading Int'l v. Wal-Mart Stores</i>	87
Problem Set 5	91
Assignment 6: Parol Evidence with Sales of Goods	93
<i>Morgan Buildings and Spas, Inc. v. Humane Society of Southeast Texas</i>	93
<i>C-Thru Container Corp. v. Midland Mfg. Co.</i>	102
Problem Set 6	105
Assignment 7: Requisites to Formalization in Leases, International Sales, and Real Estate Sales	107
A. Requisites to Formalization in Leases	107
B. Requisites to Formalization in International Sales	108
<i>TeeVee Toons, Inc. v. Gerhard Schubert GmbH</i>	108
C. Requisites to Formalization in the Real Estate System	114
<i>Lovett v. Lovett</i>	114
Problem Set 7	119
Chapter 2. Terms	123
Assignment 8: Warranties with Sales of Goods	123
A. The Effects of Warranty Law on Business Practice	123
B. The Basic UCC Quality Warranties	124
<i>Phillips v. Cricket Lighters</i>	125
<i>Leal v. Holtvogt</i>	130
C. Extended Warranties and Maintenance Agreements	136
Problem Set 8	138
Assignment 9: Lease, International, and Real Estate Warranties	141
A. Lease Warranties: The Case of Finance Leases	141
B. Warranties with International Sales	142
<i>Schmitz-Werke GmbH Co. v. Rockland Industries, Inc.</i>	143
C. Real Estate Warranties	147
1. Warranties Generally	147
<i>Hershey v. Rich Rosen Construction Co.</i>	147
2. Third-Party Home Warranties	152
Problem Set 9	153
Assignment 10: Reducing or Eliminating Warranty Liability: Basics	155
A. Warranty Reduction with Sales of Goods	155
<i>Wilbur v. Toyota Motor Sales, U.S.A.</i>	157
B. Warranty Reduction with Leases	161
C. Warranty Reduction with International Sales	162
<i>Supermicro Computer, Inc. v. Digitechnic, S.A.</i>	162
D. Disclaiming the Real Estate Implied Warranty of Habitability	164
<i>Axline v. Kutner</i>	164
Problem Set 10	166

Assignment 11: Commercial Impracticability	168
A. Commercial Impracticability with Sales of Goods	168
<i>Resources Investment Corp. v. Enron Corp.</i>	169
<i>Alamance County Bd. of Educ. v. Bobby Murray Chevrolet</i>	172
B. Commercial Impracticability with Leases	178
C. Commercial Impracticability with International Sales	179
<i>Raw Materials, Inc. v. Manfred Forberich GmbH & Co.</i>	179
D. Commercial Impracticability with Real Estate	185
Problem Set 11	185
Assignment 12: Unconscionability	188
A. Unconscionability with Sales of Goods	188
<i>Maxwell v. Fidelity Financial Services, Inc.</i>	189
B. Unconscionability with Leases	192
<i>BMW Financial Services v. Smoke Rise Corp.</i>	192
C. Unconscionability with International Sales	193
D. Unconscionability with Real Estate	193
Problem Set 12	194
Chapter 3. Performance	197
Assignment 13: Closing the Sale with Sales of Goods	197
<i>North American Lighting, Inc. v. Hopkins Manufacturing Corp.</i>	200
<i>Sinco, Inc. v. Metro-North Commuter R. Co.</i>	204
Problem Set 13	210
Assignment 14: Closing with Leases, International Sales, and Real Estate	213
A. Closing with Leases	213
<i>Colonial Pacific Leasing Corp. v. J.W.C.J.R. Corp.</i>	213
B. Closing with International Sales	218
<i>Delchi Carrier SpA v. Rotorex Corp.</i>	218
C. Real Estate Closings	221
<i>Gray v. First NH Banks</i>	222
Problem Set 14	225
Assignment 15: Risk of Loss with Sales of Goods	227
<i>Cook Specialty Co. v. Schrock</i>	229
<i>Design Data Corp. v. Maryland Casualty Co.</i>	232
Problem Set 15	236
Assignment 16: Risk of Loss with Leases, International Sales, and Real Estate	239
A. Risk of Loss with Leases	239
B. Risk of Loss with International Sales	239
<i>BP Oil Int'l v. Empresa Estatal Petroleos de Ecuador</i>	239
<i>Chicago Prime Packers, Inc. v. Northam Food Trading Co.</i>	242
C. Risk of Loss with Real Estate	248
<i>Voorde Poorte v. Evans</i>	249
Problem Set 16	251

