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## Commercial Transaction I

### Secured Transactions - Article 9

#### University of New Mexico

#### Practice True/False Questions

1. Debtor is a manufacturer of cotton shirts. If Secured Party takes a security interest in all of debtor's cotton cloth and thread, Secured Party has a security interest in equipment because equipment is the catch-all category for goods that do not fit into any of the other sub-classes of goods.

TRUE

FALSE

2. A security agreement must always be a record to create a valid security interest.

TRUE

FALSE

3. A security agreement is not valid unless it contains all of the following elements: (1) a clause indicating that a security interest is being created, (2) a description of the collateral and (3) authentications of the debtor and the secured party.

TRUE

FALSE

4. The following provision in a security agreement is enforceable unless the collateral is consumer goods:

"Debtor agrees that if Secured Party elects to keep the collateral in satisfaction of the debt upon Debtor's default, no notice need be given to Debtor."

TRUE

FALSE

5. Dave purchased a stereo from Sally for \$1,000. He paid \$200 down and agreed to pay the remainder in installments of \$100 on the first of each of the next eight months. Dave gave Sally a security interest in the stereo to secure his promise to pay. Dave made three payments, but did not make the fourth payment. Sally repossessed. Before Sally had disposed of the Stereo, Dave tendered Sally \$200, \$100 in payment of the missed installment and the other \$100 as payment of the next installment which was not due for another two weeks. Assuming that the security agreement has an acceleration clause, Dave has properly exercised his right to redeem the stereo and Sally must return the stereo to him.

TRUE

FALSE

Questions 6 through 8 are based upon the following facts.

On May 1, Dave purchased a truck from Sally for use in his business for \$15,000. He paid \$5,000 down and promised to pay the remainder in 6 months. Dave gave Sally a security interest in the truck. Sally filed a financing statement with the Secretary of State on May 2. On June 1, Dave borrowed \$1000 from Happy Finance, giving Happy a security interest in the same truck. Dave agreed to repay Happy on July 1. Happy did not perfect its security interest. When Dave failed to pay Happy on July 1, Happy repossessed the truck and sold it in a commercially reasonable sale to Patricia for \$12,000. Happy did not know of Sally's security interest. Happy took \$1,000 and gave the other \$11,000 to Dave.

6. Happy had an obligation to give Sally notice of the sale.

TRUE

FALSE

7. Patricia took the truck subject to Sally's security interest.

TRUE

FALSE

8. If Sally, before Happy had distributed the \$11,000 to Dave, had made a demand on Happy Finance that it pay her any money realized at the sale in excess of what was necessary to satisfy Happy's debt, Happy should have paid her the \$11,000 rather than give it to Dave.

TRUE

FALSE

9. On February 1, Sally lent Dave \$20,000 and took a security interest in all of his present and hereinafter to be acquired inventory. On February 1, Dave's bank account had \$5,000 in it. On February 5 Dave deposited \$3,000 which he had received as rent on a building that he owns. On February 10, Dave deposited \$10,000 which he obtained from the sale of the inventory in which Sally had a security interest. On February 15, Dave withdrew \$15,000 from the account and used the money to pay rent and to meet his payroll. As of February 16, Sally had a security interest in the \$3,000 remaining in the bank account.

TRUE

FALSE

10. Dave's Ranch, Inc., a Delaware corporation engaged in the ranching business with its principal place of business in Lubbock, Texas, borrowed \$100,000 from Big Bank in Denver, Colorado. Dave's Ranch gave a security interest in cattle that are located near Clovis, New Mexico. The proper place for Big Bank to file a financing statement is with the Delaware Secretary of State.

TRUE

FALSE

Questions 11 through 13 are based upon the following facts:

On February 1, Dave purchased a Peach computer from Sally for his own non-business use. He paid \$500 down and promised to pay the remainder of the purchase price, \$2,000, on August 1. To secure the debt, Dave gave Sally a security interest in the computer. Sally has never filed a financing statement. On March 1, Dave traded the Peach computer to Rosy's Computer Store for an Orange computer. Rosy's is a retail computer store that sells both used and new computers. The Orange computer cost \$3,000, and Rosy allowed Dave \$2,500 for the Peach computer. David paid the difference in cash. On April 1, Rosy's sold the Peach computer to Peter for \$2,700 cash. Peter took in good faith and without notice of Sally's security interest. Peter purchased the computer for his home, and has not used it in his business. Dave failed to pay Sally the \$2,000 he owed her on August 1, and Sally has just discovered the above facts.

11. Sally has a perfected security interest in the Peach computer.

TRUE

FALSE

12. Sally cannot repossess the Peach computer from Peter because Peter is a Buyer in the Ordinary Course of Business.

TRUE

FALSE

13. Sally cannot repossess the Peach computer from Peter because he is a casual (or consumer) buyer under Section 9-320.

TRUE

FALSE

14. Sally cannot repossess the computer from Peter because he is a Purchaser for Value Without Knowledge under Section 9-317.

TRUE

FALSE

15. Sally has a security interest in the Orange computer, but it is unperfected.

TRUE

FALSE

16. On June 1, Dave purchased a new machine from Sally, giving her a security interest in it to secure his promise to pay the purchase price on July 1. The machine was delivered to Dave on June 4. On June 8, Dave borrowed \$50,000 from Big Bank giving to the bank a security interest in all of his present and hereinafter to be acquired equipment. Big Bank filed on the same day. On June 12, Sally filed a financing statement with the Secretary of State. Sally has priority over Big Bank as to the machine that she sold Dave.

TRUE

FALSE

17. On April 1, Big Bank loaned Dave \$10,000 and took a security interest in all of Dave's inventory. The bank filed a financing with the Secretary of State on the same day. On May 1, Sally loaned Dave \$5,000 and took a security interest in all of Dave's accounts. Sally filed a

financing statement in the proper office on the same day. By July 1, Dave had sold all of the inventory and had defaulted as to both loans. He has accounts worth \$3,000 resulting from sales of the inventory in which Big Bank took a security interest. As between Big Bank and Sally, Big Bank has priority as to all of these accounts.

TRUE

FALSE

Questions 18 through 21 are based upon the following facts:

On July 1, Dave purchased a new stereo for his home from Sally for \$1,200. He gave her a security interest to secure the purchase price which he agreed to pay at the rate of \$100 a month over the next year. On August 1, Dave borrowed \$500 from Happy Finance, giving to Happy a security interest in the stereo he had purchased from Sally to secure his promise to repay the loan on September 1. Happy filed a financing statement in the proper office on August 1. On August 15, Dave sold the stereo to his neighbor, Peter for \$1,000 cash. Peter took in good faith and without knowledge of either of existing security interests. Dave has defaulted on his obligations to both Sally and Happy.

18. As between Sally and Happy, Sally has priority.

TRUE

FALSE

19. Peter took subject to the security interest of Happy.

TRUE

FALSE

20. Peter took free of the security interest of Sally.

TRUE

FALSE

21. This fact pattern presents a circuitry of liens problem to which Fred Hart has no answer.

TRUE

FALSE

22. On October 1, Dave borrowed \$1,000 from Sally, giving her a security interest in his equipment to secure his promise to repay the money on December 1. Sally has never filed a financing statement. He failed to repay the loan and on December 15 filed a Chapter 7 petition in bankruptcy. The trustee in bankruptcy may avoid Sally's security interest under either Section 544(a) or 547 of the Bankruptcy Code.

TRUE

FALSE

23. On May 1, Dave borrowed \$50,000 from Sally, giving her a security interest in his inventory to secure repayment of the loan. On June 1, Dave borrowed \$20,000 from Carla. Before she lent him the money, she checked the U.C.C. filings to make sure that no one had filed a financing statement on any of Dave's property. On October 1, Dave was in default on the loan made to him by Carla. She obtained a judgment on October 5. On October 6th, having heard of

Carla's judgment, Sally perfected her security interest by filing in the proper office. Carla obtained a writ of execution on October 10th. As between Carla and Sally, Sally has priority as to Dave's inventory?

TRUE

FALSE

24. On January 15, D gave S a security interest in its "present and hereinafter to be acquired inventory." S filed a financing statement in the Secretary of State's office on February 1. On February 15th, D acquired new equipment from W. S's security interest in the new equipment was perfected on February 1.

TRUE

FALSE

25. D, a retailer of men's clothing, gave a security interest in all of her present and hereinafter to be acquired inventory to S on January 15. On February 1, D sold 6 shirts to B and B paid by giving D a check in the amount of \$120. The check is cash proceeds of the inventory.

