

NEW YORK  
CITY BAR

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**PROPOSED BILL FOR MODERNIZING NEW YORK COMMERCIAL LAW**

STATE OF NEW YORK

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2012-2013 Regular Sessions

AN ACT (the “Omnibus Act”) to modernize New York commercial law by repealing Articles 1, 3, 4 and 7 of the Uniform Commercial Code and replacing them in their entirety with the revised versions of Articles 1, 3, 4 and 7 of the Uniform Commercial Code set forth below and amending Articles 2, 2A, 4A, 5, 8 and 9 of the Uniform Commercial Code with the conforming amendments and the 2010 Amendments to Article 9 set forth below.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Article 1 of the uniform commercial code is REPEALED and a new article 1 is added  
2 to read as follows:

3 **ARTICLE 1**

4 **PART 1**

5 **GENERAL PROVISIONS**

6 **SECTION 1-101. SHORT TITLES.**

7 (a) This Act may be cited as the Uniform Commercial Code.

8 (b) This article may be cited as Uniform Commercial Code – General Provisions.

9 **§1-102. SCOPE OF ARTICLE.**

10 This article applies to a transaction to the extent that it is governed by another article of this  
11 Act.

12 **§ 1-103. CONSTRUCTION OF UNIFORM COMMERCIAL CODE TO PROMOTE ITS**  
13 **PURPOSES AND POLICIES; APPLICABILITY OF SUPPLEMENTAL PRINCIPLES**  
14 **OF LAW.**

15 (a) This Act must be liberally construed and applied to promote its underlying purposes  
16 and policies, which are:

17 (1) to simplify, clarify, and modernize the law governing commercial transactions;

1           (2) to permit the continued expansion of commercial practices through custom,  
2           usage, and agreement of the parties; and

3           (3) to make uniform the law among the various jurisdictions.

4           (b) Unless displaced by the particular provisions of this Act, the principles of law and  
5           equity, including the law merchant and the law relative to capacity to contract, principal and  
6           agent, estoppel, fraud, misrepresentation, duress, coercion, mistake, bankruptcy, and other  
7           validating or invalidating cause supplement its provisions.

8           **§1-104. CONSTRUCTION AGAINST IMPLIED REPEAL.**

9           This Act being a general act intended as a unified coverage of its subject matter, no part of it  
10          shall be deemed to be impliedly repealed by subsequent legislation if such construction can  
11          reasonably be avoided.

12          **§1-105. SEVERABILITY.**

13          If any provision or clause of this Act or its application to any person or circumstance is held  
14          invalid, the invalidity does not affect other provisions or applications of this Act which can be  
15          given effect without the invalid provision or application, and to this end the provisions of this  
16          Act are severable.

17          **§1-106. USE OF SINGULAR AND PLURAL; GENDER.**

18          In this Act, unless the statutory context otherwise requires:

19               (1) words in the singular number include the plural, and those in the plural include the  
20               singular; and

21               (2) words of any gender also refer to any other gender.

22          **§1-107. SECTION CAPTIONS.**

23          Section captions are part of this Act. The subsection headings in Article 9 are not part of this  
24          Act.

25          **§1-108. RELATION TO ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL**  
26          **COMMERCE ACT.**

27          This article modifies, limits, and supersedes the federal Electronic Signatures in Global and  
28          National Commerce Act, 15 U.S.C. Section 7001 *et seq.*, except that nothing in this article  
29          modifies, limits, or supersedes Section 7001(c) of that Act or authorizes electronic delivery of  
30          any of the notices described in Section 7003(b) of that Act.

PART 2

GENERAL DEFINITIONS AND PRINCIPLES OF INTERPRETATION

§1-201. GENERAL DEFINITIONS.

(a) Unless the context otherwise requires, words or phrases defined in this section, or in the additional definitions contained in other articles of this Act that apply to particular articles or parts thereof, have the meanings stated.