Chapter 4. Remedies	253
Assignment 17: Seller's Remedies with Sales of Goods	253
A. Why Do Legal Remedies Matter at All?	253
B. What Are a Seller's Legal Remedies?	254
1. Action for the Price	255
<i>Sack v. Lawton</i>	256
2. Resale Damages	259
<i>Firwood Mfg. Co. v. General Tire</i>	259
3. Contract-Market Difference (Without Resale)	264
4. Lost Profits	264
Problem Set 17	264
Assignment 18: Lessor's and Seller's Remedies with Leases, International Sales, and Real Estate	268
A. Lessor's Remedies	268
<i>C.I.C. Corp. v. Ragtime, Inc.</i>	269
B. Seller's Remedies with International Sales	274
C. Seller's Remedies with Real Estate Sales	275
<i>Williams v. Ubaldo</i>	275
Problem Set 18	278
Assignment 19: Buyer's Remedies with Sales of Goods	280
<i>In re Beeche Systems</i>	283
Problem Set 19	288
Assignment 20: Buyer's and Lessee's Remedies with Leases, International Sales, and Real Estate	293
A. Lessee's Remedies	293
B. Buyer's Remedies with International Sales	294
C. Buyer's Remedies with Real Estate	296
<i>Jue v. Smiser</i>	297
Problem Set 20	299
 BOOK TWO	
Financial Systems	303
 Part One	
Payment Systems	305
Introduction to Part One	307
Figure 21.1 — Value of Cash and Noncash Retail Transactions	308
Figure 21.2 — Share of Value of Checks in Noncash Transactions	310
Figure 21.3 — Consumer Payments Systems over Time	313
 Chapter 5. Checking Accounts as the Paradigm Payment System	317
Assignment 21: The Basic Checking Relationship and the Bank's Right to Pay Checks	317

A. The Basic Relationship	317
Figure 21.4— Payment by Check	317
B. The Bank's Right to Pay	319
1. When Is It Proper for the Bank to Pay?	319
(a) Overdrafts	320
<i>McGuire v. Bank One, Louisiana, N.A.</i>	320
(b) Stopping Payment	323
2. Remedies for Improper Payment	324
<i>McIntyre v. Harris</i>	325
Problem Set 21	327
Assignment 22: The Bank's Obligation to Pay Checks	330
A. When Are Funds Available for Payment?	330
1. Time of Evaluation	330
2. Availability of Funds	331
Figure 22.1 — Basic Funds Availability Rules	333
Figure 22.2 — Low-Risk Items Availability Rules	335
<i>First National Bank v. Colonial Bank</i>	338
B. Wrongful Dishonor: What Happens If the Bank Refuses to Pay?	340
<i>Maryott v. First National Bank</i>	341
Problem Set 22	346
Assignment 23: Collection of Checks	349
A. The Payor Bank's Obligation to the Payee	349
<i>Outdoor Technologies, Inc. v. Allfirst Financial, Inc.</i>	349
B. The Process of Collection	354
1. Obtaining Payment Directly	355
Figure 23.1 — Direct Presentment	355
2. Obtaining Payment Through Intermediaries	356
(a) Payee/Customer to Depository Bank	356
(b) Depository Bank to Payor Bank	357
(i) Multilateral Arrangements (Clearinghouses)	358
<i>United States Bank N.A. v. HMA, L.C.</i>	360
Figure 23.2— Clearinghouse Collection	366
(ii) Bilateral Arrangements (Direct-Send and Correspondent Clearing)	368
Figure 23.3 — Direct-Send Collection	369
(iii) Collection Through the Federal Reserve System	369
Figure 23.4— Federal Reserve Collection	370
Figure 23.5— Sample EARNS Notice	373
Figure 23.6— Return Obligations	374
<i>NBT Bank v. First National Community Bank</i>	374
Problem Set 23	384
Assignment 24: Risk of Loss in the Checking System—The Basic Framework	388
A. Nonpayment	388
Figure 24.1 — Indorser Liability	390
B. Forged Signatures	390
1. Forged Drawers' Signatures and the Rule of <i>Price v. Neal</i>	391
(a) What If the Payor Bank Pays the Forged Check?	391
Figure 24.2— Presentment and Transfer Warranties	392
<i>Decibel Credit Union v. Pueblo Bank & Trust Company</i>	392