TRUE

FALSE

26. D gave S a security interest in all of its inventory of commercial washing machines on January 15 to secure a loan of \$10,000. S filed a financing statement in the Secretary of State's Office on the same day. On February 1, D sold one of the washing machines from its inventory to B who owned a coin operated washing machine establishment. B agreed to pay D in installments over the following year, and gave to D a note promising to pay and a security interest in the washing machine. S has a security interest in the promise to pay and the security interest given by B to D which are characterized as chattel paper.

TRUE

FALSE

27. On January 15, D gave a security interest to S in all of his equipment. S has never filed a financing statement. On March 1, D defaulted, and on March 15, S took possession of the equipment. S has given D notice that she intends to keep the equipment in satisfaction of the debt. Assuming D does not object, S can keep the equipment, but S will not be entitled to a deficiency judgment in the event that the value of the equipment is less than the amount of the debt, and will not have to account to D for any amount by which the value of the equipment exceeds the amount of the debt.

TRUE

FALSE

28. On January 15, D purchased a new Television from S, giving to S a security interest in the TV to secure payment of the purchase price. D used the TV as consumer goods. S has not filed a financing statement. On March 1, D sold the TV to B, who was in the business of buying and selling used TVs. B sold the TV to P on April 1. P used the TV in her home as consumer goods. D has defaulted on his obligation to S. S can repossess the TV from P?

TRUE

FALSE

29. On January 15, D borrowed \$100,000 from S, and gave a security interest in his equipment. S filed immediately in the proper office. The security agreement did not contain a future advances clause. On February 15, D repaid \$10,000 of the loan. On March 15th, D borrowed an additional \$50,000 from S, and signed a new security agreement giving S a security interest in the same collateral to secure the new loan. S did not file a new financing statement. On May 1, D borrowed \$25,000 from C, giving to C a security interest in the same collateral. C filed a financing statement immediately. On August 1, D was in default as to both S and C. If the equipment is sold for \$140,000, S will get the entire \$140,000.

TRUE

FALSE

30. During the first two weeks of January, D was negotiating for a loan from S. By January 15th, the negotiations were almost completed, and S asked D to sign a security interest describing the collateral as "all of D's presently existing and hereinafter to be acquired equipment." D signed the financing statement and S immediately filed it. During the next few days, the negotiations broke down. On February 1, S borrowed \$100,000 from C, giving to C a security interest in all of her "present and hereinafter to be acquired equipment." C filed immediately. On March 1, D borrowed \$50,000 from S. S did not file a new financing statement. As between C and S, S has priority in the equipment.

TRUE

FALSE

31. On January 15, D gave S a security interest in her equipment to secure a \$50,000 loan from S. S filed a financing statement immediately in the proper office. On March 1, D borrowed \$10,000 from C, giving C a security interest in the same collateral. C immediately perfected by filing. On August 1, D defaulted on her obligation to C. C has a right to repossess the equipment and sell it, and if she does, S has no right to the proceeds from the sale.

TRUE

FALSE

32. On January 15, D borrowed \$10,000 from S. To secure the loan, D signed a security agreement giving S a security interest in his diamond ring worth \$10,000. D also signed a financing statement describing the ring. S took possession of the ring until she could file the financing statement. On January 20, D approached C asking C to loan him \$5,000. C had D sign a security agreement giving him a security interest in the same ring and a financing statement describing the ring. C filed the financing statement on January 20 and advanced the money to D on the same day. On January 25, D was going to a party and S gave the ring back to D so that he could wear it. On January 28, S filed the financing statement that D had signed. As between S and C, S has priority.

TRUE

FALSE

33. On January 15, D gave a security interest to S in his "present and hereinafter to be acquired equipment" to secure a loan that S made to D. S immediately filed a financing

statement in the office of the Secretary of State. On February 15, D purchased a new machine for his business from C, giving to C a security interest in it to secure the purchase price which was to be paid in installments over the next year. When C sold the machine to D and took the security interest in it, she was aware of the security interest of S and that it had been properly filed. C gave no notice to S that she was taking a new security interest in the same collateral, and filed a financing statement with the Secretary of State on February 20. As between S and C, S has priority in the machine sold to D by C.

TRUE

FALSE

34. On January 15, S loaned D \$100,000 and took a security interest in D's existing inventory. The agreement provided that whenever any cash resulted from a sale of inventory, the cash was to be deposited in a special account set up in the First Bank. S filed a financing statement on January 27. On February 1, D borrowed \$50,000 from C, giving to C a security interest in all of his present and hereinafter to be acquired accounts. C filed a financing statement on the same day. On March 1, D sold some of its inventory to B for \$10,000, B promising to pay on April 1. On April 1, B paid D the \$10,000 by check and D deposited the check in the special account. Both S and C have a security interest in the \$10,000 in the account and, as between them, S has priority.

TRUE

FALSE

35. On January 15, S sold a computer to D for use in D's store. S took a security interest in the computer to secure payment which was to be made on March 1. S did not file a financing statement. On March 1, D failed to pay S upon S's demand. On March 5, D gave the computer to his brother B as a birthday present. S filed a financing statement on March 10. S has a right to repossess the computer from B.

TRUE

FALSE

36. On January 15, S took a security interest in all of D's "present and hereinafter to be acquired inventory." S filed a financing statement on the same day with the Secretary of State. On February 1, D purchased new inventory from C, giving to C a security interest in the inventory that C sold it. C filed a financing statement before C gave possession to D and notified S that he was taking the security interest on the new inventory. On March 1, D sold \$10,000 of the new inventory to P in return for P's promise to pay for it on April 1. On March 15, D was in default as to both S and C. On that date, both S and C have a security interest in the promise of P to pay on April 1, and as between the two, C has priority.

TRUE

FALSE

37. On January 15, D gave S a security interest in its existing equipment worth \$1,000 to secure a \$1,000 loan made on that day. On January 20, C lent D \$1,000. C checked the filing records before making the loan and found no financing statement. C did not take a security interest in any of D's property. S perfected by filing on January 30. On April 15, C obtained a default judgment against D on the \$1,000 debt, and C had the sheriff seize the property under a



writ of execution. C can order the sheriff to sell it, but the purchaser at the sale will take the property subject to the security interest of S.

TRUE

FALSE

38. On January 15, D borrowed \$10,000 from S to purchase new equipment, giving to S a security interest in her present and hereinafter acquired equipment. On February 1, D bought new equipment from C for \$20,000. D used the \$10,000 loaned to her by S, for a down payment and agreed to pay C the rest in installments over the next year. The equipment was delivered on February 15. S filed a financing statement on February 27, and C filed a financing statement on February 17. As between S and C, S has priority.

TRUE

FALSE

39. On January 15, D gave a security interest in its inventory to S to secure a loan made by S to D in the amount of \$50,000. On March 1, D defaulted on the loan, and S repossessed the inventory on March 15. D gave notice to S of a public sale to be held on April 15. On April 1, D filed a petition in bankruptcy seeking relief under Chapter 7 of the Bankruptcy Code. If the inventory is worth less than \$50,000, S may proceed with the sale without petitioning the Bankruptcy Court.

TRUE

FALSE

40. On January 15, D borrowed \$20,000 from S and gave S a security interest in an automobile that she used in her business. S filed a financing statement with Secretary of State on the same day. On February 15, before any of the loan was repaid, D filed a petition in Bankruptcy seeking relief under Chapter 7. At the time the petition was filed and thereafter the automobile was worth no more than \$15,000. If the bankruptcy trustee sells the automobile, it will either be sold subject to S's security interest or S will receive all of the money from the sale up to \$20,000.

TRUE

FALSE

47. On January 15, D borrowed \$10,000 from S. On February 15, D gave S a security interest in her equipment. S immediately perfected. D filed a petition in bankruptcy on April 1. D's bankruptcy trustee can invalidate the security interest.

TRUE

FALSE

48. On January 15, D borrowed \$10,000 from S. At S's request, X promised in writing to repay in the event that D did not pay. D gave S a security interest in his automobile, and S filed a financing statement with the Secretary of State. D defaulted and S repossessed the automobile. If S plans to sell the automobile at a public sale, S must give notice of the sale to both D and X.

TRUE

FALSE

49. On January 15, D purchased a television from S for his own personal use. D gave S a security interest to secure payment which was to be made in installments over the next two years. On March 1, D borrowed \$1,000 from C, giving C a security interest in the TV to secure repayment. C filed a financing statement on the same day. S did not file a financing statement until March 10. As between S and C, C has priority.

