

Contents

CHAPTER 1 APPLICABLE LAW	1-1
1.1 What Law Governs?	1-1
1.1.1 Governing Law for Perfection and Priority	1-1
1.1.2 Governing Law for Other Issues.....	1-4
1.2 Transactions with Native American Tribes.....	1-4
CHAPTER 2 OVERVIEW AND DEFINITIONS.....	2-1
2.1 Security Interest	2-1
2.1.1 Purchase-Money Security Interests.....	2-1
2.1.2 Agricultural Liens.....	2-3
2.1.3 Consignments	2-4
2.2 Parties	2-4
2.3 Exclusions from New 9.....	2-6
2.4 New 9 Collateral Categories.....	2-8
2.4.1 Intangible and “Semi-Tangible” Property	2-8
2.4.2 Tangible Personal Property — Goods	2-11
2.4.3 Investment Property-Related Definitions	2-13
2.4.4 Supporting Obligation.....	2-13
2.4.5 Proceeds	2-13
2.5 Medium Neutral Terms.....	2-14
2.6 Good Faith.....	2-15
2.7 Special Consumer Rules.....	2-15
CHAPTER 3 CREATING A SECURITY INTEREST — ATTACHMENT — MAKING THE SECURED PARTY’S RIGHTS ENFORCEABLE AGAINST THE DEBTOR	3-1
3.1 Managing Secured Transactions	3-1
3.1.1 Due Diligence	3-1
3.1.1.1 Initial Investigation and Disclosure.....	3-2
3.1.1.2 Perfection Certificate; Representations and Warranties; Closing Certificates	3-4
3.1.1.3 Protection of Value from Loss or Destruction.....	3-5
3.1.2 Drafting Security Agreements and Related Documentation.....	3-5
3.1.2.1 Start with Good Forms.....	3-5
3.1.2.2 The Security Agreement	3-6

CONTENTS

- 3.1.2.3 The Pledge Agreement. 3-7
- 3.1.2.4 Financing Statements 3-7
- 3.1.2.5 Control Agreements 3-8
- 3.1.2.6 Bailee Waivers; Landlord Liens. 3-8
- 3.1.2.7 Other Documents 3-8
- 3.1.2.8 Other Considerations 3-9
- 3.1.2.9 Legal Opinions. 3-9
- 3.1.3 Post-Closing Considerations 3-10
- 3.2 Elements of Attachment 3-11
- 3.3 Security Agreement. 3-12
- 3.4 Possession 3-13
- 3.5 Control. 3-14
- 3.6 Attachment to Proceeds and Supporting Obligations 3-14
- 3.7 Attachment to Securities and Commodity Accounts 3-14
- 3.8 After-Acquired Property 3-14
- 3.9 Future Advances and Dragnet Clauses 3-15
- 3.10 Attachment of Lien Securing Right to Payment 3-15
- 3.11 Leases of Goods 3-16

- CHAPTER 4 PERFECTION. 4-1**
- 4.1 General Rule: All Security Interests Must Be Perfected by Filing a Financing Statement 4-1
- 4.2 Exception 1: Filing a Financing Statement Doesn't Work at All 4-2
- 4.3 Exception 2: Filing a Financing Statement Is an Optional Method of Perfection 4-2
- 4.4 Exception 3: Automatic Perfection 4-2
- 4.5 Exception 4: Filing a Financing Statement Is Not Required for Security Interests in Property Subject to a Certificate of Title or Other Statute 4-3
- 4.6 Exception 5: Filing a Financing Statement Is Not Required For Security Interests Perfected by Possession 4-4
- 4.7 Exception 6: Filing a Financing Statement Is Not Required For Security Interests Perfected by Control. 4-5
- 4.8 Exception 7: Temporary Perfection. 4-5

- CHAPTER 5 FINANCING STATEMENT MECHANICS 5-1**
- 5.1 What Kinds of Records Are Filed? 5-1
- 5.2 Where to File?. 5-1
- 5.3 Contents of a "Sufficient Financing" Statement 5-2
- 5.4 Debtor's Name Rules. 5-4
 - 5.4.1 Individual Debtors 5-5
- 5.5 How to Describe Collateral. 5-7