(b) What If the Payor Bank Dishonors the Forged Check? The Special Case of Telephone Checks	396 397
2. Forged Indorsements	398
(a) What If the Payor Bank Dishonors the Check Because of the Forged Indorsement?	398
(b) What If the Payor Bank Pays the Check Despite the Forged Indorsement?	398
(c) Conversion	399
C. Alteration	400
Problem Set 24	400
Assignment 25: Risk of Loss in the Checking System—Special Rules	403
A. Negligence	403
<i>HSBC Bank USA v. F & M Bank Northern Virginia</i>	403
B. Bank Statements	407
<i>Stowell v. Cloquet Co-op Credit Union</i>	408
C. Theft by Employees	413
<i>Cable Cast Magazine v. Premier Bank</i>	413
<i>Halifax Corp. v. Wachovia Bank</i>	416
D. Impostors	418
<i>Meng v. Maywood Proviso State Bank</i>	419
Problem Set 25	422
Assignment 26: Truncation and Check 21	424
A. Payor-Bank Truncation	424
Figure 26.1—MICR Line	425
B. Depository-Bank Truncation and the Check 21 Act	427
Figure 26.2—Check Processing Under Check 21	429
Figure 26.3—Substitute Check	430
Problem Set 26	431
Chapter 6. Electronic Payments	435
Assignment 27: The Credit-Card System	435
A. The Issuer-Cardholder Relationship	435
B. Using the Credit-Card Account	438
C. Collection by the Payee	439
1. The Mechanics of Collection	439
Figure 27.1—Payment by Credit Card	441
2. Finality of Payment	441
Figure 27.2—Dividing the Credit-Card Dollar	442
<i>Hyland v. First USA Bank</i>	443
<i>CitiBank (South Dakota), N.A. v. Mincks</i>	445
Problem Set 27	455
Assignment 28: Error and Fraud in Credit-Card Transactions	457
A. Erroneous Charges	457
<i>Belmont v. Associates National Bank (Delaware)</i>	458
B. Unauthorized Charges	467
<i>DBI Architects, P.C. v. American Express Travel-Related Services Co.</i>	467
<i>New Century Financial Services v. Dennegar</i>	473
Problem Set 28	477

Assignment 29: Debit Cards	480
A. Payment with a Debit Card	480
1. Establishing the Debit-Card Relationship	481
2. Transferring Funds with a Debit Card	482
3. Collection by the Payee	482
(a) PIN-Based (“Online”) Debit Cards	482
(b) PIN-Less (“Offline”) Debit Cards	483
B. Error and Fraud in Debit-Card Transactions	484
1. Erroneous Transactions	485
2. Fraudulent Transactions	485
<i>Hospicomm, Inc. v. Fleet Bank, N.A.</i>	490
<i>Heritage Bank v. Lovett</i>	493
Problem Set 29	495
Assignment 30: The Wire-Transfer System	498
A. Introduction	498
B. How Does It Work?	499
1. Initiating the Wire Transfer: From the Originator to the Originator’s Bank	499
Figure 30.1 — Payment by Wire Transfer	500
<i>Trustmark Ins. Co. v. Bank One</i>	500
<i>Banco de la Provincia v. BayBank Boston, N.A.</i>	505
2. Executing the Transfer: From the Originator’s Bank to the Beneficiary’s Bank	508
(a) Bilateral Systems (Including SWIFT)	509
(b) CHIPS	510
Figure 30.2 — Multilateral Netting on CHIPS	511
(c) Fedwire	511
Figure 30.3 — Sample Fedwire Message	512
3. Completing the Funds Transfer: From the Beneficiary’s Bank to the Beneficiary	514
C. Discharge of the Originator’s Underlying Obligation	516
D. Finality of Payment	516
<i>Aleo International, Ltd. v. CitiBank, N.A.</i>	517
Problem Set 30	518
Assignment 31: Error in Wire-Transfer Transactions	521
A. Recovering from Parties in the System	521
1. Errors by the Originator	522
<i>Corfan Banco Asuncion Paraguay v. Ocean Bank</i>	522
2. Errors in the System	527
(a) Sending Excessive Funds	528
(b) Sending Inadequate Funds	528
(c) Bank-Statement Rule	529
3. Circuitry of Recovery	530
<i>Grain Traders, Inc. v. CitiBank, N.A.</i>	530
B. Recovering from the Mistaken Recipient	534
Problem Set 31	536

Chapter 7. Developing Payment Systems	539
<i>Mark A. Lemley & David McGowan, Legal Implications of Network Economic Effects</i>	539
<i>Ronald J. Mann, Making Sense of Payments Policy in the Information Age</i>	544
Assignment 32: Internet Payments	548
A. Credit Cards on the Internet	548
1. Processing the Transactions	548
2. Problems	549
(a) Fraud	549
(b) Privacy	552
(c) Micropayments	553
B. Debit Cards on the Internet	554
C. ACH Transfers (WEB Entries)	555
Figure 32.1 — ACH “Checks”	556
D. Foreign and Cross-Border Payments	557
E. A Note on Mobile Payments	558
Problem Set 32	559
Part Two	
Credit Enhancement and Letters of Credit	561
Chapter 8. Credit Enhancement	565
Assignment 33: Credit Enhancement by Guaranty	565
A. The Role of Guaranties	565
B. Rights of the Creditor Against the Guarantor	567
<i>F.T.L., Inc. v. Crestar Bank (In re F.T.L., Inc.)</i>	568
Problem Set 33	571
Assignment 34: Protections for Guarantors	581
A. Rights of the Guarantor Against the Principal	581
1. Performance	581
2. Reimbursement	581
3. Subrogation	581
Figure 34.1 — Rights of the Guarantor	582
<i>Corporate Buying Service v. Lenox Hill Radiology Associates</i>	583
Figure 34.2 — Guarantor Preferences	586
B. Rights of the Guarantor Against the Creditor	586
1. Suretyship Defenses	586
2. Waiver of Suretyship Defenses	588
<i>Modern Photo Offset Supply v. The Woodfield Group</i>	589
C. Bankruptcy of the Guarantor	592
<i>Trimec, Inc. v. Zale Corporation</i>	592
Problem Set 34	594
Chapter 9. Letters of Credit	597
Assignment 35: Letters of Credit—The Basics	597