TRUE

FALSE

50. On January 15, D borrowed \$1,500 from S in order to purchase a new computer. D gave S a security interest in the computer. S never filed a financing statement. On January 20, D purchased the computer from X, using the money she obtained from S. D used the computer for her own personal use. On March 1, D sold the computer to N, her neighbor, who purchased for use in his business. If D defaults in her obligation to S, S can repossess to computer from N.

TRUE

FALSE

51. Doris gave a security interest in all of her present and after acquired inventory to Charles. Charles sold an item of the inventory to Bobby. Bobby paid by giving Charles a check. The check is an account.

TRUE

FALSE

Questions 2 and 3 are based upon the following facts.

Denise wrote, signed and delivered to Chet the following signed document on January 15: "I hereby give you a security interest in my diamond heart-shaped earrings." On January 17, Chet lent Denise \$1,000. When he gave her the money, he told her that he did not believe the earrings were worth more than \$800 and he asked her to also give him a security interest in her diamond watch. She agreed and gave him her watch. Denise kept possession of the earrings. Chet has never filed a financing statement.

52. Chet has a perfected security interest in the watch.

TRUE

FALSE

53. Chet has a security interest in the diamond heart-shaped earrings.

TRUE

FALSE

54. Delores gave a security interest in her computer to Chester. She also gave a security interest in the same computer to Lester. As between Chester and Lester, Chester's security interest had priority. Delores defaulted as to both Chester and Lester. Lester repossessed the computer. Chester, upon discovery of Lester's repossession, demanded that Lester pay him any surplus from a sale of the computer. Lester sold the computer for \$500 more than the cost of the sale and the amount owed to him. Lester must give the \$500 to Chester.

TRUE

FALSE

55. On February 28, Sally lent Donald \$15,000. Donald gave Sally a security interest in all of his inventory. On that date, Donald had a balance of \$10,000 in his checking account with Big Bank. On March 5, he deposited \$15,000 which came from inventory that he sold during the first four days of the month. On March 10, he withdrew \$20,000 to purchase a new truck. On March 15, he deposited \$10,000 that he received as rent on a building that he owned. On March 20, he deposited \$3,000 that came from inventory that he sold between March 5 and March 20. On March 20, Sally has a security interest in only \$8,000 of the money in the account.

TRUE

FALSE

56. On April 2, David purchased a new stereo from Sarah. David paid \$100 down and gave Sarah a security interest in the stereo to secure the remainder of the \$750 purchase price. David purchased the stereo for his own personal use. Sarah did not file a financing statement. On April 15, David sold and delivered the stereo to Uppity Used Audio Equipment, Inc. for \$800. Uppity took the stereo believing David owned it outright and in good faith. On May 1, Uppity sold it to Jose, who met the requirements of a buyer in ordinary course of business. Jose purchased for his own personal use. Upon David's default, Sarah can repossess the stereo from Jose.

TRUE

FALSE

57. On May 1, Derek gave a security in all of his inventory of automobiles, presently owned and hereinafter to be acquired, to Sabrina. Sabrina filed a financing statement with the Secretary of State. The financing statement described the collateral as "all automobiles and other vehicles that Debtor (Derek) has in his inventory." On May 15, Derek purchased 15 new automobiles from another car dealership that was holding them as inventory. Sabrina has a perfected security interest in the cars David purchased on May 15th even though she takes no additional steps to perfect.

TRUE

FALSE

58. On April 1, Sadie lent Duke \$10,000 and took a security interest in a machine that Duke was using in his business. Sadie filed a financing statement in the proper office on same day. On May 1, Duke borrowed another \$2,000 from Sadie and signed a security agreement that also gave Sadie a security interest in the same machine for the purpose of securing the new \$2,000 loan. Sadie did not file a new financing statement. On June 1, Duke repaid the \$10,000 loan that Sadie made to him on April 1, and she tore up the security agreement he gave on April 1. On July 1, Duke sold the machine to Angelita, who took in good faith and without knowledge of any rights that Sadie might have in the machine. Sadie can repossess the machine from Angelita if Duke defaults on the \$2,000 loan she made to Duke on May 1.

TRUE

FALSE

59. On May 1, Stella's Store, Inc. sold Angel a new projection television set for \$3,000. Angel intended to use the television for his own personal use. He paid \$500 down and promised

to pay the rest in monthly installments. He gave Stella a security interest in the television to secure payment. Stella did not file a financing statement. On June 1, Angel borrowed \$500 from Consumer Finance Co., giving to Consumer Finance a security interest in the television that he had purchased from Stella. Consumer finance filed a financing statement in the appropriate office on the same day. On July 1st, Angel was in default as to both Stella and Consumer Finance. As between Stella and Consumer Finance, Consumer Finance has priority.

TRUE

FALSE

60. On August 1, Dwight borrowed \$1,000 from Susan and signed a security agreement giving Susan a security interest in his diamond ring. Susan immediately took possession of the ring. Susan did not file a financing statement. On August 5, Dwight asked Susan if he could take the ring because he was going to a party that night. While at the party, he told his friend, Patrick, that he wanted to sell the ring. Patrick said he would buy it, and he gave Dwight \$500 in cash as the agreed upon purchase price. Dwight asked if he could keep the ring for a couple of days and deliver it on August 7th as he had an important engagement the next day and wanted to impress the person he was meeting. Patrick said, "sure," and let Dwight keep it. Dwight redelivered the ring to Susan, who put it in her safe. Dwight has defaulted on the loan made by Susan. Susan's security interest in the ring is subordinate to the rights of Patrick.

TRUE

FALSE

61. On September 1, Desi borrowed \$1,000 from Sophronia Finance Company, giving Sophronia a security interest in all of his jewelry, presently owned and hereinafter acquired. Sophronia filed immediately. On September 3, Desi purchased a ring from Carmen, giving to Carmen a security interest in the ring to secure the purchase price which was to be paid in installments. Carmen did not file a financing statement. As between Carmen and Sophronia, Carmen has priority.

TRUE

FALSE

62. On October 1, Devon purchased a new "Tangerine" computer for use in his office from Shirley, giving to Shirley a security interest in the Tangerine computer to secure the purchase price which was to be paid in 30 days. On October 5th, he saw a "Kiwi" computer that he liked better. The Kiwi computer was sold by Christiane Computer Stores, Inc. Devon gave Christiane the Tangerine computer in trade for a Kiwi computer. On October 7th, Shirley filed a financing statement. If Devon defaults on his obligation to Shirley, Shirley can repossess the Tangerine computer from Christiane.

TRUE

FALSE

63. On November 1, Dudley borrowed \$1,000 from Salome and gave to her a security interest in his computer. On November 10, Carlos, knowing of the security interest that Dudley had given to Salome, had the sheriff levy on the computer under a writ of execution that was granted by the court to enforce a judgment that Carlos had obtained against Dudley on November 2. Salome filed a financing statement on November 15. As between Salome and Carlos, Salome has priority.

TRUE

FALSE

64. On December 1, Sonya lent Dominic \$100,000 taking a security interest in all of his inventory, present and hereinafter to be acquired. The security agreement contained a future advances clause. Sonya immediately filed a financing statement in the Secretary of State's office, but the financing statement did not state that the security interest secured future advances. On December 5, Carmella lent Dominic \$50,000 taking a security interest in the same inventory. Carmella perfected immediately. On December 15, Sonya lent Dominic an additional \$50,000. Sonya did not file a new financing statement. On December 20, Dominic was in default as to both Sonya and Carmella, and the inventory was worth \$150,000. Carmella is entitled to \$50,000 and Sonya \$100,000 of the inventory.

TRUE

FALSE

65. On February 1, Sybil lent Douglas \$100,000, taking a security interest in all of his inventory, present and hereafter to be acquired. Sybil filed immediately. On March 1, Douglas purchased new inventory from Wanda giving Wanda a security interest in the newly acquired inventory to secure the purchase price which was to be paid in 60 days. The new inventory was delivered on March 2. Wanda filed a financing statement on March 3. As between Sybil and Wanda, Wanda has priority as to the inventory purchased on March 1.