(b) Subject to definitions contained in other articles of this Act that apply to particular articles or parts thereof:

(1) “Action”, in the sense of a judicial proceeding, includes recoupment, counterclaim, set-off, suit in equity, and any other proceeding in which rights are determined.

(2) “Aggrieved party” means a party entitled to pursue a remedy.

(3) “Agreement”, as distinguished from “contract”, means the bargain of the parties in fact, as found in their language or inferred from other circumstances, including course of performance, course of dealing, or usage of trade as provided in Section 1-303.

(4) “Bank” means a person engaged in the business of banking and includes a savings bank, savings and loan association, credit union, and trust company.

(5) “Bearer” means a person in control of a negotiable electronic document of title or a person in possession of a negotiable instrument, negotiable tangible document of title, or certificated security that is payable to bearer or indorsed in blank.

(6) “Bill of lading” means a document of title evidencing the receipt of goods for shipment issued by a person engaged in the business of directly or indirectly transporting or forwarding goods. The term does not include a warehouse receipt.

(7) “Branch” includes a separately incorporated foreign branch of a bank.

(8) “Burden of establishing” a fact means the burden of persuading the trier of fact that the existence of the fact is more probable than its nonexistence.

(9) “Buyer in ordinary course of business” means a person that buys goods in good faith, without knowledge that the sale violates the rights of another person in the goods, and in the ordinary course from a person, other than a pawnbroker, in the business of selling goods of that kind. A person buys goods in the ordinary course if the sale to the person comports with the usual or customary practices in the kind of business in which

1 the seller is engaged or with the seller’s own usual or customary practices. A person that  
2 sells oil, gas, or other minerals at the wellhead or minehead is a person in the business of  
3 selling goods of that kind. A buyer in ordinary course of business may buy for cash, by  
4 exchange of other property, or on secured or unsecured credit, and may acquire goods or  
5 documents of title under a preexisting contract for sale. Only a buyer that takes  
6 possession of the goods or has a right to recover the goods from the seller under Article 2  
7 may be a buyer in ordinary course of business. “Buyer in ordinary course of business”  
8 does not include a person that acquires goods in a transfer in bulk or as security for or in  
9 total or partial satisfaction of a money debt.

10 (10) “Conspicuous”, with reference to a term, means so written, displayed, or  
11 presented that a reasonable person against which it is to operate ought to have noticed it.  
12 Whether a term is “conspicuous” or not is a decision for the court. Conspicuous terms  
13 include the following:

14 (A) a heading in capitals equal to or greater in size than the surrounding text, or  
15 in contrasting type, font, or color to the surrounding text of the same or lesser size;  
16 and

17 (B) language in the body of a record or display in larger type than the  
18 surrounding text, or in contrasting type, font, or color to the surrounding text of the  
19 same size, or set off from surrounding text of the same size by symbols or other  
20 marks that call attention to the language.

21 (11) “Consumer” means an individual who enters into a transaction primarily for  
22 personal, family, or household purposes.

23 (12) “Contract”, as distinguished from “agreement”, means the total legal obligation  
24 that results from the parties’ agreement as determined by this Act as supplemented by any  
25 other applicable laws.

26 (13) “Creditor” includes a general creditor, a secured creditor, a lien creditor, and  
27 any representative of creditors, including an assignee for the benefit of creditors, a trustee  
28 in bankruptcy, a receiver in equity, and an executor or administrator of an insolvent  
29 debtor’s or assignor’s estate.

30 (14) “Defendant” includes a person in the position of defendant in a counterclaim,  
31 cross-claim, or third-party claim.

1           (15) “Delivery”, with respect to an electronic document of title means voluntary  
2 transfer of control and with respect to an instrument, a tangible document of title, or  
3 chattel paper, means voluntary transfer of possession.