A. The Underlying Transaction	598
B. Advising and Confirming Banks	599
Figure 35.1 — Irrevocable Commercial Letter of Credit	599
C. The Terms of the Credit	601
Figure 35.2 — Issuing the Letter of Credit	602
D. Drawing on the Credit	604
<i>Samuel Rappaport Family Partnership v. Meridian Bank</i>	605
<i>Carter Petroleum Products, Inc. v. Brotherhood Bank & Trust Co.</i>	608
E. Reimbursement	612
Figure 35.3 — Payment with a Letter of Credit	613
Problem Set 35	613
Assignment 36: Letters of Credit—Advanced Topics	616
A. Error and Fraud in Letter-of-Credit Transactions	616
1. Wrongful Honor	616
2. Wrongful Dishonor	618
3. Fraud	619
(a) Forged Drafts	619
(b) Fraudulent Submissions by the Beneficiary	620
B. Assigning Letters of Credit	622
C. Choice-of-Law Rules	623
Problem Set 36	624
Assignment 37: Third-Party Credit Enhancement—Standby Letters of Credit	626
A. The Standby Letter-of-Credit Transaction	626
Figure 37.1 — Standby Letters of Credit	628
<i>Nobel Insurance Co. v. First Nat'l. Bank</i>	628
Figure 37.2 — Form Standby Letter of Credit	631
<i>Wood v. State Bank</i>	633
B. Problems in Standby Letter-of-Credit Transactions	634
1. Bankruptcy of the Applicant	635
<i>In re Ocana</i>	636
2. The Issuer's Right of Subrogation	637
<i>CCF, Inc. v. First National Bank (In re Slamans)</i>	638
Problem Set 37	640

Part Three

Liquidity Systems 643

Chapter 10. Negotiability 645

Assignment 38: Negotiable Instruments 645

A. Negotiability and Liquidity	645
B. A Typical Transaction	646
Figure 38.1 — Sample Negotiable Draft	647
C. The Negotiability Requirements	648
Figure 38.2 — The Players in a Negotiable Draft Transaction	649
1. The Promise or Order Requirement	649
Figure 38.3 — The Negotiability Requirements	650

2. The Unconditional Requirement	650
<i>DBA Enterprises, Inc. v. Findlay</i>	651
3. The Money Requirement	654
4. The Fixed-Amount Requirement	654
<i>Nagel v. Cronebaugh</i>	654
5. The Payable-to-Bearer-or-Order Requirement	657
<i>Sirius LC v. Erickson</i>	658
6. The Demand or Definite-Time Requirement	659
7. The No-Extraneous-Undertakings Requirement	660
Problem Set 38	660
Assignment 39: Transfer and Enforcement of Negotiable Instruments	663
A. Transferring a Negotiable Instrument	663
1. Negotiation and Status as a Holder	663
2. Special and Blank Indorsements	664
3. Restrictive and Anomalous Indorsements	666
B. Enforcement and Collection of Instruments	666
1. The Right to Enforce an Instrument	666
2. Presentment and Dishonor	667
3. Defenses to Enforcement	667
<i>Turman v. Ward's Home Improvement, Inc.</i>	668
C. Liability on an Instrument	669
Figure 39.1 — Liability on an Instrument	670
D. The Effect of the Instrument on the Underlying Obligation	671
<i>McMahon Food Corp. v. Burger Dairy Co.</i>	672
Problem Set 39	675
Figure 39.2 — Reverse of Sample TKO Check	676
Assignment 40: Holders in Due Course	679
A. Holder-in-Due-Course Status	679
1. The Requirements for Holder-in-Due-Course Status	679
2. Rights of Holders in Due Course	681
<i>State Street Bank & Trust Co. v. Strawser</i>	682
3. Payment and Discharge	685
4. Transferees Without Holder-in-Due-Course Status	686
B. The Fading Role of Negotiability	687
1. The Declining Use of Negotiable Instruments	687
2. The Decreasing Relevance of Negotiability to Negotiable Instruments	689
Problem Set 40	690
Chapter 11. Securitization	695
Assignment 41: Securitization	695
A. Securitization and Liquidity	695
B. The Rise of Securitization	696
C. Investment Securities and Article 8	697
1. The Subject Matter: What Is a Security?	698
2. The Obligation of the Issuer	699
3. The Two Holding Systems	701