5.6	When Filing Office Can Reject Filings.	5-7
5.7	Mistakes.	5-9
5.8	Who Can File?.	5-9
5.8.1	Initial Financing Statements.	5-10
5.8.2	Amendments	5-10
5.9	Duration of Financing Statements.	5-11
5.10	Continuation Statements	5-12
5.11	Termination Statements.	5-12
5.12	Assignments	5-13
5.13	The Filing Office.	5-13
5.14	Inaccurate or Wrongfully Filed Records	5-14
5.15	Filing Office Indexing Errors.	5-14
5.16	Maintenance and Destruction of Records.	5-14
5.17	Information from Filing Office	5-14
5.18	Fees.	5-15
5.19	Filing Office Rules.	5-15
5.20	Wrongfully Filed Termination Statements.	5-15
5.21	New 9 Searching and Filing Practices	5-16
 CHAPTER 6 PREVAILING AGAINST OTHERS		6-1
6.1	General Rules of Priority among Creditors	6-1
6.2	Exceptions to the “First-to-File-or-Perfect” Rule.	6-2
6.2.1	Control Prevails over Filing	6-2
6.2.2	Some Security Interests Perfected by Possession or Control Prevail over Earlier Security Interests on Chattel Paper and Instruments Perfected by Filing	6-2
6.2.3	The Purchase-Money Security Interest Super-Priority	6-4
6.2.4	The Production-Money Security Interest Super-Priority	6-5
6.2.5	Future Advances.	6-5
6.3	Transferees of Collateral	6-6
6.4	Buyers.	6-7
6.5	Licensees and Lessees in Ordinary Course of Business.	6-7
6.6	Rights under Articles 3, 7 and 8.	6-8
6.7	Possessory Statutory Liens.	6-8
6.8	Priority of Security Interest in Fixtures and Crops Against Real Estate Claimants.	6-9
6.8.1	Exception 1: Purchase-Money Priority.	6-9
6.8.2	Exception 2: First to Record.	6-9
6.8.3	Exception 3: Removable Goods and Domestic Appliance	6-10
6.8.4	Exception 4: Judicial Liens.	6-10
6.8.5	Exception 5: Manufactured Homes	6-10

CONTENTS

6.8.6	Subordination of Purchase-Money Security Interest in Fixtures to Construction Mortgage	6-10
6.8.7	Crops	6-11
6.8.8	Priority Based on Consent	6-11
6.9	As-Extracted Collateral	6-11
6.10	Accessions	6-12
6.11	Commingled Goods	6-12
6.12	Contractual Subordination	6-12
6.13	Secret Statutory Liens	6-13

CHAPTER 7 PARTICULAR TYPES OF COLLATERAL 7-1

7.1	Investment Property	7-1
7.1.1	Stock Options and Warrants	7-5
7.1.2	Limited Liability Company Interests	7-5
7.2	Deposit Accounts	7-6.2
7.2.1	American Bar Association Deposit Account Control Agreement Task Force and Model Forms	7-8
7.3	Letter-of-Credit Rights	7-8.1
7.4	Commercial Tort Claims	7-9
7.5	Agricultural Liens	7-10
7.6	Software	7-10.1
7.7	Motor Vehicles, Ships and Aircraft	7-11
7.7.1	Motor Vehicles	7-11
7.7.2	Ships	7-13
7.7.3	Aircraft	7-14
7.8	Electronic Chattel Paper	7-14.1
7.9	Agricultural Collateral	7-14.2
7.9.1	Types of Agricultural Collateral	7-15
7.9.2	Financing Statement Filing Location	7-16
7.9.3	Priority Issues for Agricultural Collateral	7-16
7.10	Patents	7-17
7.11	Trademarks and Service Marks	7-17
7.12	Copyrights	7-18
7.13	Assignments of Lease Payment Streams	7-18

CHAPTER 8 PROCEEDS 8-1

8.1	General Rule — Continuation of Security Interest in Original Collateral and Proceeds	8-1
8.2	Twenty-Day Automatic Perfection for Proceeds	8-1
8.3	How a Security Interest in Proceeds Remains Perfected for More than 20 Days	8-2
8.4	Priority in Proceeds	8-3

