Self assessment test (2 pages). Commercial Law I—Fall 2003. Professor Widen
Set aside 2 hours under exam conditions and write out your answers:

1. A debtor (D) has $500 worth of assets. Creditor 1 (C1) has loaned $700 to D. Creditor 2 (C2) has loaned $300 to D. If both C1 and C2 are unsecured and D goes bankrupt, how much should each creditor receive in distributions? (Ignore transaction costs.)

2. D has $500 worth of assets. At time T1, C1 loans D $700 on an unsecured basis. At time T2, C2 loans D $300. C2 properly perfects a security interest in the assets. If D files for bankruptcy, how much should each creditor receive in bankruptcy? (Ignore transaction costs.)

3. What conditions must have been satisfied for C2 to acquire an enforceable security interest against D? Identify the UCC section that provides the rule for enforceability.

4. Identify two different steps that C2 might have taken to perfect its security interest against D (assuming all assets are tangible assets).

5. Assume that D's only assets consist of equipment. Draft a one sentence security agreement for C2, indicating any necessary signatures.

6. When is C2 authorized to file a financing statement against D? What are the minimum requirements to be included in a UCC-1 for an effective financing statement? Does anyone sign a financing statement?

7. If D is a Delaware corporation, where should C2 file the financing statement? If D is a general partnership, where should C2 file the financing statement?

8. Provide two different, but permitted, indications of collateral that might properly be used in C2's financing statement against D. Identify which indication may not be used as a description of collateral in a security agreement.

9. Assume both C1 and C2 have enforceable security interests against D in the same collateral. C1 properly files a financing statement at T1. Later, at T2, C2 properly files a financing statement. As a general rule, which creditor should have priority and why? Identify the UCC section that provides the general rule. Does your answer differ if, instead of C1 filing a financing statement, C1 took possession of the collateral?

10. Assume both C1 and C2 have enforceable security interests against D in the same collateral consisting of equipment. C1 properly files a financing statement at T1. Later, at T2, C2 properly files a financing statement. C2 loaned D the funds to buy the equipment. Which creditor should have priority and why? Identify the UCC section that provides the general rule applicable to this situation. What is the name of the type of security interest that C2 may have? Did C2 need to act within any specified time period to obtain priority?

11. Answer problem 10 but change the collateral to inventory instead of equipment.

12. Assume C1 has a perfected security interest in equipment owned by D. If D sells the equipment to XYZ Corp in exchange for: a down payment of $100 cash and a signed promissory note with a face amount of $900, describe which assets, as a general rule, are covered by C1's security interest immediately following the sale. Under the UCC, what term applies to both the $100 in cash and the signed promissory note? Explain two exceptions to the general rule that might operate to reduce the scope of assets covered by the security interest held by C1.

13. Assume both C1 and C2 have enforceable security interests against D. C1 properly files a financing statement at T1 listing inventory. Later, at T2, C2 properly files a financing statement listing accounts. At T3, D sells some inventory on credit, generating accounts. Does C1 or C2 have priority in the accounts generated at T3?

14. C1 has a perfected security interest in equipment against D, a Florida corporation. C1 properly filed a financing statement in Florida. At time T1, D changes its name to XYZ Company (while remaining a Florida corporation). As a general rule, how long does D have to make a filing to reflect this name change? Is there any circumstance in which a new filing is not necessary to reflect the name change? Must C1 make a new filing to protect its security interest in assets acquired by D prior to T1? Assets acquired by D within 3 months after T1?

15. How would your analysis of question 14 change if, instead of changing its name while remaining in Florida, D reincorporated by merging with a new company in Delaware?

16. What is a negative pledge clause?

17. What is a granting clause?

18. A sells widgets to B for $1000, payable within 90 days from the delivery date. Shortly thereafter, A sells this receivable to C for $950. Is this sale transaction a secured transaction under the UCC? What must C do to protect its ownership interest in the receivable? After the sale of the receivable by A to C, B discovers that the widgets are defective and B refuses to pay C. Will C be able to demand payment from B regardless of the merits of B's defense to payment?

19. C1 loans money to D. D agrees to a covenant that states: "D will not sell any of its equipment without the prior written consent of C1, nor will D grant a security interest in any of its equipment to any other lender." Thereafter, D grants a security interest in the equipment to C2, and then sells one machine to X Corp. Explain whether the security interest held by C2 or the sale transaction to X Corp. are not effective based on violation of this covenant.