(a) The Direct Holding System	701
(i) Making the Transfer Effective as Between Seller and Purchaser	701
(ii) Making the Transfer Effective Against the Issuer	701
(iii) The Effect of a Transfer on Third Parties	702
(b) The Indirect Holding System	703
(i) The Basic Framework	703
(ii) Rights Against the Intermediary	705
(iii) Rights Against Third Parties	706
Problem Set 41	708

BOOK THREE

Secured Credit	711
----------------	-----

Part One

The Creditor-Debtor Relationship	713
----------------------------------	-----

Chapter 12. Creditors' Remedies under State Law	715
---	-----

Assignment 42: Remedies of Unsecured Creditors under State Law	715
---	-----

A. Who Is an Unsecured Creditor?	715
----------------------------------	-----

B. How Do Unsecured Creditors Compel Payment?	716
---	-----

<i>Vitale v. Hotel California, Inc.</i>	718
---	-----

C. Limitations on Compelling Payment	724
--------------------------------------	-----

<i>Wisconsin Statutes Annotated</i>	726
-------------------------------------	-----

D. Fraudulent Transfers	728
-------------------------	-----

E. Is the Law Serious about Collecting Unsecured Debts?	729
---	-----

Problem Set 42	729
----------------	-----

Assignment 43: Security and Foreclosure	732
--	-----

A. The Necessity of Foreclosure	734
---------------------------------	-----

<i>The Invention of Security: A Pseudo History</i>	734
--	-----

B. Transactions Intended as Security	737
--------------------------------------	-----

<i>Basile v. Erhal Holding Corporation</i>	737
--	-----

1. Conditional Sales	738
----------------------	-----

2. Leases Intended as Security Interests	739
--	-----

3. Sales of Accounts	740
----------------------	-----

4. Asset Securitization	741
-------------------------	-----

C. Foreclosure Procedure	742
--------------------------	-----

1. Judicial Foreclosure	742
-------------------------	-----

<i>Amir Efrati, The Court House: How One Family Fought Foreclosure</i>	743
--	-----

2. Real Property Power of Sale Foreclosure	744
--	-----

3. U.C.C. Foreclosure by Sale	745
-------------------------------	-----

Problem Set 43	746
----------------	-----

Assignment 44: Repossession of Collateral	749
--	-----

A. The Importance of Possession Pending Foreclosure	749
---	-----

B. The Right to Possession Pending Foreclosure — Personal Property	750
--	-----

<i>Del's Big Saver Foods, Inc. v. Carpenter Cook, Inc.</i>	751
--	-----

<i>Wisconsin Statutes</i>	753
---------------------------	-----

12 <i>Oklahoma Statutes</i>	754
C. The Article 9 Right to Self-Help Repossession	754
D. The Limits of Self-Help: Breach of the Peace	755
<i>Salisbury Livestock Co. v. Colorado Central Credit Union</i>	755
E. Self-Help Against Accounts as Collateral	760
F. The Right to Possession Pending Foreclosure—Real Property	761
1. The Debtor’s Right to Possession during Foreclosure	761
2. Appointment of a Receiver	761
<i>California Code of Civil Procedure</i>	762
<i>Illinois Mortgage Foreclosure Law</i>	763
3. Assignment of Rents	763
Problem Set 44	763
Assignment 45: Judicial Sale and Deficiency	768
A. Strict Foreclosure	768
B. Foreclosure Sale Procedure	769
C. Problems with Foreclosure Sale Procedure	770
<i>Armstrong v. Csurilla</i>	770
1. Advertising	774
<i>Wisconsin Statutes Annotated</i>	775
2. Inspection	775
Figure 45.1 — Notices of Foreclosure Sales	776
<i>Homebuyer Finds Remains of Owner</i>	776
3. Title and Condition	777
<i>Marino v. United Bank of Illinois, N.A.</i>	777
4. Hostile Situation	780
5. The Statutory Right to Redeem	780
D. Antideficiency Statutes	781
<i>California Code of Civil Procedure</i>	781
E. Credit Bidding at Judicial Sales	782
F. Judicial Sale Procedure: A Functional Analysis	784
Problem Set 45	784
Assignment 46: Article 9 Sale and Deficiency	787
A. Acceptance of Collateral	787
B. Sale Procedure under Article 9	788
C. Problems with Article 9 Sale Procedure	790
1. Failure to Sell the Collateral	790
2. The Requirement of Notice of Sale	790
<i>In re Downing</i>	790
3. The Requirement of a Commercially Reasonable Sale	793
<i>Chavers v. Frazier</i>	793
D. Article 9 Sale Procedure: A Functional Analysis	797
Problem Set 46	798
Chapter 13. Creditors’ Remedies in Bankruptcy	801
Assignment 47: Bankruptcy and the Automatic Stay	801
A. The Federal Bankruptcy System	801
B. Filing a Bankruptcy Case	802