CHAPTER 9 CHANGES AFTER CLOSING	9-1
9.1 Secured Party Changes	9-1
9.2 Debtor’s Location Changes.....	9-1
9.3 Collateral Location Changes.....	9-3
9.4 Location of Bank, Issuer, Nominated Person, Securities Intermediary or Commodity Intermediary Changes	9-3
9.5 Financing Statements and Changes.....	9-3
9.5.1 Debtor’s Name Changes	9-4
9.5.2 New Debtors.....	9-4
9.6 “Double Debtors”	9-5
9.7 Goods Covered by Certificates of Title.....	9-5
CHAPTER 10 THIRD PARTIES — ACCOUNT DEBTORS	10-1
10.1 Account Debtors	10-1
10.2 Terms Restricting Assignment	10-3
10.2.1 Accounts, Chattel Paper and Security Assignments of Payment Intangibles and Promissory Notes.....	10-3
10.2.2 Health-Care-Insurance Receivables, Certain General Intangibles, Including Contracts, Permits, Licenses and Franchises and Sales of Payment Intangibles and Promissory Notes	10-4
10.2.3 Assignment of Letter-of-Credit Rights	10-5
CHAPTER 11 ENFORCEMENT	11-1
11.1 Options.....	11-1
11.2 Waiver and Variance of Debtor’s and Obligor’s Rights and Secured Party’s Duties.....	11-2
11.3 Unknown Debtor or Secondary Obligor.....	11-3
11.4 “Commercially Reasonable”	11-3
11.5 Fixtures.....	11-4
11.6 Collection and Enforcement of Collateral Consisting of Rights to Payment.....	11-4
11.7 Application of Proceeds of Collection and Enforcement of Collateral Consisting of Rights to Payment.....	11-5
11.8 Repossession.....	11-6
11.9 Disposition of Collateral.....	11-7
11.10 Notices before Disposition.....	11-8
11.11 Forms of Notice	11-9
11.11.1 Non-Consumer-Goods Transactions.....	11-9
11.11.2 Consumer-Goods Transactions.....	11-10
11.12 Application of Proceeds.....	11-11
11.13 Accounting.....	11-12