TRUE

FALSE

66. On March 1, Susanna lent Dexter \$100,000, taking a security interest in all of his equipment, present and hereinafter to be acquired. Susanna filed immediately. On March 5, Dexter purchased a new copier, to be used as equipment, from Raymond, giving Raymond a security interest in the copier to secure the purchase price of \$22,000 which was to be paid in 30 days. Raymond filed immediately. On March 10, Dexter sold the copier to Petra for \$20,000, which Petra agreed to pay in installments over the next two years. Petra gave Dexter a security interest in the copier to secure the debt. Dexter filed immediately. Dexter is in default as to both Susanna and Raymond, and Petra is in default as to Dexter. Either Susanna or Raymond can repossess the copier from Petra, and as between Susanna and Raymond, Raymond has priority.

TRUE

FALSE

67. On April 1, Raulo had a properly recorded mortgage on Dolf's building which Dolf uses for his office. On April 15, Dolf purchased from Sissy a large computer, giving Sissy a security interest in it. Although the computer was readily removable, it had to be so attached to the building that it became a fixture. Sissy filed a financing statement with the Secretary of State on April 16th, and the computer was installed on April 20th. As between Sissy and Raulo, Sissy has priority.

TRUE

FALSE

68. On May 1, Denny borrowed \$10,000 from Susy, giving to Susy a security agreement in equipment that stated, among other things, that "A default shall occur whenever the Secured Party deems that payment of Debtor's obligation is insecure." Susy has never filed a financing statement. On June 1, Susy discovers that Denny has missed payments on several obligations including the mortgage he gave on his house. He has not missed any payments on \$10,000 loan that he received from Susy. Susy has a right to treat the obligation Denny owes her as being in

default and to repossess the equipment unless Denny can prove that she is not acting in good faith.

TRUE

FALSE

69. On June 1, Sis sold a computer to Dolf and took back a security interest in it to secure the purchase price of \$1,200 which was to be paid in monthly installment over two years. Sis has never filed a financing statement. Dolf purchased the computer for his own personal use. On June 15th, before making any payments to Sis, Dolf sold the computer to Mac. Mac purchased it to use in his business. Mac subsequently sold the computer to Mary, who purchased it for her own personal use. If Dolf defaults on his obligations to Sis, Sis can repossess the computer from Mary.

TRUE

FALSE

70. On July 1, while D was a resident of Texas, S obtained security interest in D's equipment and she immediately perfected it by properly filing in Texas. On August 1, D moved to New Mexico, bringing the equipment with him. D gave notice to S that he was moving on August 5. On August 15, D gave a security interest to C in the same equipment. C immediately perfected by properly filing in New Mexico. On September 30, S filed a financing statement in the proper New Mexico office. As between S and C, C has priority as to the equipment.

TRUE

FALSE

71. On August 1, D purchased equipment from S and gave S a security interest in it to secure the purchase price of \$50,000 which was to be paid in 60 days. D took delivery on August 2. On August 5, D gave a security interest to C in the same equipment to secure a loan of \$10,000 that C extended to D. C had checked the security interest filings and found no security interest given by D in the equipment. S filed on August 7. As between S and C, S has priority.

TRUE

FALSE

72. On September 1, D gave a security interest for value in his present and hereinafter to be acquired accounts to S, who perfected immediately by filing in the proper office. On September 5, D purchased inventory from W. D gave W a security interest in the inventory to secure the purchase price. Prior to the time the inventory was delivered, W filed a financing statement in the proper office and gave notice to S that it was taking a security interest in the inventory it was selling to D. On September 10, D sold P (who was a buyer in the ordinary course of business) some of the inventory that he had bought from W. P agreed to pay for the inventory she purchased in 30 days. As between S and W, W has priority as to the account created when P made her purchase.

TRUE

FALSE

73. On February 1, S loaned B \$10,000. On March 1, B gave S a security interest in his equipment to secure the February 1 debt. S perfected on the same day. On April 1, B paid S the \$10,000 that he owed her. On June 15, B filed a petition in bankruptcy. At all times the value of the equipment was \$20,000. These facts show that B has made one or more preferential transfers that can be avoided by the bankruptcy trustee. [Assume that S is not an "insider."]

TRUE

FALSE

74. On March 1, S loaned B \$10,000 and took back a security interest in B's accounts. S filed a financing statement in the proper office on March 8. B filed a petition in bankruptcy on April 15. The trustee can avoid the security interest of S as a preferential transfer.

TRUE

FALSE

75. Ninety days before bankruptcy, B owed S \$100,000, and S had a perfected security interest in inventory owned by B that was worth \$40,000. Seventy days before bankruptcy, B purchased new inventory and the total value of the inventory was \$110,000. On that day, S lent B an additional \$40,000. Sixty days prior to bankruptcy, the debt remained at \$140,000, but the inventory had decreased in value to \$90,000. On the date of bankruptcy, the value of the inventory was \$60,000 and the debt was \$120,000. The trustee cannot reduce the secured claim of S.

TRUE

FALSE

76. Dan owns land in Mora county, N.M. On December 1, he dug 50 pinion trees from his land putting cloth around their roots. He trucked them to Albuquerque, and sold them to his brother, David. David, who is a plumber by trade, put them on a lot across from a K-Mart store and sold them as "living" Christmas trees. His customers purchased them with the intent of planting them in their lawns after the holiday season. While in David's possession, the trees are inventory.

TRUE

FALSE

77. Dan took his watch to a pawnshop owned by Susie. Susie agreed to loan him \$50.00. He gave the watch to Susie who tagged it and put it in her safe. Dan refused to sign a security agreement when asked to do so by Susie. Susie has a perfected security interest in Dan's watch.

TRUE

FALSE

78. On January 2, Dan borrowed \$10,000 from Susie giving her a security interest to secure the debt. The security agreement described the collateral as "all of Dan's present and hereinafter to be acquired inventory." On January 3, Susie filed in the Secretary of State's office a financing statement describing the collateral as "all of the debtor's inventory and equipment." On February 7, Susie purchased new inventory from Supplier. Susie has a perfected security interest in the inventory purchased by Dan from Supplier.

TRUE

FALSE

79. On January 2, Dan borrowed \$20,000 from Susie and gave her a security interest in all of his present and hereinafter to be acquired inventory. Dan deposited cash and checks received from the sale of inventory in his general checking account. On January 10, Dan had \$5,000 in that account, none of which came from the sale of inventory. From January 10 through January 15, the following deposits and withdrawals were made:

January 11 - Deposit of \$3,000 from the sale of inventory

- January 12 - Withdrawal of \$7,000 to pay employees
- January 13 - Deposit of \$5,000 from the sale of inventory
- January 14 - Deposit of \$3,000 from the sale of a truck used by Dan in his business
- January 15 - Withdrawal of \$3,000 to pay rent.

After this last transaction, Susie has a perfected security interest in all of the money remaining in the account.

TRUE

FALSE

80. On January 2, Dan borrowed \$2,000 from Susie and gave her a security interest in his automobile. Dan promised to repay the loan in monthly installments of \$200 beginning on March 1st, and the agreement contained an acceleration clause in the event of default. Dan failed to make the March 1 payment when it became due, and Susie repossessed the auto on March 15. If Susie has not disposed of the car, Dan has a right to cure his failure to make the March 1 payment, and to regain possession of the automobile, if he tenders to Susie \$200 plus all costs she incurred in repossessing and storing the automobile.

TRUE

FALSE

81. On January 2, Dan borrowed \$1,000 from Susie and gave to Susie a security interest in a computer worth at least \$2,000 that he used in his business. Susie took possession of the computer. He agreed to repay the \$1,000 in 30 days. On February 2 Susie asked Dan to pay, and he said that he couldn't and probably would not be able to pay in the foreseeable future. Susie said, "Well, I guess that I'll just keep the computer and write off the debt." Dan said, "I wish you wouldn't do that but I guess there isn't anything that I can do about it." If Susie keep the computer and cancels the debt, she has properly exercised a right that she had resulting from Dan's default.

TRUE

FALSE

82. On January 2, Dan borrowed \$3,000 from Susie and gave Susie a security interest in a truck that he uses in his business. The security agreement contains the following clause, "Upon default, Dan waives any right that he has to notice of any private or public sale that Susie may make after she has repossessed the truck." On March 1st, Dan defaulted on his obligation. Susie demanded possession of the truck and Dan voluntarily gave it to her on March 5. When Susie picked up the truck, Dan said: "Do what you want with the truck. My business has failed anyway, and I don't need it anymore. Just don't bother me." Susie said, "Do you want notice if I sell it," and Dan said, "No." Without giving notice to Dan, Susie sold the truck at a private sale. If Susie sues Dan seeking a deficiency judgment of \$1,000, he has a valid claim that he was entitled to notice of the sale.