C. Stopping Creditors' Collection Activities	804
D. Lifting the Stay for Secured Creditors	806
<i>In re Craddock-Terry Shoe Corporation</i>	810
E. Strategic Uses of Stay Litigation	815
Problem Set 47	817
Assignment 48: The Treatment of Secured Creditors in Bankruptcy	819
A. The Vocabulary of Bankruptcy Claims	819
B. The Claims Process	821
C. Calculating the Amount of an Unsecured Claim	823
D. Payments on Unsecured Claims	824
E. Calculating the Amount of a Secured Claim	825
F. Selling the Collateral	827
G. Who Pays the Expenses of Sale by the Trustee?	828
H. Chapter 11 and Chapter 13 Reorganizations	829
I. Valuing Future Payments	830
<i>Till v. SCS Credit Corporation</i>	831
Problem Set 48	834
Chapter 14. Creation of Security Interests	837
Assignment 49: Formalities for Attachment	837
A. A Prototypical Secured Transaction	837
<i>Fisherman's Pier: A Prototypical Secured Transaction</i>	837
B. Formalities for Article 9 Security Interests	840
1. Possession or Authenticated Security Agreement	840
<i>In re Schwalb</i>	842
<i>In re Ace Lumber Supply, Inc.</i>	844
2. Value Has Been Given	848
3. The Debtor Has Rights in the Collateral	849
C. Formalities for Real Estate Mortgages	850
<i>Ohio Revised Code Ann.</i>	851
Problem Set 49	851
Assignment 50: What Collateral and Obligations Are Covered?	855
A. Interpreting Security Agreements	855
1. Debtor Against Creditor	855
2. Creditor Against Third Party	856
3. Interpreting Descriptions of Collateral	856
B. Sufficiency of Description: Article 9 Security Agreements	857
<i>In re Shirel</i>	857
C. Describing After-Acquired Property	860
<i>Stoumbos v. Kilimnik</i>	861
D. What Obligations Are Secured?	863
E. Real Estate Mortgages	864
Problem Set 50	865
Assignment 51: Proceeds, Products, and Other Value-Tracing Concepts	868
A. Proceeds	869
1. Definition	869

2. Termination of Security Interest in the Collateral After Authorized Disposition	871
3. Continuation of Security Interest in the Collateral After Unauthorized Disposition	872
<i>Illinois Revised Statutes</i>	873
<i>New York Penal Law</i>	874
4. Limitations on the Secured Creditor's Ability to Trace Collateral	876
<i>In re Oriental Rug Warehouse Club, Inc.</i>	878
B. Other Value-Tracing Concepts	880
C. Non-Value-Tracing Concepts	881
D. Liability of Buyers of Collateral	882
Problem Set 51	883
Assignment 52: Tracing Collateral Value During Bankruptcy	885
A. After-Acquired Property and the Proceeds Dilemma	885
<i>In re Cafeteria Operators, L.P.</i>	887
B. The "Equities of the Case" Solution to the Proceeds Dilemma	891
<i>In re Delbridge</i>	892
C. The "Net Proceeds" Solution to the Proceeds Dilemma	893
<i>In re Gunnison Center Apartments, LP</i>	893
D. Cash Collateral in Bankruptcy	895
Problem Set 52	896
Chapter 15. Default: The Gateway to Remedies	899
Assignment 53: Default, Acceleration, and Cure under State Law	899
A. Default	899
<i>Standard Default Provisions</i>	899
B. When Is Payment Due?	900
1. Installment Loans	901
2. Single Payment Loans	901
3. Lines of Credit	902
C. Acceleration and Cure	903
1. Acceleration	903
2. Limits on the Enforceability of Acceleration Clauses	904
<i>J.R. Hale Contracting Co. v. United New Mexico Bank at Albuquerque</i>	904
3. The Debtor's Right to Cure	908
<i>Old Republic Insurance Co. v. Lee</i>	908
<i>Reinstatement</i>	909
D. The Enforceability of Payment Terms	909
<i>Kham & Nate's Shoes No. 2, Inc. v. First Bank of Whiting</i>	911
E. Procedures After Default	913
Figure 53.1 — The Spider Ad	914
Problem Set 53	915
Assignment 55: Default, Acceleration, and Cure under Bankruptcy Law	919
<i>In re Moffett (Tidewater Finance Co. v. Moffett)</i>	919
A. Stage 1: Protection of the Defaulting Debtor Pending Reorganization	922
B. Stage 2: Reinstatement and Cure	923

