

## BASIC PRIORITY DRILLS

1. Red Creditor properly filed a financing statement against Debtor on June 1. Blue Creditor properly filed an earlier financing statement against Debtor on March 1. Both creditors advanced funds and both have security agreements signed by the Debtor. Red Creditor's financing statement specifies "all the Debtor's now owned or hereafter acquired equipment" as collateral. Blue Creditor's financing statement specifies "all the Debtor's now owned or hereafter acquired accounts" as collateral. Which creditor has priority in the accounts of the Debtor generated by the sale of the equipment owned by Debtor?

- a. You can not tell who has priority because the problem does not tell us whether Red Creditor held a purchase money security interest in the equipment.
- b. Blue Creditor has priority in the accounts because Red Creditor never filed against accounts.
- c. Blue Creditor has priority because its filing against accounts on March 1 is prior to the filing by Red Creditor on June 1. Red's June 1 filing applies both to the equipment and to the proceeds of that equipment (including accounts).
- d. The Red Creditor has priority because it was the first to file a financing statement that specified "equipment." The first filing in equipment carries over to the proceeds of the equipment--in effect making Red Creditor first in those proceeds.

2. Red Creditor properly files a financing statement against Debtor on March 1. Blue Creditor properly files a financing statement against Debtor on June 1. Both creditors advanced funds and both have security agreements signed by the Debtor. Red Creditor's financing statement specifies "all the Debtor's now owned or hereafter acquired **inventory**" as collateral. Blue Creditor's financing statement specifies "all the Debtor's now owned or hereafter acquired **accounts**" as collateral. Which creditor has priority in the accounts of the Debtor generated by the sale of the inventory owned by Debtor? (Assume neither security interest is a PMSI.)

- a. The Blue Creditor has priority because it was the first to file a financing statement that specified "accounts."
- b. Red Creditor has priority in the accounts generated from the sale of inventory owned by Debtor. Even though Red Creditor never filed against accounts, the

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timing of the filing against the inventory is used to measure the timing of perfection in proceeds.

c. The Blue Creditor has priority because a security interest in inventory does not continue in proceeds received from the sale of the inventory unless they are "cash proceeds."

d. Blue Creditor has priority in the accounts because Red Creditor never filed against accounts. If Red Creditor had filed against accounts after Blue Creditor filed against accounts (in a second UCC filing), then Red Creditor would be perfected in accounts and could use its earlier filing against inventory to prevail.

3. Red Creditor properly filed a financing statement against Debtor on March 1. Blue Creditor properly filed a financing statement against Debtor on June 1. Both creditors advanced funds and both have security agreements signed by the Debtor that specify "all the Debtor's now owned or hereafter acquired equipment" as collateral. Which creditor has priority in the equipment owned by Debtor? (Assume neither advance was secured by a PMSI.)

a. The Red Creditor has priority because it was the first to file a financing statement.

b. You can not tell who has priority because the problem does not tell us which creditor advanced funds first.

c. Red Creditor has priority in the equipment owned by Debtor when it filed its financing statement but both creditors share pro rata in equipment acquired by Debtor after Blue Creditor filed its financing statement.

d. You can not tell which creditor has priority because the problem does not tell us which creditor first obtained a signed security agreement.

4. Red Creditor properly filed a financing statement against Red Debtor on June 1. Blue Creditor properly filed a financing statement against Blue Debtor on March 1. Both creditors advanced funds and both had security agreements signed by their respective debtors on those dates. Both financing statements specify "all the Debtor's now owned or hereafter acquired equipment" as collateral. Which creditor has priority in a piece of equipment sold by Red Debtor to Blue Debtor on September 1? (Assume the sale is not in the ordinary course of business or a sale of inventory.)

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- a. Blue Creditor has priority in the equipment because Blue Creditor filed its financing statement first, on March 1, and Red Creditor filed its financing statement second, on June 1. The first to file a financing statement wins in this case.
  - b. You can not tell who has priority because the problem does not tell us whether Blue Creditor held a purchase money security interest in the equipment (i.e whether or not Blue Creditor loaned money to Blue Debtor to permit the purchase of equipment from Red Debtor).
  - c. Red Creditor has priority **IF** it financed the original acquisition of the equipment by Red Debtor because a purchase money security interest, even though later in time, will defeat a prior filed security interest.
  - d. Red Creditor has priority because its security interest continues in the transferred collateral.
5. Red Creditor properly filed a financing statement against Debtor on March 1. Blue Creditor properly filed a financing statement against Debtor on June 1. Both creditors advanced funds and both have security agreements signed by the Debtor. Both security agreements specify "all the Debtor's now owned or hereafter acquired personal property, including equipment ..." as collateral. If Blue Creditor financed the acquisition of all Debtor's equipment, which creditor has priority in the equipment owned by Debtor? (Assume the equipment is not inventory of Debtor.)
- a. You can not tell which creditor has priority because the problem does not give us enough information to decide whether Blue Creditor qualifies for the purchase money priority.
  - b. The Blue Creditor has priority because it holds a purchase money security interest in the equipment.
  - c. Blue Creditor does not qualify for the purchase money priority and, thus, Red Creditor has priority.
  - d. Blue Creditor failed to give the required notice of its security interest to Red Creditor. The Red Creditor has priority because it was the first to file a financing statement.