TRUE

FALSE

83. On January 2, Dan purchased a new computer from Susie promising to pay for it in installments over the next twelve months. He purchased it for his home, intending to use it to play games, write letters, reconcile his check book, etc. Susie filed a financing statement in the proper office. In March, having made all the payments that were due on the computer, he moved the computer to his office where he used it to keep client addresses, write letter, keep records of the time he spent with each client, etc. When Dan moved the computer and began to use it as equipment in his business, Susie's security interest was no longer perfected.



TRUE

OFFICE

84. Dan operate a real estate business as a sole proprietor under the name "A-1 Realty Company." On January 2, Susie sold and delivered a desk and chair to the business that Dan used in his office. The price was to be paid in installments over the next six months, and Susie was given a security interest signed "A-1 Realty Co., by Dan." Susie filed a financing statement in the office of the Secretary of State listing, "A-1 Realty Company" was listed as the debtor on the statement. The filing would be effective to perfect Susie's security interest.

TRUE

FALSE

85. On January 2, Dan borrowed \$1,000 from Susie, giving her a security interest in a note for \$2,000 that Mike had given to him in return for a loan that Dan had previously made to Mike. The note met all of the requirements of a negotiable instrument under Article 3 of the Uniform Commercial Code. Susie filed financing statements in both the Secretary of State's office and in the Country Clerks's office. Susie has a perfected security interest in the note only if she also takes possession of it.

TRUE

FALSE

86. On January 2, Dan purchased a used car from Susie for \$2,000 for his personal use. He agreed to pay for it on June 1, and gave Susie a security interest in it to secure his promise. Susie did not file a financing statement. On February 1, Dan borrowed \$1,000 from Carla, giving her a security interest in the car. She filed a financing statement with the Secretary of State. As between Susie and Carla, Susie has priority because she perfected first.

TRUE

FALSE

87. On January 2, Dan purchased a cash register from Susie for use in his appliance store, agreeing to pay for it in 30 days, giving to Susie a security interest in the register. On January 3, while he was using it in his store, Bob, who owned a shoe store next to Dan's appliance store, asked if he could buy it because his has just broken. Since Bob was willing to pay a premium price, and Dan still had his old cash register, he sold and delivered it to Bob on that day. On January 5, Susie filed a financing statement with the Secretary of State. If Dan defaults in his obligation to pay Susie, she may repossess the cash register from Bob.

TRUE

FALSE

88. On January 2, Dan purchased a television from Susie for \$1,000. He paid \$200 down and give Susie a security interest in the TV to secure his promise to pay the rest in installments over the next year. Susie has never filed a financing statement. Dan used the TV in his home for a few weeks and then, on February 7, gave it to his friend Barbara as a birthday present. On February 15, Barbara and Dan had a fight and she told him that she never wanted to see him again. On February 20, Barbara sold the TV to Tom's Used TV store for \$500 and used the money to take a trip to Mexico. On February 25, Tom's Used TV Store sold the TV to Paula for \$700. If Dan has defaulted on his obligations to Susie, Susie may repossess the TV from Paula.

TRUE

FALSE

89. On January 2, Dan borrowed \$25,000 from Susie and gave her a security interest in all of the inventory in his drug store. On January 5, the sheriff levied upon the inventory pursuant to a writ of execution issued by the court on December 27 to enforce a judgment obtained by Joseph

on December 15. Susie did not file a financing statement until January 7. As between Susie and Joseph, Susie has priority.

TRUE

FALSE

90. On January 2, Dan borrowed \$10,000 from Susie and gave to Susie a security interest in all of the equipment that he used in his car repair business. The security agreement contained a provision prohibiting Dan from giving a second security interest to any other creditor. On February 1, a loan of \$5,000 that Cathy had made to Dan became due, and Dan was unable to pay it. Cathy agreed to extend the time of payment for three months if Dan gave her a security interest in his equipment. Dan told her about the security interest that he had given Susie, but Cathy agreed to the extension anyway. Cathy filed a financing statement on February 2. Susie, who had neglected to file earlier, finally filed a financing statement on February 8. As between Cathy and Susie, Cathy has priority.

TRUE

FALSE

91. On January 2 Dan borrowed \$100,000 from Susie and gave Susie a security interest in all of his present and hereinafter to be acquired inventory of appliances. Susie filed a financing statement on the same day. On February 1, Dan purchased 10 dishwashers from Will, giving to Will a security interest in them to secure his promise to pay in 30 days. Before delivering the dishwashers to Dan, Will filed a financing statement and gave notice of his security interest to Susie. On February 15, Dan sold 3 of the dishwashers to Carla, a contractor, who agreed to pay for them on April 1. On March 10, Dan was in default as to both Susie and Will. As between Susie and Will, Will has priority as to the obligation owed Dan by Carla.

TRUE

FALSE

92. On January 2, Dan purchased a stereo from Susie to use in her home. She paid \$100 down and agreed to pay the rest of the purchase price in installments. Dan gave a security interest in the stereo to secure his promise to pay. Susie has never filed a financing statement. On February 1, Dan lost his job and needed cash. He obtained a loan of \$200 from Paul, a pawnbroker who took possession of the stereo as security. By March 1, Dan was in default as to both Susie and Paul. As between Paul and Susie, Susie has priority.

TRUE

FALSE

93. On January 2, Dan borrowed \$50,000 from Susie and gave her a security interest in all of his present and hereinafter acquired inventory of appliances. On February 1, Dan borrowed \$5,000 from Cathy, giving to Cathy a security interest in his accounts. Cathy filed a financing statement on the same day. Susie filed a financing statement on February 15. On March 1 Dan sold a commercial refrigerator to Bill for use in his meat market. The price was \$4,000. Bill paid \$500 down and agreed to pay the remainder in 6 months. In order to secure his promise to pay for the refrigerator, Bill gave to Dan a security interest in the refrigerator, which Dan filed on March 2. Dan is now in default as to both Susie and Cathy. As to the secured obligation that Bill owes to Dan, Cathy has priority.

TRUE

FALSE

94. On January 2, Dan purchased a machine from Susie for \$1,000 to use in his tree pruning business. Dan did not have the cash to pay for it and promised to pay in 30 days. The writing evidencing the sale and promise to pay stated, "It is expressly understood that Susie

retains title to this machine until the full purchase price is paid." Susie never filed in any office. On January 15, Dan sold the machine to Frank, a friend, for \$500. If Dan defaults, Susie can repossess the machine from Frank.

TRUE

FALSE

95. On January 2, Dan purchased a Model 100 Red computer from Susie for use in his business. He paid \$500 down and agreed to pay the remaining \$1,500 in installments. Dan gave Susie a security interest in the computer, and she filed a financing statement in the proper office on the same day describing the collateral as "One Red Computer, Model 100." On February 1, Dan sold the computer to Betty who also used it as equipment. He took the \$1700 he received from Betty and purchased a Blue computer from Sally. In the event that Dan is in default in his obligation to pay Susie, Susie can repossess the Red computer from Betty and the Blue computer from Dan.

TRUE

FALSE

96. On January 2, Dan borrowed \$10,000 from Susie for the purpose of buying a new printing press for use in his business. Susie filed on the same day in the office of the Secretary of State. On January 15, Dan purchased a new printing press from Cathy. The selling price was \$100,000. Dan gave Cathy the \$10,000 that he has borrowed from Susie as a down payment and agreed to pay the remainder in installments over the next three years. Dan gave Cathy a security interest in the machine to secure his promise to pay the installments, and Cathy filed a financing statement on January 16th. The printing press was delivered by Cathy to Dan on February 1. On March 1st, Dan was in default on his obligation to both Susie and Cathy. As between Susie and Cathy, Cathy has priority in the printing press.

TRUE

FALSE

97. Dan, who lives in Bernalillo county, operates a farming business as a sole proprietorship. He raises alfalfa on a farm that he leases in Mora County, and sheep on a ranch that he owns in Catron County. On January 2, Dan borrowed \$10,000 from Susie to take a trip to Australia. He gave her a security interest in "all the Alfalfa I will grow during this calendar year, and all of the sheep that I own." Susie will have a perfected security interest in the Alfalfa that Dan grows during the year and the sheep owned by Dan if she files a valid financing statement in Bernalillo and Mora counties.

TRUE

FALSE

98. On January 2, Dan borrowed \$1,000 from Susie and gave Susie a security interest in a computer that he owns in his business. The computer is worth at least \$5,000. Susie filed a financing statement on January 5. On February 1, Dan, who was then insolvent, paid Susie the \$1,000 that he owed her and Susie filed a termination statement. If Dan files a Chapter 7 petition in Bankruptcy on March 1, the trustee can recover the \$1,000 payment as a preference under Section 547 of the Bankruptcy Act.