CONTENTS

11.14 Transferees of Collateral 11-12

11.15 Transfers to Secondary Obligors 11-12

11.16 Transfer Statement 11-13

11.17 Acceptance of Collateral in Full or Partial Satisfaction of
Obligation—Strict Foreclosure 11-14

11.18 Mandatory Disposition of Consumer Goods 11-15

11.19 Right of Redemption 11-16

CHAPTER 12 SECURED PARTY’S OBLIGATIONS 12-1

12.1 Care of Collateral. 12-1

12.2 Release Account Debtor. 12-1

12.3 Duty to Provide Information 12-2

12.4 Obligation to Terminate. 12-3

12.5 Penalties for Failure to Comply with These Obligations 12-4

CHAPTER 13 REMEDIES 13-1

13.1 Damages. 13-1

13.2 Rebuttable Presumption Rule. 13-1

13.3 Insider Dispositions 13-2

**CHAPTER 13A EVALUATING A WORKOUT SITUATION: ISSUES
AND OPTIONS. 13A-1**

13A.1 Non-litigation vs. Litigation 13A-1

 13A.1.1 Bankruptcy Issues to Consider 13A-2

 13A.1.2 Prepackaged Plans 13A-2

13A.2 Basic Workout Elements 13A-3

13A.3 Audit of Key Loan Documentation Prior to Enforcement or Negotiation 13A-3

13A.4 Bankruptcy as Affirmative Strategy 13A-3

 13A.4.1 Pros of Bankruptcy 13A-3

 13A.4.2 Cons of Bankruptcy 13A-4

 13A.4.3 Debtor in Possession Financing 13A-5

13A.5 Avoiding Liability to Borrower in Workouts 13A-6

 13A.5.1 Pre-negotiation Agreement 13A-6

 13A.5.2 Breach of Contract 13A-6

 13A.5.3 Implied Covenants of Good Faith and Fair Dealing 13A-6

 13A.5.4 Equitable Subordination 13A-7

 13A.5.4.1 General Heading 13A-7

 13A.5.4.2 Claims against Insiders 13A-8

 13A.5.4.3 Claims against Non-insiders 13A-8

 13A.5.4.4 Non-Insiders That Exert Undue Control. 13A-8

 13A.5.4.5 Protection by Adherence to Loan
Documents 13A-9

 13A.5.5 Breach of Fiduciary Duty 13A-10

13A.5.6	Tortious Interference with Contractual Relations and Corporate Governance	13A-10
13A.5.7	RICO	13A-11
13A.5.8	Fraud	13A-11
13A.5.9	Negligent Misrepresentation	13A-12
13A.5.10	Securities Fraud	13A-12
	13A.5.10.1 Borrower as Plaintiff	13A-12
	13A.5.10.2 Broad Definition of Security	13A-13
	13A.5.10.3 Elements	13A-13
13A.5.11	Duress	13A-13
13A.5.12	Intentional Infliction of Emotional Distress	13A-14
13A.5.13	Prima Facie Tort	13A-14
13A.5.14	Suggestions to Avoid Liability	13A-14
13A.6	Avoiding Liability to Other Trade Creditors and Lenders	13A-16
13A.6.1	Misrepresentation and Subordination	13A-16
13A.6.2	Marshalling of Collateral or Guarantees	13A-17
13A.6.3	Protective Measures with Respect to Other Lenders	13A-17
13A.6.4	Avoiding Liability to Employees and Labor Unions	13A-18
	13A.6.4.1 Never Pay Employees Directly	13A-18
	13A.6.4.2 Never Fund Net Payroll	13A-18
	13A.6.4.3 Important Facts in Dealing with Unionized Borrower	13A-18
	13A.6.4.4 Special Treatment of Collective Bargaining Agreements in Bankruptcy ..	13A-19
	13A.6.4.5 Special Treatment of Retirees' Benefits in Bankruptcy	13A-19
	13A.6.4.6 Protection	13A-19
13A.6.5	Avoiding Liability to Governmental Agencies	13A-19
	13A.6.5.1 Hot Goods	13A-20
	13A.6.5.2 Dealing with Actions by Environmental Protection Agency	13A-20
13A.6.6	Dealing with Problems in Disclosure of Credit and Deposit Information	13A-21
	13A.6.6.1 General Duty to Disclose Information to Third Parties	13A-21
	13A.6.6.2 Offering Information Creates Certain Duties	13A-21
	13A.6.6.3 Conflicting Claims	13A-22
	13A.6.6.4 Implement Procedures	13A-22
	13A.6.6.5 Risks of Commitment Letters	13A-22

CONTENTS

CHAPTER 14 FORMS **14-1**

FORM 14-1 New 9 Collateral List for Security Agreement —
9-108 (Commercial Credit)..... 14-1

FORM 14-2 New 9 Collateral List — 9-108 (Consumer Credit) 14-2

FORM 14-3 Secured Party’s Release of Control over Deposit
Account — 9-208(2)(a). 14-3

FORM 14-4 Secured Party’s Release of Securities Intermediary/
Commodity Intermediary — 9-208(2)(d) 14-4

FORM 14-5 Secured Party’s Release of Control over Letter-of-Credit
Right — 9-208(2)(e) 14-5

FORM 14-6 Debtor’s Request for an Accounting — 9-210(1)(b) 14-6

FORM 14-7 Debtor’s Request Regarding a List of Collateral —
9-210(1)(c). 14-7

FORM 14-8 Debtor’s Request Regarding a Statement of
Account — 9-210-(1)(d) 14-8

FORM 14-9 Secured Party’s Accounting — 9-210(2)(a) 14-9

FORM 14-10 Secured Party’s Response to Debtor’s Request
Regarding a List of Collateral — 9-210(2)(b) 14-10

FORM 14-11 Secured Party’s Response to Debtor’s Request
Regarding a Statement of Account — 9-210(2)(b) 14-11

FORM 14-12 Secured Party’s Response to Debtor’s Request
Regarding a List of Collateral when Secured Party
Claims an Interest in All of a Particular Type of
Collateral Owned by the Debtor — 9-210(3) 14-12

FORM 14-13 Notice of Exclusive Control of Securities Account. 14-13

FORM 14-14 Notice of Disposition of Consumer-Goods — 9-614 14-14

FORM 14-15 Notice of Disposition of Non-Consumer-Goods —
9-613 14-16

FORM 14-16 Secured Party’s Request for Consent of Issuer or
Nominated Person to Assignment of Letter-of-Credit
Proceeds and Issuer or Nominated Person’s Consent
— 9-107. 14-17