4           (16) “Document of title” means a record (i) that in the regular course of business or  
5 financing is treated as adequately evidencing that the person in possession or control of  
6 the record is entitled to receive, control, hold, and dispose of the record and the goods the  
7 record covers and (ii) that purports to be issued by or addressed to a bailee and to cover  
8 goods in the bailee’s possession which are either identified or are fungible portions of an  
9 identified mass. The term includes a bill of lading, transport document, dock warrant,  
10 dock receipt, warehouse receipt, and order for delivery of goods. An electronic document  
11 of title means a document of title evidenced by a record consisting of information stored  
12 in an electronic medium. A tangible document of title means a document of title  
13 evidenced by a record consisting of information that is inscribed on a tangible medium.

14           (17) “Fault” means a default, breach, or wrongful act or omission.

15           (18) “Fungible goods” means:

16           (A) goods of which any unit, by nature or usage of trade, is the equivalent of any  
17 other like unit; or

18           (B) goods that by agreement are treated as equivalent.

19           (19) “Genuine” means free of forgery or counterfeiting.

20           (20) “Good faith” means honesty in fact.

21           (21) “Holder” means:

22           (A) the person in possession of a negotiable instrument that is payable either to  
23 bearer or to an identified person that is the person in possession; or

24           (B) the person in possession of a negotiable tangible document of title if the  
25 goods are deliverable either to bearer or to the order of the person in possession; or

26           (C) the person in control of a negotiable electronic document of title.

27           (22) “Insolvency proceeding” includes an assignment for the benefit of creditors or  
28 other proceeding intended to liquidate or rehabilitate the estate of the person involved.

29           (23) “Insolvent” means:

30           (A) having generally ceased to pay debts in the ordinary course of business other  
31 than as a result of bona fide dispute;

1           (B) being unable to pay debts as they become due; or

2           (C) being insolvent within the meaning of federal bankruptcy law.

3           (24) “Money” means a medium of exchange currently authorized or adopted by a  
4           domestic or foreign government. The term includes a monetary unit of account  
5           established by an intergovernmental organization or by agreement between two or more  
6           countries.

7           (25) “Organization” means a person other than an individual.

8           (26) “Party”, as distinguished from “third party”, means a person that has engaged in  
9           a transaction or made an agreement subject to this Act.

10          (27) “Person” means an individual, corporation, business trust, estate, trust,  
11          partnership, limited liability company, association, joint venture, government,  
12          governmental subdivision, agency, or instrumentality, public corporation, or any other  
13          legal or commercial entity.

14          (28) “Present value” means the amount as of a date certain of one or more sums  
15          payable in the future, discounted to the date certain by use of either an interest rate  
16          specified by the parties if that rate is not manifestly unreasonable at the time the  
17          transaction is entered into or, if an interest rate is not so specified, a commercially  
18          reasonable rate that takes into account the facts and circumstances at the time the  
19          transaction is entered into.

20          (29) “Purchase” means taking by sale, lease, discount, negotiation, mortgage, pledge,  
21          lien, security interest, issue or reissue, gift, or any other voluntary transaction creating an  
22          interest in property.

23          (30) “Purchaser” means a person that takes by purchase.

24          (31) “Record” means information that is inscribed on a tangible medium or that is  
25          stored in an electronic or other medium and is retrievable in perceivable form.

26          (32) “Remedy” means any remedial right to which an aggrieved party is entitled with  
27          or without resort to a tribunal.

28          (33) “Representative” means a person empowered to act for another, including an  
29          agent, an officer of a corporation or association, and a trustee, executor, or administrator  
30          of an estate.

31          (34) “Right” includes remedy.

1           (35) “Security interest” means an interest in personal property or fixtures which  
2           secures payment or performance of an obligation. “Security interest” includes any  
3           interest of a consignor and a buyer of accounts, chattel paper, a payment intangible, or a  
4           promissory note in a transaction that is subject to Article 9. “Security interest” does not  
5           include the special property interest of a buyer of goods on identification of those goods  
6           to a contract for sale under Section 2- 401, but a buyer may also acquire a “security  
7           interest” by complying with Article 9. Except as otherwise provided in Section 2-505,  
8           the right of a seller or lessor of goods under Article 2 or 2A to retain or acquire  
9           possession of the goods is not a “security interest”, but a seller or lessor may also acquire  
10           a “security interest” by complying with Article 9. The retention or reservation of title by  
11           a seller of goods notwithstanding shipment or delivery to the buyer under Section 2-401  
12           is limited in effect to a reservation of a “security interest.” Whether a transaction in the  
13           form of a lease creates a “security interest” is determined pursuant to Section 1-203.

