Secured Transactions  
Professor Keith A. Rowley  
William S. Boyd School of Law  
University of Nevada Las Vegas  
Summer 2002  

Sample Exam Questions - Set #1

Assume for all purposes that the current version of UCC Article 9 applies, regardless of the dates in the question.

1.1. In August 2001, David and Angelyn Hook borrowed $100,000 from High Plains Credit Association (“HPCA”), pursuant to a promissory note, which matured in March 2002, and secured through a security agreement covering “all crops planted or grown on the hereinafter described land and the products thereof and proceeds thereof, and all crops planted or grown upon the hereinafter described land within five years from the date hereof.” The security agreement required the Hooks to insure the collateral with companies acceptable to HPCA “against such casualties and in such amounts as [HPCA] shall require with a standard mortgage clause in favor of [HPCA],” and authorized HPCA “to collect such sums which may become due under any of said policies and apply same to the obligations hereby secured.” HPCA perfected its security interest shortly after the promissory note and security agreement were signed. The financing statement described the collateral using the same language as the security agreement: “All crops planted or grown on the hereinafter described land and the products thereof and proceeds thereof, and all crops planted or grown upon the hereinafter described land within five years from the date hereof.”

For their 2001 cotton crop, the Hooks purchased crop insurance from HPCA’s affiliated insurance agency, High Plains Insurance Company (“HPIC”). The policy included the following language: “You may assign to another party your right to an indemnity for the crop year.... The assignee will have the right to submit all loss notices and forms as required by the policy.”

In February 2002, the Hooks received crop insurance proceeds of approximately $55,000 for 2001 cotton crop losses. But, instead of using those proceeds to reduce the HPCA debt, David Hook paid $30,000 to another creditor to satisfy the balance due on two vehicles (which were exempt property); paid annual land lease payments (including $10,000 to his father-in-law); and used the balance for expenses.

On June 1, 2002, the Hooks filed a Chapter 7 bankruptcy petition. HPCA has filed an adversary proceeding in bankruptcy court, asserting its prior-perfected security interest(s) in (1) the cash proceeds of the HPIC insurance policy paid to the Hooks and/or (2) the two vehicles which David Hook used proceeds of said policy to pay off – at least to the extent of the $30,000 diverted from the insurance proceeds.

Evaluate HPCA’s claims.
1.2. On May 8, 2002, Quickie Finance extended a renewal loan to Pattie and Latrell Baskin totaling $2,620.80. This loan was evidenced by a combined promissory note and security agreement which encumbered specific items of personal property, all of which were separately identified on “Schedule A” attached to the document. In connection with a previous loan, which was renewed by this particular transaction, the debtors had executed a UCC-1 Financing Statement which had been filed for record with the Nevada Secretary of State in August 2001. The collateral covered by the financing statement was described as follows:

Consumer Goods--consisting of personal property of all kinds and types located on or about Debtor’s residence stated above BUT NOT INCLUDING HOUSEHOLD GOODS as defined in FTC Rule, Code of Fed. Regs. § 444.1(i).

On June 17, 2002, the debtors purchased two diamond nugget watches and a diamond nugget ring from Fly-by-Night Marketing Corporation for a total time price of $1,059.60. The total time price was secured by the items purchased as evidenced by a retail installment sale agreement/consumer credit installment contract executed by Latrell Baskin. No financing statement was filed in connection with this transaction since it was considered a purchase money security interest in consumer goods. Fly-by-Night Marketing Corporation assigned the contract to Quickie Finance on or about July 23, 2002, the date of the invoice introduced into evidence as Quickie Finance Exhibit 2.