FORM 14-17 Exclusion of Warranties by Secured Party Selling
Collateral — 9-610 14-18

FORM 14-18 Notice of Purchase-Money Security Interest in
Inventory — 9-324(2) 14-18

FORM 14-19 Notice to Bailee in Possession of Goods Who Has
Issued a Non-Negotiable Document Covering the
Goods — 9-312(4). 14-19

FORM 14-20 Consent of Owner of Real Property to Creation of
Security Interest in Fixtures — 9-334(6). 14-20

FORM 14-21 Notice from Consignor to Secured Party — 9-324(2) 14-21

FORM 14-22 Waiver of Disposition Notification — 9-602(7),
9-611, 9-624(1) 14-22

FORM 14-23	Mandatory Disposition of Consumer-Goods — Agreement of Debtor and Secondary Obligor to Longer Period of Time — 9-620(5) and (6).....	14-23
FORM 14-24	Description of Commercial Tort Claim for Purposes of Security Agreement and Financing Statement — 9-108, 9-504, 9-203(2)(c)1	14-24
FORM 14-25	Grant of Security Interest in Deposit Account to Depository Bank to Include in Deposit Account Signature Card — 9-203(2)(c)4.	14-24
FORM 14-26	Secured Party’s Proposal to Accept Collateral in Full Satisfaction of Debt — 9-620.	14-24
FORM 14-27	Secured Party’s Proposal to Accept Collateral in Partial Satisfaction of Debt — 9-620.	14-26
FORM 14-28	Secured Party’s Notice That Strict Foreclosure Has Occurred	14-27
FORM 14-29	Secured Party’s Notice That Partial Strict Foreclosure Has Occurred	14-28
FORM 14-30	Governing Law Choices	14-28
FORM 14-31	Application of Payments.....	14-29
FORM 14-32	Bailee Acknowledgment That It Holds Possession of Collateral for Secured Party’s Benefit — 9-313(3)	14-29
FORM 14-33	Notice of Assignment to Include on Chattel Paper or an Instrument — 9-330(1)(b).	14-30
FORM 14-34	Notice to Include on Chattel Paper Financing Statement That Purchase of Chattel Paper from Debtor Would Violate the Rights of the Secured Party — 9-330(2).	14-30
FORM 14-35	Notice to Account Debtor of Assignment of Account — 9-406.	14-31
FORM 14-36	Agreement of Account Debtor Not to Assert Claims and Defenses Against Assignee of Account — 9-403(2).	14-31
FORM 14-36A	No Offset Agreement — 9-404	14-32
FORM 14-37	Secured Party’s Release of Account Debtor — 9-209(2).	14-32.1
FORM 14-38	Proof Offered by Assignee That Account Has Been Assigned — 9-406(3)	14-32.2
FORM 14-39	Secured Party Affidavit in Recordable Form Regarding Default — 9-607(2).	14-33
FORM 14-40	Instruction by Secured Party to Bank to Pay out Deposit Account Collateral after Default — 9-607(1)(e)	14-35
FORM 14-41	Transfer Statement — 9-619.	14-35
FORM 14-42	Notice to Secured Party of a Claim or Interest in the Collateral — 9-611(3)(c)	14-36
FORM 14-43	Demand by Subordinate Secured Party for Proceeds — 9-608(1)(a)3, 9-615(1)(c)1.	14-37