14           (36) “Send” in connection with a writing, record, or notice means:

15                   (A) to deposit in the mail or deliver for transmission by any other usual means of  
16                   communication with postage or cost of transmission provided for and properly  
17                   addressed and, in the case of an instrument, to an address specified thereon or  
18                   otherwise agreed, or if there be none to any address reasonable under the  
19                   circumstances; or

20                   (B) in any other way to cause to be received any record or notice within the time  
21                   it would have arrived if properly sent.

22           (37) “Signed” includes using any symbol executed or adopted with present intention  
23           to adopt or accept a writing.

24           (38) “State” means a State of the United States, the District of Columbia, Puerto Rico,  
25           the United States Virgin Islands, or any territory or insular possession subject to the  
26           jurisdiction of the United States.

27           (39) “Surety” includes a guarantor or other secondary obligor.

28           (40) “Term” means a portion of an agreement that relates to a particular matter.

29           (41) “Unauthorized signature” means a signature made without actual, implied, or  
30           apparent authority. The term includes a forgery.

1           (42) “Warehouse receipt” means a document of title issued by a person engaged in the  
2           business of storing goods for hire.

3           (43) “Writing” includes printing, typewriting, or any other intentional reduction to  
4           tangible form. “Written” has a corresponding meaning.

5           **§1-202. NOTICE; KNOWLEDGE.**

6           (a) Subject to subsection (f), a person has “notice” of a fact if the person:

7                   (1) has actual knowledge of it;

8                   (2) has received a notice or notification of it; or

9                   (3) from all the facts and circumstances known to the person at the time in question,  
10           has reason to know that it exists.

11           (b) “Knowledge” means actual knowledge. “Knows” has a corresponding meaning.

12           (c) “Discover”, “learn”, or words of similar import refer to knowledge rather than to  
13           reason to know.

14           (d) A person “notifies” or “gives” a notice or notification to another person by taking  
15           such steps as may be reasonably required to inform the other person in ordinary course,  
16           whether or not the other person actually comes to know of it.

17           (e) Subject to subsection (f), a person “receives” a notice or notification when:

18                   (1) it comes to that person’s attention; or

19                   (2) it is duly delivered in a form reasonable under the circumstances at the place of  
20           business through which the contract was made or at another location held out by that  
21           person as the place for receipt of such communications.

22           (f) Notice, knowledge, or a notice or notification received by an organization is effective  
23           for a particular transaction from the time it is brought to the attention of the individual  
24           conducting that transaction and, in any event, from the time it would have been brought to  
25           the individual’s attention if the organization had exercised due diligence. An organization  
26           exercises due diligence if it maintains reasonable routines for communicating significant  
27           information to the person conducting the transaction and there is reasonable compliance with  
28           the routines. Due diligence does not require an individual acting for the organization to  
29           communicate information unless the communication is part of the individual’s regular duties  
30           or the individual has reason to know of the transaction and that the transaction would be  
31           materially affected by the information.

1 **§1-203. LEASE DISTINGUISHED FROM SECURITY INTEREST.**

2 (a) Whether a transaction in the form of a lease creates a lease or security interest is  
3 determined by the facts of each case.