TRUE

FALSE

99. On January 2, Dan borrowed \$5,000 from Susie and gave her a security interest in a machine that he had just purchased for his factory. He used the money to pay for the machine, which was delivered on January 5. On January 7, Dan filed a petition under Chapter 7 of the

Bankruptcy Code. Susie filed a financing statement in the proper office on January 10. The trustee in Bankruptcy may avoid Susie's security interest.

TRUE

FALSE

100. Assuming that there are intelligent beings on a planet in another galaxy, it is likely that they have adopted Article 9 of the Uniform Commercial Code.

TRUE

FALSE

QUESTIONS 101, 102 AND 103 ARE BASED UPON THE FOLLOWING FACTS:

Don applied for a loan from Big Bank. Big Bank refused to grant it unless Don either gave the bank a security interest in some property or obtained a co-maker of the note. Don asked Jane to co-sign a note payable to the bank. She refused, but told Don that he could give the bank a security interest in her automobile. Don signed a security agreement properly describing Jane's automobile as the collateral, and Big Bank filed a financing statement with the Secretary of State.

101. If Don defaults in his loan to Big Bank, the bank can repossess Jane's automobile.

TRUE

FALSE

102. Assume, although it might be incorrect, that Big Bank had a security interest in the automobile. Jane had a part time job of delivering the morning newspaper. She kept the car in a garage at her home. For tax reasons, she used it only to deliver the Journal to her customers. The automobile is equipment.

TRUE

FALSE

103. Assume, although it might be incorrect, that Big Bank has a security interest in the automobile. After Don had given a security interest in it to Big Bank, Jane sold the automobile to her neighbor George. George took free of Big Bank's security interest.

TRUE

FALSE

QUESTIONS 104 AND 105 ARE BASED UPON THE FOLLOWING FACTS:

On February 1, Mary, who manufactured computers, gave a security interest to Big Bank in all of her "inventory, presently on hand and hereinafter to be acquired" to secure a loan of \$50,000 that the bank made to her. Big Bank filed a financing statement with the Secretary of State on the same day. On March 1, Mary purchased 50 "ABC Disk Drives" from the ABC Company, promising to pay for them on July 1. Mary did not sell disk drives and she purchased them to use in computers she was about to assemble. Before shipping the goods to Mary, ABC called Big Bank and told them of the sale and that ABC was taking a security interest in the drives. A vice-president of the bank said, "We do not approve of that, but I guess we can't stop you." There was no further communication between the ABC Company and the Big Bank. The ABC Company filed a financing statement with the Secretary of State on March 2 and delivered the drives to Mary on March 5. On April 1, Mary filed a Chapter 7 petition in bankruptcy.

104. As between ABC and Big Bank, Big Bank has priority as to the disk drives sold to Mary by ABC.

TRUE

FALSE

105. The trustee in bankruptcy will be able to invalidate the security interest of ABC.

TRUE

FALSE

QUESTION 106 AND 107 ARE BASED UPON THE FOLLOWING FACTS:

On March 1, David borrowed \$1,000 from Sally, promising to repay the loan on June 1. On June 1st, he could not repay the loan, and asked for an extension until August 1. Sally said that she would not give him a binding extension, but that she would not try to collect the \$500 immediately if he gave her a security interest in all of his CD records. [David used the records only for his own personal use.] David agreed and signed a security agreement on June 2. Sally filed a financing statement with the Secretary of State on June 2.

106. Sally's security interest attached on June 2.

TRUE

FALSE

107. Assume, although it may not be correct, that Sally's security interest attached on June 2. If David filed a Chapter 7 petition in bankruptcy on July 1, the trustee would be able to avoid Sally's security interest.

TRUE

FALSE

108. On March 1, Susy sold a diamond ring to Dan, who agreed to pay for it on April 1. Dan gave Susy a security interest in the ring to secure his obligation to pay for it. Dan used the ring for his own personal enjoyment. Susy filed a financing statement with the Secretary of State's office on March 2. On March 5, Dan sold the ring to Peter's Pawn Shop. Peter took free of Susy's security interest.

TRUE

FALSE

109. On January 15, Dudley borrowed \$5,000 from Sandy, giving her a security interest in the home entertainment center that was in the den of his home. Sandy filed a financing statement in the proper office on February 20. On April 1, Dudley gave a second security interest in the home entertainment center to the Happy Finance Company to secure a \$1,000 loan that Happy made to him on that date. Happy filed a financing statement in the proper office on April 2. On May 1, Dudley was in default as to both parties. Sandy commenced a contract action against him on the \$5,000 debt, Dudley defaulted, and Sandy received a judgment on June 1. On June 10, the sheriff levied on the home entertainment center under a writ of execution obtained by Sandy. The lien that Sandy obtained as a result of the levy is subordinate to the security interest of Happy.

TRUE

FALSE

QUESTIONS 110, 111, 112 and 113 ARE BASED ON THE FOLLOWING FACTS:

On May 1, Donald, who owns and operates a retail appliance store, borrowed \$50,000 from Big Bank giving to Big Bank a security interest on all of his present and hereinafter to be acquired inventory of appliances. Big Bank had filed a properly completed financing statement signed by Donald on April 20 which described the collateral as "all of Donald's inventory." On June 1, Donald purchased 25 new refrigerators from Willy Wholesaler. He promised to pay for them on August 1, and gave Willy a security interest in them. Before Willy delivered the refrigerators to Donald, she gave written notice to Big Bank that she was selling the refrigerators and taking a security interest in them and she filed a financing statement with the Secretary of State. On July 1, Donald sold and delivered all of the refrigerators to Christy, a contractor who was constructing an apartment house. Christy knew that Willy had a security interest in them, but she did not know anything about its terms. Christy did not know about Big Bank's security interest. Christy orally promised to pay for the refrigerators on September 15. Donald is in default as to both Christy and Big Bank.

110. Both Big Bank and Willy have security interests in the promise that Christy made to Donald.

TRUE

FALSE

111. Although it may not be correct, assume that both Big Bank and Willy do have security interests in Christy's promise. As between Big Bank and Willy, Big Bank's security interest has priority in the promise of Christy.

TRUE

FALSE

112. Although it may not be correct, assume that both Big Bank and Willy have security interests in the 25 refrigerators. Whomever has priority can repossess the refrigerators from Christy if she has not as yet installed them in the apartment house.

TRUE

FALSE

113. Although it may not be correct, assume that Willy has a security interest in the Christy's promise to pay for the 25 refrigerators, and that her security interest is superior to that of the Big Bank's. Willy can give notice to Christy to pay her instead of Donald.

TRUE

FALSE

114. On April 1, VX purchased a new automobile from Sylvia's Jugo dealership. He paid \$5,000 down and agreed to pay the remainder of the price, \$10,000, in 48 monthly installments on the first of each month. The security agreement provided that if a payment were missed, all future payments became due and payable immediately. VX made the May 1st payment but missed the June and July payments because he was laid off and had no income. On July 15, Sylvia repossessed the automobile. VX won \$2,000 playing Bingo on July 20th. VX can require Sylvia to return the car to him if he tenders the payments he missed, the August 1 payment, and all of Sylvia's costs in repossessing the auto.

TRUE

FALSE

115. On February 1, David purchased a new stereo from Sandy, promising to pay for it on March 1st and giving her a security interest in it. David put the stereo in his restaurant on

February 2 to provide music for his customers. He found, however, that most diners did not like music while they ate, so, on February 7th he sold the stereo to his neighbor, George who put it in his den so that he could hear music while reading. Sandy filed a financing statement with the Secretary of State on February 9. If David defaults, Sandy may repossess the stereo from George.

TRUE

FALSE

116. On January 15, Dave, a contractor, gave a security interest in all of his road building equipment to Sal to secure a \$50,000 loan that Sal made to him. Sal never perfected her security interest. On March 15, Dave failed to make a payment that was due on the loan and he was in default. On April 1, Dave was building a road for the county and his equipment was on the construction site. Early in the morning of April 2, an agent of Sal, under Sal's direction, placed locks on the equipment and removed parts of the engines that were necessary to operate the equipment. Dave was given no notice that Sal intended to disable the equipment. Assuming that there was no provision in the security agreement giving Sal the right to disable the collateral, Sal's actions were improper.