CONTENTS

FORM 14-44	Demand by Secured Party of Proof of Subordinate Interest — 9-608(1)(b), 9-615(2)	14-38
FORM 14-45	Federal Trade Commission Holder-in-Due-Course Notice	14-38
FORM 14-46	Deficiency/Surplus Explanation — 9-616	14-39
FORM 14-47	Security Agreement (Consumer)	14-40
FORM 14-48	Security Agreement (Corporate Debtor).	14-50
FORM 14-49	Pledge Agreement (Certificated Security)	14-80
FORM 14-50	Guaranty Security Agreement (Corporate Guarantor)	14-88
FORM 14-51	Investment Property Control Agreement (Joint Control, no withdrawals or distributions of dividends)	14-118
FORM 14-52	Investment Property Control Agreement (Exclusive Creditor Control)	14-122
FORM 14-53	Investment Property Security Agreement (Joint Control)	14-125
FORM 14-54	Investment Property Security Agreement (Exclusive Creditor Control)	14-133
FORM 14-55	Deposit Account Control Agreement (Joint Control)	14-140
FORM 14-56	Deposit Account Control Agreement (Exclusive Creditor Control).	14-144
FORM 14-57	Guaranty Agreement (Corporate Guarantor).	14-147
FORM 14-58	Promissory Note (Commercial).	14-163
FORM 14-59	Subordination Agreement	14-173
FORM 14-60	Deposit Account Security Agreement and Control Agreement (Short Form, no waiver of by Depository)	14-182
FORM 14-61	Loan and Security Agreement (Commercial Loan).	14-185
FORM 14-62	Pledge Agreement (Certificates of Deposit that “Instruments”).	14-221
FORM 14-63	UCC Financing Statement	14-226
FORM 14-64	UCC Financing Statement Addendum.	14-227
FORM 14-65	UCC Financing Statement Amendment.	14-228
FORM 14-66	UCC Financing Statement Amendment Addendum	14-229
FORM 14-67	Continuation Financing Statement Legend — 9-706(3)	14-230
FORM 14-68	Financing Statement Legend — Disclosing Debtor Agreement Not to Grant Junior Security Interests in Collateral — 9-331.	14-230
FORM 14-69	Waiver of Right to Redeem — 9-624(3)	14-230
FORM 14-70	Secured Party’s Disclaimer of an Interest in Collateral or Obligations—9-210(4) and (5).	14-231
FORM 14-71	New 9 Collateral List for Financing Statement (Commercial Credit) — 9-504.	14-232

FORM 14-72	Debtor’s Correction Statement — 9-518(2)	14-233
FORM 14-73	Assignment of Mortgages (Blanket)	14-234
FORM 14-74	Authorization to File Financing Statement or Amendment.	14-236
FORM 14-75	Intercreditor Agreement (Segregation of Collateral)	14-236
FORM 14-76	UCC Financing Statement Additional Party	14-246
FORM 14-77	UCC Financing Statement Amendment Additional Party	14-247
FORM 14-78	Basic Workout Checklists for Auditing Documents	14-248
FORM 14-79	Trademark Collateral Assignment and Security Agreement	14-257
FORM 14-80	Copyright Collateral Assignment and Security Agreement	14-265
FORM 14-81	Patent Collateral Assignment and Security Agreement.	14-271
FORM 14-82	Loan Purchase Agreement (Minimal Warranties)	14-281
FORM 14-83	Methods of Perfection by New 9 Collateral Category	14-289
FORM 14-84	Methods of Perfection Chart by Principal Collateral Types	14-291
FORM 14-85	Agreement for Voluntary Surrender of Collateral	14-299
FORM 14-86	Sample Due Diligence Request (Long Form)	14-303
FORM 14-87	Perfection Certificate	14-316
FORM 14-88	Bailee Waiver.	14-321
FORM 14-89	Landlord Waiver	14-326
FORM 14-90	Closing Checklist.	14-332
FORM 14-91	Legal Opinion—Attachment and Perfection	14-336

APPENDIX A TRANSITION FROM OLD 9 TO NEW 9 APP A-1

A.1	Transition Rules	APP A-1
A.1.1	General Rule: New 9 Applies to Pre-and Post-July 1, 2001, Transactions	APP A-1
A.1.2	Exceptions to the General Rule	APP A-2
A.2.	How to Continue Financing Statements Filed Properly Under Old 9 but in the Wrong Place.	APP A-6
A.3	How to Continue Financing Statements File in the Right New 9 state and Filing Office, after July 1, 2001 (i.e. the Old 9 and New 9 Locations are the Same).	APP A-7
A.3.1	How to Continue Financing Statements File Both in the Right New 9 State and Filing Office and in the Wrong New 9 State and Filing Office.	APP A-7
A.4	Amendments to Financing Statements Filed before July 1, 2001.	APP A-8
A.5	Transition Priorities.	APP A-8
A.6	Non-Uniform Effective Date Issues	APP A-9

CONTENTS

INDICES

<i>Table of Wisconsin Laws</i>	INDEX-1
<i>Subject Index</i>	INDEX-18
<i>Forms Index</i>	INDEX-28