4 (b) A transaction in the form of a lease creates a security interest if the consideration that  
5 the lessee is to pay the lessor for the right to possession and use of the goods is an obligation  
6 for the term of the lease and is not subject to termination by the lessee, and:

7 (1) the original term of the lease is equal to or greater than the remaining economic  
8 life of the goods;

9 (2) the lessee is bound to renew the lease for the remaining economic life of the  
10 goods or is bound to become the owner of the goods;

11 (3) the lessee has an option to renew the lease for the remaining economic life of the  
12 goods for no additional consideration or for nominal additional consideration upon  
13 compliance with the lease agreement; or

14 (4) the lessee has an option to become the owner of the goods for no additional  
15 consideration or for nominal additional consideration upon compliance with the lease  
16 agreement.

17 (c) A transaction in the form of a lease does not create a security interest merely because:

18 (1) the present value of the consideration the lessee is obligated to pay the lessor for  
19 the right to possession and use of the goods is substantially equal to or is greater than the  
20 fair market value of the goods at the time the lease is entered into;

21 (2) the lessee assumes risk of loss of the goods;

22 (3) the lessee agrees to pay, with respect to the goods, taxes, insurance, filing,  
23 recording, or registration fees, or service or maintenance costs;

24 (4) the lessee has an option to renew the lease or to become the owner of the goods;

25 (5) the lessee has an option to renew the lease for a fixed rent that is equal to or  
26 greater than the reasonably predictable fair market rent for the use of the goods for the  
27 term of the renewal at the time the option is to be performed; or

28 (6) the lessee has an option to become the owner of the goods for a fixed price that is  
29 equal to or greater than the reasonably predictable fair market value of the goods at the  
30 time the option is to be performed.

1           (d) Additional consideration is nominal if it is less than the lessee’s reasonably  
2           predictable cost of performing under the lease agreement if the option is not exercised.

3           Additional consideration is not nominal if:

4                   (1) when the option to renew the lease is granted to the lessee, the rent is stated to be  
5                   the fair market rent for the use of the goods for the term of the renewal determined at the  
6                   time the option is to be performed; or

7                   (2) when the option to become the owner of the goods is granted to the lessee, the  
8                   price is stated to be the fair market value of the goods determined at the time the option is  
9                   to be performed.

10           (e) The “remaining economic life of the goods” and “reasonably predictable” fair market  
11           rent, fair market value, or cost of performing under the lease agreement must be determined  
12           with reference to the facts and circumstances at the time the transaction is entered into.

13           **§1-204. VALUE.**

14           Except as otherwise provided in Articles 3, 4, and 5, a person gives value for rights if the  
15           person acquires them:

16                   (1) in return for a binding commitment to extend credit or for the extension of  
17                   immediately available credit, whether or not drawn upon and whether or not a charge-  
18                   back is provided for in the event of difficulties in collection;

19                   (2) as security for, or in total or partial satisfaction of, a preexisting claim;

20                   (3) by accepting delivery under a preexisting contract for purchase; or

21                   (4) in return for any consideration sufficient to support a simple contract.

22           **§1-205. REASONABLE TIME; SEASONABLENESS.**

23           (a) Whether a time for taking an action required by this Act is reasonable depends on the  
24           nature, purpose, and circumstances of the action.

25           (b) An action is taken seasonably if it is taken at or within the time agreed or, if no time  
26           is agreed, at or within a reasonable time.

27           **§1-206. PRESUMPTIONS.**

28           Whenever this Act creates a “presumption” with respect to a fact, or provides that a fact is  
29           “presumed,” the trier of fact must find the existence of the fact unless and until evidence is  
30           introduced that supports a finding of its nonexistence.

**PART 3**

**TERRITORIAL APPLICABILITY AND GENERAL RULES**

**§1-301. TERRITORIAL APPLICABILITY; PARTIES' POWER TO CHOOSE**

**APPLICABLE LAW.**

(a) Except as otherwise provided in this section, when a transaction bears a reasonable relation to this state and also to another state or nation the parties may agree that the law either of this state or of such other state or nation shall govern their rights and duties.

(b) In the absence of an agreement effective under subsection (a), and except as provided in subsection (c), this Act applies to transactions bearing an appropriate relation to this state.