1. Modification Distinguished from Reinstatement and Cure	923
2. Reinstatement and Cure under Chapter 11	924
3. Reinstatement and Cure under Chapter 13	925
4. When Is It Too Late to File Bankruptcy to Reinstatement and Cure or to Modify?	927
C. Binding Lenders in the Absence of a Fixed Schedule for Repayment	927
Problem Set 54	928
Chapter 16. The Prototypical Secured Transaction	931
Assignment 55: The Prototypical Secured Transaction	931
A. The Parties	931
B. Deutsche Approves Bonnie's Loan	932
C. Deutsche and Bonnie's Document the Loan	933
1. Security Agreement and Statement of Transaction	933
Figure 55.1 — Statement of Transaction	941
2. The Financing Statement	941
3. The Personal Guarantee	941
Figure 55.2 — U.C.C.-1 Financing Statement	942
D. Bonnie's Buys Some Boats	943
1. The Floorplan Agreement	943
2. The Buy	946
E. Bonnie's Sells a Boat	946
F. Monitoring the Existence of the Collateral	947
Problem Set 55	948
<i>Miller Indicted on Bank Fraud</i>	948

Part Two

The Creditor–Third Party Relationship	951
Chapter 17. Perfection	953
Assignment 56: The Personal Property Filing Systems	953
A. Competition for the Secured Creditor's Collateral	953
B. What Is Priority?	954
<i>Peerless Packing Co. v. Malone & Hyde, Inc.</i>	955
C. How Do Creditors Get Priority?	957
D. The Theory of the Filing System	959
E. The Multiplicity of Filing Systems	960
<i>National Peregrine, Inc. v. Capitol Federal Savings and Loan Association of Denver (In re Peregrine Entertainment, Limited)</i>	961
<i>In re: Pasteurized Eggs Corporation (Pasteurized Eggs Corporation v. Bon Dente Joint Venture)</i>	966
F. Methods and Costs of Searching	967
Problem Set 56	969
Assignment 57: Article 9 Financing Statements: The Debtor's Name	971
A. The Components of a Filing System	971
1. Financing Statements	972

2. The Index	972
3. Search Systems	974
B. Correct Names for Use on Financing Statements	975
1. Individual Names	975
<i>In re Kinderknecht (Clark v. Deere and Co.)</i>	976
2. Corporate Names	978
3. Partnership Names	979
4. Trade Names	980
5. The Entity Problem	980
C. Errors in the Debtor's Names on Financing Statements	981
<i>In re Spearing Tool and Manufacturing Co., Inc. (United States v. Crestmark Bank)</i>	983
Problem Set 57	985
Assignment 58: Article 9 Financing Statements: Other Information	989
A. Introduction	989
B. Filing Office Errors in Acceptance or Rejection	990
1. Wrongly Accepted Filings	990
2. Wrongly Rejected Filings	990
C. Filer Errors in Accepted Filings	991
1. Information Necessary Only to Qualify for Filing	991
2. Required Information	992
<i>In re Pickle Logging, Inc. (Deere Credit, Inc. v. Pickle Logging, Inc.)</i>	995
D. Authorization to File a Financing Statement	997
E. U.C.C. Insurance	998
Problem Set 58	998
Assignment 59: Exceptions to the Article 9 Filing Requirement	1002
A. Collateral in the Possession of the Secured Party	1002
1. The Possession-Gives-Notice Theory	1002
2. What Is Possession?	1003
3. Possession as a Means of Perfection	1005
B. Collateral in the Control of the Secured Party	1007
C. Automatic Perfection of Purchase-Money Security Interests in Consumer Goods	1008
1. Purchase-Money Security Interest (PMSI)	1009
2. Consumer Goods	1010
<i>Gallatin National Bank v. Lockovich (In re Lockovich)</i>	1010
D. Security Interests Not Governed by Article 9 or Another Filing Statute	1013
<i>Bluxome Street Associates v. Fireman's Fund Insurance Co.</i>	1013
E. What Became of the Notice Requirement?	1015
Problem Set 59	1016
Chapter 18. Maintaining Perfection	1019
Assignment 60: Maintaining Perfection Through Lapse and Bankruptcy	1019
A. Removing Filings from the Public Record	1019
1. Satisfaction	1019
<i>Arizona Revised Statutes Annotated</i>	1020