TRUE

FALSE

117. On January 2, Big Bank lent Dick \$10,000, taking a security interest in all of Dick's inventory of bicycles. Big Bank filed a financing statement on January 2 with the County Clerk in the county where Dick has his only place of business and where he resides. On that date, Dick had \$2,000 in his checking account and there are no transactions affecting his account until January 13 on which date he deposited \$3,000 that he received from the sale of bicycles. On January 16, he withdrew \$4,000 to pay his employees, his rent, utilities and other similar obligations. On January 20, Dick deposited a \$4,000 check that he received as rents from the tenants of an apartment house that he owns. After he deposited the \$4,000 check, Big Bank has a security interest in \$1,000, no more and no less, of the money in the checking account.

TRUE

FALSE

118. On March 1, Susy loaned Dilbert, who operates a retail appliance store, \$100,000. Susy took back a security interest in all of his present and hereinafter to be acquired inventory. Susy filed a financing statement in the Secretary of State's office on the same day. The financing statement described the collateral as "All inventory of appliances presently owned or hereinafter purchased by Dilbert." On March 15, Dilbert sold a washing machine to Bobby, who paid for it by giving Dilbert a check. Dilbert intended to deposit the check in his account that night, but he mislaid it. On April 1, Dilbert found the check. On that date, Susy has a perfected security interest in the check.

TRUE

FALSE

119. On March 1, Davey purchased a hydraulic lift for use in his machine shop from Steffy. Davey agreed to pay for the machine on June 1, and he gave Steffy a security interest in it to secure his obligation. Since Steffy did not have this item in stock, she ordered it from Makin Mft. Co. who delivered it directly to Davey on April 1. As soon as Davey received it, he borrowed \$5,000 from Big Bank, giving the bank a security interest in all of his equipment. The bank filed a financing statement in the Secretary of State's office on April 2. On April 5, Steffy learned that Davey borrowed the money from the bank and that the bank had taken a security interest in his equipment. She filed a financing statement with the Secretary of State, correctly describing the hydraulic lift, on that date. As between Steffy and Big Bank, Steffy has priority in the hydraulic lift.

TRUE

FALSE

120. Deadbeat, Inc., a corporation chartered in Delaware, has its chief executive office in Albuquerque, New Mexico. On March 1, it borrowed \$100,000 from Big Bank which has its only place of business in Texas. To secure the loan, Deadbeat gave Big Bank a security interest in its roadbuilding equipment which it uses in several states but which was then located in Colorado. The machinery is not covered by a certificate of title. To perfect its security interest, Big Bank must file a financing statement with the New Mexico Secretary of State.

TRUE

FALSE

121. On March 1, VX borrowed \$50,000 from Big Bank and gave to Big Bank a security interest on all of his equipment. The security agreement contained the following language, "VX agrees not to sell the collateral, and any sale will be null and void." On March 5, VX sold and delivered one of the trucks that was equipment to Beverly. She paid value and took in good faith without knowledge of Big Bank's security interest. On March 7, Big Bank filed a financing statement with the Secretary of State. If VX defaults, Big Bank may repossess the truck from Beverly.

TRUE

FALSE

122. On February 1, David, who owned and operated a retail appliance store in Bernalillo County, gave a security interest in all of his inventory of appliances to Big Bank in return for a \$100,000 loan. Big Bank filed a financing statement with the County Clerk of Bernalillo, but did not file with the Secretary of State. On April 1, a fire destroyed David's store and all of the inventory. The inventory was insured with World-Wide Ins. Co. and David was named as the beneficiary in the policy. On June 1, Worldwide sent David a check for \$250,000 representing its settlement of David's rights under the policy insuring the inventory. Big Bank has a security interest in this check.

TRUE

FALSE

123. On May 1, Dick gave a security interest to Susan to secure a \$50,000 loan that she made to him. The security agreement described the collateral as "all equipment presently owned by Dick and any that he might acquire in the future." Susan filed a financing statement on May 15 describing the collateral as "All of Dick's Equipment." On June 1, Dick purchased a new machine for use in his business. The May 15 filing gave Susan a perfected security interest in the new machine.

TRUE

FALSE

124. On June 1, Susan lent Dan \$50,000 and took a security interest in all of his inventory and accounts. Susan has never filed a financing statement. On August 1, Dan called Susan and told her than his business had lost \$5,000 during July and that he was giving up the ghost. He invited her to come and take possession of the store, which she did. The store contained all of the inventory in which Susan had her security interest. It also contained all of the documentation of credit sales that Dan had made. By taking possession, Susan perfected her security interest as to the inventory and the accounts.

TRUE

FALSE



125. On March 1, Dan purchased a machine that he intended to use as equipment in his business from Sally for \$10,000. He gave Sally a security interest in the machine. On March 5, Dan filed a Chapter 7 petition in bankruptcy. If Sally files a financing statement with the Secretary of State on March 7, knew of the petition in bankruptcy, she violated the bankruptcy stay.

TRUE

FALSE

126. Andy owns 5 large harvesting machines that he rents to farmers. If Andy grants a security interest in the harvesters, the collateral would be classified as equipment under Article 9.

127. Seller sold and delivered a widget to Buyer for \$10,000. The purchase price was to be paid in 30 days. The agreement between Seller and Buyer was in writing, signed by the Buyer, described the widget in some detail, and provided that "title to the widget is not to pass to Buyer until Buyer pays the \$10,000 purchase price." When the goods are delivered, Buyer has title to the Widgets and Seller has only a security interest in it.

TRUE

FALSE

128. Assume that all of a debtor's furniture is exempt under state law, and that Homeowner gave a security interest in "all of his furniture" to Sally. If homeowner defaults on his obligations, Sally has a right to possession of his furniture.

TRUE

FALSE

129. On March 1, Dave borrowed \$1,000 from Sally. Dave did not give or agree to give Sally a security interest to secure the debt. The debt was to be repaid on June 1. On April 1, Dave gave Sally a security interest in his stereo to secure his obligation to repay the \$1,000. Sally meets the requirement that value be given before a security interest attaches.

TRUE

FALSE

130. Dave who owns and operates a shoe store, gave a security interest in all of his inventory to Sally to secure a loan to him of \$25,000. The security agreement contained numerous provisions, including one that said, "In the event of default, if Sally repossesses the collateral and sells it, Dave waives any right that he may have to any surplus resulting from the sale of the collateral." Dave defaulted. Sally sold the goods at a commercial reasonable sale which netted \$5,000 more than Dave owed her. Sally must remit the \$5,000 to Dave.

TRUE

FALSE

Questions 131 and 132 are based on the following facts:

Dave gave a security interest in his equipment to Sally to secure a loan of \$50,000. Six months later, Dave defaulted.

131. If Sally peacefully repossesses the equipment without giving notice to Dave, she has failed to follow the requirement for a peaceful repossession as dictated by Article 9.

TRUE

FALSE

132. Assume that Sally properly repossesses the collateral and that she gives proper notice to Dave that she intends to conduct a private sale of the collateral. If Sally decides to sell the goods at an auction sale she must give Dave a new notice of the auction sale.

TRUE

FALSE

133. In 1991, Dave formed a Corporation, named Dave Inc., that is incorporated in Colorado. The corporation sells trading cards through direct mail from Dave's home in Albuquerque, New Mexico. In March of 1995, Dave Inc. sold all of the cards that were dated prior to 1992 to Y Corporation which is located in Texas. Y Corporation agreed to pay \$10,000 for the cards on December 15, 1995. In April of 1995, Dave Inc. borrowed \$25,000 from First National Bank which is located in Arizona. Dave Inc. gave First National a security interest in "all present and hereinafter to be acquired accounts." Assuming that Colorado, Arizona and Texas have the same filing provisions as New Mexico, in order to perfect its security interest, First National must file with the Secretary of State in Texas.

TRUE

FALSE

134. Any document that meets the requirements of a security agreement can be filed as a financing statement.

TRUE

FALSE

Questions 135 and 136 are based upon the following facts:

On March 1st, Dave purchased and took delivery of a stereo from Sally for \$1,000. He promised to pay for it on March 15, and gave her a security interest in it to secure his obligation to pay. Dave, a clinical psychologist, purchased the Stereo for use in the reception room of his office. He installed the stereo on March 2, and immediately received complaints from several of his clients. Dave sold the stereo to Paul on March 5 for \$700. Paul paid Dave by giving him a check. Sally filed a financing statement in the proper office on March 8th. Dave has defaulted on his obligation to pay Sally,

135. Sally has the right to repossess the stereo from Paul.

TRUE

FALSE

136. If Dave still has possession of the check given to him by Paul, Sally has a perfected security interest in the check.