(c) If one of the following provisions of this Act specifies the applicable law, that provision governs and a contrary agreement is effective only to the extent permitted by the law so specified:

(1) Section 2-402;

(2) Sections 2A-105 and 2A-106;

(3) Section 4-102;

(4) Section 4A-507;

(5) Section 5-116;

(6) Section 8-110;

(7) Sections 9-301 through 9-307.

**§1-302. VARIATION BY AGREEMENT.**

(a) Except as otherwise provided in subsection (b) or elsewhere in this Act, the effect of provisions of this Act may be varied by agreement.

(b) The obligations of good faith, diligence, reasonableness, and care prescribed by this Act may not be disclaimed by agreement. The parties, by agreement, may determine the standards by which the performance of those obligations is to be measured if those standards are not manifestly unreasonable. Whenever this Act requires an action to be taken within a reasonable time, a time that is not manifestly unreasonable may be fixed by agreement.

(c) The presence in certain provisions of this Act of the phrase “unless otherwise agreed”, or words of similar import, does not imply that the effect of other provisions may not be varied by agreement under this section.

1 **§1-303. COURSE OF PERFORMANCE, COURSE OF DEALING, AND USAGE OF**  
2 **TRADE.**

3 (a) A “course of performance” is a sequence of conduct between the parties to a  
4 particular transaction that exists if:

5 (1) the agreement of the parties with respect to the transaction involves repeated  
6 occasions for performance by a party; and

7 (2) the other party, with knowledge of the nature of the performance and opportunity  
8 for objection to it, accepts the performance or acquiesces in it without objection.

9 (b) A “course of dealing” is a sequence of conduct concerning previous transactions  
10 between the parties to a particular transaction that is fairly to be regarded as establishing a  
11 common basis of understanding for interpreting their expressions and other conduct.

12 (c) A “usage of trade” is any practice or method of dealing having such regularity of  
13 observance in a place, vocation, or trade as to justify an expectation that it will be observed  
14 with respect to the transaction in question. The existence and scope of such a usage must be  
15 proved as facts. If it is established that such a usage is embodied in a trade code or similar  
16 record, the interpretation of the record is a question of law.

17 (d) A course of performance or course of dealing between the parties or usage of trade in  
18 the vocation or trade in which they are engaged or of which they are or should be aware is  
19 relevant in ascertaining the meaning of the parties’ agreement, may give particular meaning  
20 to specific terms of the agreement, and may supplement or qualify the terms of the  
21 agreement. A usage of trade applicable in the place in which part of the performance under  
22 the agreement is to occur may be so utilized as to that part of the performance.

23 (e) Except as otherwise provided in subsection (f), the express terms of an agreement and  
24 any applicable course of performance, course of dealing, or usage of trade must be construed  
25 whenever reasonable as consistent with each other. If such a construction is unreasonable:

26 (1) express terms prevail over course of performance, course of dealing, and usage of  
27 trade;

28 (2) course of performance prevails over course of dealing and usage of trade; and

29 (3) course of dealing prevails over usage of trade.

30 (f) Subject to Section 2-209, a course of performance is relevant to show a waiver or  
31 modification of any term inconsistent with the course of performance.

1           (g) Evidence of a relevant usage of trade offered by one party is not admissible unless  
2           that party has given the other party notice that the court finds sufficient to prevent unfair  
3           surprise to the other party.

4           **§1-304. OBLIGATION OF GOOD FAITH.**

5           Every contract or duty within this Act imposes an obligation of good faith in its performance  
6           and enforcement.

7           **§1-305. REMEDIES TO BE LIBERALLY ADMINISTERED.**

8           (a) The remedies provided by this Act must be liberally administered to the end that the  
9           aggrieved party may be put in as good a position as if the other party had fully performed but  
10           neither consequential or special damages nor penal damages may be had except as  
11           specifically provided in this Act or by other rule of law.

12           (b) Any right or obligation declared by this Act is enforceable by action unless the  
13           provision declaring it specifies a different and limited effect.