Answer the following questions:

A. Is the description of collateral in Quickie Finance’s financial statement sufficient?

B. Does Quickie Finance have a perfected security interest in the watches and ring?

1.3. On September 1, 2001, Mary J. Townsend bought a Squanto computer from the local Squanto dealer in her hometown of Enterprise. The dealer financed the purchase and Mrs. Townsend executed a retail installment contract which the dealer assigned to Squanto Credit Company. Mrs. Townsend soon fell behind in her payments on the contract. She was notified of her arrears by letter and by a visit from an employee of Squanto Credit. Mrs. Townsend does not dispute that she was in default on the contract as of May 1, 2002.

The contract provided in part that in the event of default,

Seller shall have all the rights and remedies of a Secured Party under the Uniform Commercial Code, including the right to repossess the Property whenever the same may be found with free right of entry, and to recondition and sell the same at public or private sale.

Mrs. Townsend damaged the computer and took it to Mr. Wizard’s Computer Shoppe for repairs. While it was at the shop, on May 22, 2002, it was noticed by Jenny Boles, a Squanto employee who among other duties repossesses computers. Boles ascertained that the computer was the one purchased by Mrs. Townsend, and then informed the manager of Mr. Wizard’s, James Hinds, of her intention to repossess it. Hinds testified that he replied, “No, you cannot
repo it unless you contacted her (Mrs. Townsend) and it is okay.” Hinds testified that Boles then
told him “she had seen her, and it was okay.” Boles testified that she could not remember
whether Hinds asked her whether she had contacted Mrs. Townsend, but that she was “positive”
that she did not tell Hinds that she had Mrs. Townsend’s permission to repossess the computer.
Hinds and Boles agree that Hinds then told Boles that Boles could have the computer if she
would pay the repair bill. Boles did pay the bill and repossessed the computer on May 23,
returning it to the Squanto dealer.

Mrs. Townsend has brought an action for conversion, claiming that Boles wrongfully
repossessed her computer when he took it from Mr. Wizard’s Computer Shoppe under “false
pretenses.” Is she correct? Please explain.

1.4. Jessie Dean Bernard (Bernard), Pauline Henry Chandler (Chandler) and Jessie Mae
Taylor (Taylor) are all individual debtors who purchased household goods or furnishings in
successive transactions from Deepwell Furniture Co., or its sister company, ABC Furniture Co.
(hereinafter referred to collectively as “Deepwell”). The initial sale and all subsequent sales
were consummated by the respective buyer executing a retail installment contract in favor of
Deepwell. The purchase price was payable in monthly installments with interest, and a security
interest was retained by Deepwell in the items listed in the contract.

Between February 2001 and April 2002, Bernard entered into ten separate installment
contracts with Deepwell. Chandler entered into two contracts, dated June 19, 2002 and July 1,
2002. Taylor entered into three contracts, dated August 3, 2001, March 1, 2002, and July 2,
2002. With each succeeding purchase, the buyers executed a new contract, which incorporated
not only the purchase price of the new merchandise, but also the balance remaining on the
previous contract(s). Credits for finance charge refunds and insurance rebates were applied.

Bernard, Chandler, and Taylor each separately filed, on or after July 1, 2002, for relief
pursuant to Chapter 13 of the Bankruptcy Code. Deepwell filed a timely objection to
confirmation, alleging that its claim was secured by a purchase money security interest, not only
in the collateral listed on the most recent contract, but in all of the merchandise purchased from
Deepwell.

The Bankruptcy Code provides that the court may not confirm a Chapter 13 plan over the
objection of the holder of an allowed secured claim unless the creditor either (1) accepts the plan,
(2) receives its collateral by way of abandonment, or (3) is paid, with interest, an amount equal to
the value of the collateral securing the debt over the life of the plan, with the creditor retaining its

Bernard and Chandler have proposed to pay to Deepwell an amount equal to the value of
the collateral listed on their most recent contract plus interest. Taylor has proposed to abandon
the collateral listed on the most recent contract and to retain the remainder of the collateral lien
free.

Were Deepwell’s claims against Bernard, Chandler, and Taylor perfected at the time they
filed bankruptcy? Explain.