<i>Florida Statutes Annotated</i>	1021
2. Release	1021
3. Article 9 Termination and Release	1022
B. “Self-Clearing” and Continuation in the Article 9 Filing System	1023
<i>Worthen Bank & Trust Co., N.A. v. Hilyard Drilling Co. (In re Hilyard Drilling Co.)</i>	1025
C. The Effect of Bankruptcy on Lapse and Continuation	1028
<i>In re Schwinn Cycling and Fitness, Inc. (Expeditors International of Washington, Inc. v. The Liquidating Trust)</i>	1029
Problem Set 60	1031
Assignment 61: Maintaining Perfection Through Changes of Name, Identity, and Use	1035
A. Changes in the Debtor’s Name	1036
B. New Debtors	1038
C. Changes Affecting the Description of Collateral	1039
D. Exchange of the Collateral	1040
1. Barter Transactions	1040
<i>National Bank of Alaska v. Erickson (In re Seaway Express Corporation)</i>	1042
2. Collateral to Cash Proceeds to Noncash Proceeds	1044
3. Collateral to Cash Proceeds (No New Property)	1045
Problem Set 61	1045
Assignment 62: Maintaining Perfection Through Relocation of Debtor or Collateral	1048
A. State-based Filing in a National Economy	1048
B. Initial Perfection	1049
1. At the Location of the Debtor	1049
<i>Lynn M. LoPucki, Why the Debtor’s State of Incorporation Should Be the Proper Place for Article 9 Filing: A Systems Analysis</i>	1050
2. At the Location of the Collateral	1051
C. Relocation of the Debtor	1052
D. Transfer of the Collateral	1054
E. Nation-based Filing in a World Economy	1054
F. International Filing Systems	1057
Problem Set 62	1058
Assignment 63: Maintaining Perfection in Certificate of Title Systems	1060
Figure 63.1 — Sample Certificate of Title	1061
<i>New Zealand Law Commission, Motor Vehicle Title Systems in the USA and Canada</i>	1062
A. Perfection in a Certificate of Title System	1064
B. Accessions	1066
C. In What State Should a Motor Vehicle Be Titled?	1068
D. Motor Vehicle Registration	1069
Figure 63.2 — Sample Vehicle Registration	1069
E. Maintaining Perfection on Interstate Movement of Collateral	1070
1. How It Is Supposed to Work	1070
2. Some Things That Can Go Wrong	1070

3. Movement of Goods Between Non-Certificate and Certificate Jurisdictions	1072
Problem Set 63	1073
Chapter 19. Priority	1075
Assignment 64: The Concept of Priority: State Law	1075
A. Priority in Foreclosure	1075
B. Reconciling Inconsistent Priorities	1078
<i>Bank Leumi Trust Co. of New York v. Liggett</i>	1079
C. The Right to Possession Between Lien Holders	1081
<i>The Grocers Supply Co. v. Intercity Investment Properties, Inc.</i>	1081
<i>Frierson v. United Farm Agency, Inc.</i>	1083
D. U.C.C. Notice of Sale	1084
Problem Set 64	1085
Chapter 20. Competitions for Collateral	1089
Assignment 65: Lien Creditors Against Secured Creditors: The Basics	1089
A. How Creditors Become “Lien Creditors”	1089
<i>Judgment Liens on Real and Personal Property</i>	1090
B. Priority Among Lien Creditors	1091
<i>Preference Between Writs of Execution</i>	1092
C. Priority Between Lien Creditors and Secured Creditors	1092
<i>People v. Green</i>	1093
D. Priority Between Lien Creditors and Mortgage Creditors	1096
E. Purchase-Money Priority	1096
Problem Set 65	1097
Assignment 66: Lien Creditors Against Secured Creditors: Future Advances	1100
A. Priority of Future Advances: Personal Property	1100
B. Priority of Nonadvances: Personal Property	1102
<i>Uni Imports, Inc. v. Exchange National Bank of Chicago</i>	1102
C. Priority of Future Advances and Nonadvances: Real Property	1106
<i>Shutze v. Credithrift of America, Inc.</i>	1106
Problem Set 66	1110
Assignment 67: Secured Creditors Against Secured Creditors: The Basics	1113
A. Nonpurchase Money Security Interests	1113
1. The Basic Rule: First to File or Perfect	1113
2. Priority of Future Advances	1115
3. Priority in After-Acquired Property	1116
B. Purchase-Money Security Interests	1118
1. Purchase-Money Security Interests Generally	1118
2. Purchase-Money Security Interests in Inventory	1120
3. Purchase-Money Priority in Proceeds	1121
C. Priority in Commingled Collateral	1123
Problem Set 67	1124
Assignment 68: Buyers Against Secured Creditors	1128
A. Introduction	1128

B. Buyers of Personal Property	1129
1. The Buyer-in-the-Ordinary-Course Exception: U.C.C. §9-320(a)	1129
<i>Daniel v. Bank of Hayward</i>	1131
2. The Buyer-Not-in-the-Ordinary-Course Exception: U.C.C. §§9-323(d) and (e) and 9-317(b)	1137
3. The Authorized Disposition Exception: U.C.C. §9-315(a)(1)	1138
<i>RFC Capital Corporation v. EarthLink, Inc.</i>	1139
4. The Consumer-to-Consumer-Sale Exception: U.C.C. §9-320(b)	1141
C. Buyers of Real Property	1142
Problem Set 68	1143
<i>Table of Cases</i>	<i>1147</i>
<i>Table of Statutes and Regulations</i>	<i>1153</i>
<i>Index</i>	<i>1161</i>