14           **§1-306. WAIVER OR RENUNCIATION OF CLAIM OR RIGHT AFTER BREACH.**

15           A claim or right arising out of an alleged breach may be discharged in whole or in part  
16           without consideration by agreement of the aggrieved party in an authenticated record.

17           **§1-307. PRIMA FACIE EVIDENCE BY THIRD-PARTY DOCUMENTS.**

18           A document in due form purporting to be a bill of lading, policy or certificate of insurance,  
19           official weigher's or inspector's certificate, consular invoice, or any other document authorized  
20           or required by the contract to be issued by a third party is prima facie evidence of its own  
21           authenticity and genuineness and of the facts stated in the document by the third party.

22           **§1-308. PERFORMANCE OR ACCEPTANCE UNDER RESERVATION OF RIGHTS.**

23           (a) A party that with explicit reservation of rights performs or promises performance or  
24           assents to performance in a manner demanded or offered by the other party does not thereby  
25           prejudice the rights reserved. Such words as "without prejudice," "under protest," or the like  
26           are sufficient.

27           (b) Subsection (a) does not apply to an accord and satisfaction.

28           **§1-309. OPTION TO ACCELERATE AT WILL.**

29           A term providing that one party or that party's successor in interest may accelerate payment  
30           or performance or require collateral or additional collateral "at will" or when the party "deems  
31           itself insecure," or words of similar import, means that the party has power to do so only if that

1 party in good faith believes that the prospect of payment or performance is impaired. The  
2 burden of establishing lack of good faith is on the party against which the power has been  
3 exercised.

4 **§1-310. SUBORDINATED OBLIGATIONS.**

5 An obligation may be issued as subordinated to performance of another obligation of the  
6 person obligated, or a creditor may subordinate its right to performance of an obligation by  
7 agreement with either the person obligated or another creditor of the person obligated.

8 Subordination does not create a security interest as against either the common debtor or a  
9 subordinated creditor.

10

ARTICLE 2 - SALES

§ 2. Subsection (3) of section 2-103 of part 1 of article 2 of the uniform commercial code is amended to read as follows:

(3) The following definitions in other Articles apply to this Article:

- “Check” ..... Section 3-104.
- “Consignee” ..... Section 7-102.
- “Consignor” ..... Section 7-102.
- “Consumer Goods” ..... Section 9-102.
- “Control” ..... Section 7-106.
- “Dishonor” ..... Section 3-502.
- “Draft” ..... Section 3-104.

§ 3. Subsection (2) of section 2-104 of part 1 of article 2 of the uniform commercial code is amended to read as follows:

(2) “Financing agency” means a bank, finance company or other person who in the ordinary course of business makes advances against goods or documents of title or who by arrangement with either the seller or the buyer intervenes in ordinary course to make or collect payment due or claimed under the contract for sale, as by purchasing or paying the seller’s draft or making advances against it or by merely taking it for collection whether or not documents of title accompany or are associated with the draft. “Financing agency” includes also a bank or other person who similarly intervenes between persons who are in the position of seller and buyer in respect to the goods (Section 2-707).

§ 4. Section 2-202 of article 2 of the uniform commercial codes is amended to read as follows:

Terms with respect to which the confirmatory memoranda of the parties agree or which are otherwise set forth in a writing intended by the parties as a final expression of their agreement with respect to such terms as are included therein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be explained or supplemented

(a) by course of performance, course of dealing, or usage of trade (Section [1–205] 1-303) [or by course of performance (Section 2–208)]; and

(b) by evidence of consistent additional terms unless the court finds the writing to have been intended also as a complete and exclusive statement of the terms of the agreement.