TRUE

FALSE

Questions 137, 138 and 139 are based upon the following facts:

On March 1, Dave purchased a 45 inch TV for use in his recreation room from Sally's TV Store. The purchase price was \$2,500. Dave paid \$500 down and agreed to pay the remaining \$2,000 on June 1. Dave gave Sally a security interest in the TV to secure his obligation to pay. Sally has never filed a financing statement.

On April 1, Dave traded the TV to Alice's Appliance Store in return for a refrigerator that he used in the kitchen in his home. Alice sells both new and used

appliances and TVs. On May 1, Paul purchased the TV that Dave had traded to Alice for \$1,500. He acted in good faith and knew nothing about Dave's prior ownership of the TV.

Dave has failed to pay Sally, and Sally is attempting to repossess the TV from Paul.

137. Sally will not be able to repossess the TV because Paul is a buyer in the ordinary course of business.

TRUE

FALSE

138. Sally will not be able to repossess the TV because Paul is a Purchaser for Value Without Knowledge (P/V w/o K) under Section 9-301.

TRUE

FALSE

139. Sally will not be able to repossess the TV because Paul is a casual buyer under 9-207(2).

TRUE

FALSE

Questions 140, 141 and 142 are based upon the following facts:

On April 1, Dave borrowed \$10,000 from Sally and granted her a security interest in all of his equipment. Dave promised to repay the \$10,000 on August 1. Sally filed a financing statement in the proper office on April 12. The security agreement contained the following provisions:

1. This security interest secures any debts existing at the time that it is signed and all other debts owed by the debtor to the secured party of whatever kind and whenever incurred, including debts incurred as a result of contracts or torts.
2. In no event is Sally obligated to make any additional loans to debtor.

On May 1, Dave borrowed \$5,000 from Suedeem, promising to repay the debt on September 1, and giving her a security interest in his equipment. Suedeem filed a financing statement with the Secretary of State on the same day.

On June 1, the sheriff seized all of Dave's equipment under a writ of execution delivered to her on that day by Cathy.

On July 1, Dave asked Sally for an additional loan of \$5,000. Sally was reluctant because she knew that the sheriff had levied on the equipment under Cathy's writ of execution, but Dave convinced her that he was about to strike it rich and that he could repay it in 10 days. She lent him the \$5,000. She did not take a new security interest. She did not check the filings, nor did she have any personal knowledge of Suedeem's security interest.

As you might guess, Dave has paid no one, and there is a scramble among Sally, Suedeem and Cathy to see who will get the proceeds of a sale of the equipment, which will bring only about \$15,000, after expenses, at a sale.

140. As between Sally and Suedeem, Sally has priority and she will be entitled to all of the \$15,000.

TRUE

FALSE

141. As between Sally and Cathy, Sally has priority and she will be entitled to all of the \$15,000.

TRUE

FALSE

142. Assume for the purposes of this question that Cathy did not deliver a writ of execution to the sheriff and that there was no levy on the equipment. Instead, Dave sold all of the equipment to Peter for a fair price on June 1st. On July 1, when Sally extended the additional \$5,000, Sally did not know of the sale to Peter. Under these facts, Sally's can repossess the equipment from Peter and, as to him, the security interest secures both the original \$10,000 loan and the June 1 advance of \$5,000.

TRUE

FALSE

143 On March 1, Dave borrowed \$10,000 from Sally telling Sally that he was going to use the money to purchase a new copying machine for his business. He signed a security agreement that described the collateral as "all equipment presently on hand and all equipment that is acquired by Debtor in the future." Sally filed a financing statement in the proper office on March 9.

On March 5, Dave purchased a copying machine from Sam. The price was \$25,000. Dave used the \$10,000 obtained from Sally as a down payment and promised to pay the remainder in monthly installments over the next two years. He gave Sam a security interest in the copier that he purchased to secure his promise to pay, and Sam filed a financing statement with the Secretary of State on the same day, March 5.

By October 1, Dave's business had failed and he was in default as to both Sally and Sam.

As between Sally and Sam, Sally has priority as to the copier that Dave purchased from Sam.

TRUE

FALSE

144. Dave Doppler operated a retail appliance store in Albuquerque as a sole proprietorship under the name of the ABC Appliance Store. On March 1, Dave borrowed \$10,000 from Big Bank giving the bank a security interest in all of his inventory. On the same day, the bank filed a financing statement in the proper office listing the debtor's name as the "ABC Appliance Store." Big Bank has a perfected security interest in the inventory as of that date.

TRUE

FALSE

Questions 145 and 146 are based upon the following facts:

On July 1, Dave borrowed \$100,000 from Big Bank to purchase inventory for a new retail toy store that he was about to start. Dave signed a security agreement giving the bank a security interest in "all of my inventory, presently on hand and hereinafter to be acquired." At the time, Dave had no inventory.

On July 2, Dave borrowed \$50,000 from Sally, giving her a security interest in "all of his accounts, presently existing and hereinafter arising." Sally properly filed a financing statement on the same day, July 2. Sally knew of the loan the Big Bank had made to Dave, and that he had given the bank a security interest in his inventory. She did not check to see if the Big Bank had filed a financing statement. Dave used the \$50,000 to pay his accounts and lawyers, to pay for advertising, and to pay rent due on his store.

On July 4, Big Bank filed a financing statement in the proper office. Before filing the bank had searched the filing records and discovered Sally's financing statement, and they gave Sally notice that they had a security interest in Dave's inventory.

From July 5 through July 15, Dave purchased \$100,000 worth of inventory, using the money that the Big Bank had lent him. On July 20, Dave held a "Grand Opening Sale," and during that day he made sales to many customer's who paid by check. He also made a large sale of \$10,000 worth of toys to the "Lunch and Nap Day Care Center." The Center agreed to pay him the \$10,000 on September 1.

145. Assuming that Dave still has the checks given to him by the customers who purchased toys on his opening day, the Big Bank has a perfected security interest in those checks, and, as between Big Bank and Sally, Big Bank has priority.

TRUE

FALSE

146. As between Big Bank and Sally, Big Bank has priority as to the promise of the "Lunch and Nap Day Care Center" to pay \$10,000 on September 1.

TRUE

FALSE

Questions 147 and 148 are based upon the following facts:

On March 1, Dave borrowed \$10,000 from Sally and gave to Sally a security interest in all of the machinery in his automobile repair shop. Sally filed a financing statement the same day in the proper office. On April 1, Dave borrowed \$1,000 from Suedeen and gave her a security interest in the same collateral. By June 1, Dave had defaulted on both loans and Sally repossessed the machinery. At a properly conducted public sale, the machinery was sold for \$15,000. Sally had incurred expenses of \$1,000 in connection with the repossession and sale. Sally knew about Suedeen's security interest at the time of the sale. After Sally had distributed the \$15,000, Suedeen demanded that Sally pay her \$4,000.

147. Suedeen's security interest was discharged as a result of the foreclosure sale by Sally.

TRUE

FALSE

148. Sally has an obligation to pay Suedeen \$4,000.

TRUE

FALSE

149. On June 1, 1989, Dave borrowed \$10,000 from Sally and gave Sally a security interest in all of his present and hereinafter to be acquired equipment. Sally filed a financing statement in the proper office on the same day. On June 1, 1993, Paul purchased some of the Dave's equipment. On August 1, 1994, Sally first filed a continuation statement. If Dave defaults on his obligations to Sally, Sally may repossess the equipment that Paul has purchased.

TRUE

FALSE

150. On June 1, Dave purchased a diamond ring for \$5,000 from Sally. He paid her \$1,000 down and agreed to pay the remaining \$4,000 in installments over the next twelve months. Dave granted Sally a security interest in the ring and gave possession of it to Dave. On June 2d, Dave

gave the ring to his friend Paula to whom he was engaged. On August 1, Paula and Dave had a disagreement and she borrowed \$1,000 from Suedeem, giving Suedeem a security interest in the ring. Before making the loan, Suedeem, who knew that Dave had given the ring to Sally, checked the filing records under Dave's name, and, since Sally had never filed, he did not find any financing statement on file. On August 5, Suedeem discovered that Sally and Dave were no longer engaged and filed a financing statement in the proper office. If Dave defaults in his obligation to pay her for the ring, Sally may repossess the ring from Paula and has priority over Suedeem.

TRUE

FALSE

