

1) Who has a superior interest as of February 25 in the 4 Archway computers still in inventory?

The issue is who has a superior interest in the remaining computers. Among Perfected security interest, the general rule is that the first interest to be filed or perfected has priority. A security interest is perfected when the security interest has attached and the interest has been perfected. A security interest attaches when value has been given, the debtor has an interest in the collateral, and a security agreement has been signed. Perfection occurs when there is filing or possession or control by the creditor. A PMSI is automatically perfected when the interest attaches, when the debtor comes in possession. A PMSI is a security interest taken in collateral purchased with the security interest. In contrast to the general rule, a PMSI in inventory has priority over other previously perfected security interests when notice has been given to the previous creditors and the interest is perfected when the debtor receives the collateral.

Here Ram Bank took a security interest in January in after acquired inventory and perfected by filing. Archway sold computers to George as inventory, taking a PMSI in the computers and perfecting its interest prior to the debtors receipt of the goods. However, Archway gave no notice to Ram Bank of its intention of taking a security interest in the collateral. Because it did not give notice, it does fit in the exception to the general rule affording inventory PMSIs priority over previous creditors. Ram Bank has an interest in after acquired inventory.

Therefore, Ram Bank has a superior interest because it was the first to perfect and Archway did not give notice to Ram Bank.

2) Who has a superior interest in the Archway computer sold to Wilson?

The issue is if the security interests follow the collateral on sale. The general rule is that security interests follow the collateral on sale. An exception is made for buyers in the ordinary course of business. A buyer in the ordinary course of business is someone who buys from a seller whose business it is to sell the goods in question. A buyer in the ordinary course of business takes free of all security interests created by the seller.

Here, George was in business of selling computers. There were security interest George granted in the computers. Wilson bought a computer. Wilson is a buyer in the ordinary course of business and takes free of the security interests.

Therefore, Wilson has a superior interest in the computer he bought.

3) Who has a superior interest in the \$200 check?

The rules for priority are given in 1. The issue is whether a security interest encompasses proceeds from sale of collateral. The rule is that proceeds of collateral are collateral of the security interest. The order of priorities remains the same. However, automatic perfection ends unless there is a filing on the proceeds or some other form of perfection within 20 days of sale. An exception is for cash received on sale and for bartered goods that could be perfected by filing in the same office as the original filing. A check is an instrument under the UCC.

Here, George received the check as payment for the sale of computer to Wilson. The check is proceeds of the computer. As noted above, Ram Bank had a superior interest in the computer. Therefore it would have automatically a superior interest in the check proceeds, subject to the 20 day perfection rule noted above.

Therefore, as of February 25, Ram Bank has a superior interest in the check.

1. The two parties who will claim an interest in the four computers are Ram Bank and Archway. When there are two perfected secured parties, the first to file or the first to perfect has priority. Here, Ram Bank's security interest had attached and they filed a financing statement with the Texas Secretary of State, which is the proper method of perfecting a security interest in inventory like a computer. Furthermore, the security agreement between George and Ram Bank included an after acquired property clause which would include the computers George purchased from Archway. Archway also was perfected because they also filed a financing statement with the Texas Secretary of State. Archway will attempt to argue they have a PMSI in inventory because they sold the computers to George on credit and were perfected before George received the computers. However, to have a PMSI in inventory Archway must have also sent notice to any other parties with an interest in the collateral (Ram Bank) before the collateral was delivered to George. Since Archway did not send this notice, they will not get a superior interest in the computers under the PMSI in inventory rule. Therefore, the general rule regarding priority between two secured creditors controls. Ram Bank filed first and was perfected first. Therefore, Ram Bank has the superior interest in the four Archway computers.
2. Wilson will have the superior interest in the computer he purchased. Generally, a secured party has a superior interest to a purchaser. However, under the Texas Uniform Commercial Code, a buyer of goods from a seller in the ordinary course of the seller's business will take free of the security interest. Here, Wilson was the buyer. The facts also state that George sells electronics and computers in his retail store. George then is a seller selling computers in the ordinary course of his business. Therefore, Wilson will take free of any security interest and will have a superior interest.
3. As of February 25, Ram Bank will still have the superior interest in the check. As stated in Part 1, Ram Bank has the superior interest in the computers. The check is proceeds from the sale of one of the computers. Under the Texas Uniform Commercial Code, a secured party remains perfected in identifiable proceeds for up to 20 days after they become proceeds. As discussed, the check is proceeds of the computers. It is easy to identify because George has not yet deposited the check, so there are no commingling problems. Finally, only 15 days have elapsed since the sale of the computers so Ram Bank remains automatically perfected to the proceeds. Therefore, Ram Bank has the superior interest.

END OF EXAM

2)

1.

Ram Bank (RB) has the superior interest in the four Archway (A) computers still in George's (G) inventory.

The Texas Uniform Commercial Code governs transactions that relate to the priority of security interests in collateral. A properly perfected security interest in existing and after acquired inventory will generally beat all subsequent security interests. An exception applies when a creditor with a purchase money security interest (PMSI) in inventory files before a debtor takes possession of collateral AND if notice of the security interest is given to a creditor with an after acquired clause. Inventory is all goods that a seller sells during their course of business.

Here, the computers purchased would be classified as inventory as they were purchased to be sold in G's business. RB properly perfected their security interest in the after acquired inventory of G prior to A's filing in February. While A did file their PMSI prior to delivery of the inventory to G they failed to give notice of their security interest to RB. As a result, RB retains its superior interest in the remaining computers in inventory.

2.

Wilson (W) has the superior interest in the computer it purchased on February 10th.

While a perfected security interest will generally remain with the collateral, an exception applies for a buyer in ordinary course of business. A buyer in ordinary course of business (BCOB) will take their purchase free of any attached or perfected security interest. Per the TUCC a BCOB is one that purchases for value from one that sells that particular good in the course of their ordinary business. A BCOB will take free of any existing security interest regardless of their knowledge of the existence of the prior interest.

In the case at hand, W purchased for value his computer from G, who is in the business of selling electronic equipment and computers. Therefore, W will take his computer free from

any encumbrances that G created and will have the superior interest in the computer purchased.

3.

RB has the superior interest in the \$2,000 check received from W.

Identifiable proceeds from the sale of collateral remain protected under a creditor's security agreement. The proceeds will be temporarily perfected for 20 days, and can attain permanent perfection if other standards are met.

Here the proceeds are readily identifiable as they are in the form of a check. Furthermore, since the check has not been deposited there is no tracing or comingling concerns. As the computer was converted into proceeds 15 days ago further analysis into temporary versus permanent perfection is unnecessary. Therefore, through their priority in G's inventory (as discussed above), RB will have the superior interest in the \$2,000 check.

END OF EXAM