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1 § 5. Subsection (c) of section 2-310 of part 3 of article 2 of the uniform commercial code is  
2 amended to read as follows:

3 (c) if delivery is authorized and made by way of documents of title otherwise than by  
4 subsection (b) then payment is due regardless of where the goods are to be received (i) at the  
5 time and place at which the buyer is to receive delivery of the tangible documents or (ii) at  
6 the time the buyer is to receive delivery of the electronic documents and at the seller's place  
7 of business or if none, the seller's residence [regardless of where the goods are to be  
8 received]; and

9 § 6. Subsection (2) of section 2-323 of part 3 of article 2 of the uniform commercial code is  
10 amended to read as follows:

11 (2) Where in a case within subsection (1) a tangible bill of lading has been issued in a set  
12 of parts, unless otherwise agreed if the documents are not to be sent from abroad the buyer  
13 may demand tender of the full set; otherwise only one part of the bill of lading need be  
14 tendered. Even if the agreement expressly requires a full set

15 § 7. Subsection (3) of section 2-401 of part 4 of article 2 of the uniform commercial code is  
16 amended to read as follows:

17 (3) Unless otherwise explicitly agreed where delivery is to be made without moving the  
18 goods,

19 (a) if the seller is to deliver a tangible document of title, title passes at the time when  
20 and the place where he delivers such documents and if the seller is to deliver an  
21 electronic document of title, title passes when the seller delivers the document; or

22 (b) if the goods are at the time of contracting already identified and no documents of  
23 title are to be delivered, title passes at the time and place of contracting.

24 § 8. Paragraph (b) of subsection (4) of section 2-503 of part 5 of article 2 of the uniform  
25 commercial code is amended to read as follows:

26 (4) Where goods are in the possession of a bailee and are to be delivered without being  
27 moved

28 (a) tender requires that the seller either tender a negotiable document of title covering  
29 such goods or procure acknowledgment by the bailee of the buyer's right to possession of  
30 the goods; but

1 (b) tender to the buyer of a non-negotiable document of title or of a [written direction  
2 to] record directing the bailee to deliver is sufficient tender unless the buyer seasonably  
3 objects, and except as otherwise provided in Article 9 receipt by the bailee of notification  
4 of the buyer's rights fixes those rights as against the bailee and all third persons; but risk  
5 of loss of the goods and of any failure by the bailee to honor the non-negotiable  
6 document of title or to obey the direction remains on the seller until the buyer has had a  
7 reasonable time to present the document or direction, and a refusal by the bailee to honor  
8 the document or to obey the direction defeats the tender.

9 § 9. Paragraph (b) of subsection (5) of section 2-503 of part 5 of article 2 of the uniform  
10 commercial code is amended to read as follows:

11 (5) Where the contract requires the seller to deliver documents

12 (a) he must tender all such documents in correct form, except as provided in this  
13 Article with respect to bills of lading in a set (subsection (2) of Section 2-323); and

14 (b) tender through customary banking channels is sufficient and dishonor of a draft  
15 accompanying or associated with the documents constitutes non-acceptance or rejection.

16 § 10. Section 2-505 of part 5 of article 2 of the uniform commercial code is amended to read as  
17 follows:

18 (1) Where the seller has identified goods to the contract by or before shipment:

19 (a) his procurement of a negotiable bill of lading to his own order or otherwise  
20 reserves in him a security interest in the goods. His procurement of the bill to the order  
21 of a financing agency or of the buyer indicates in addition only the seller's expectation of  
22 transferring that interest to the person named.

23 (b) a non-negotiable bill of lading to himself or his nominee reserves possession of  
24 the goods as security but except in a case of conditional delivery (subsection (2) of  
25 Section 2-507) a non-negotiable bill of lading naming the buyer as consignee reserves no  
26 security interest even though the seller retains possession or control of the bill of lading.

27 (2) When shipment by the seller with reservation of a security interest is in violation of  
28 the contract for sale it constitutes an improper contract for transportation within the  
29 preceding section but impairs neither the rights given to the buyer by shipment and  
30 identification of the goods to the contract nor the seller's powers as a holder of a negotiable  
31 document of title.

1 § 11. Subsection 2 of section 2-506 of part 5 of article 2 of the uniform commercial code is  
2 amended to read as follows:

3 (2) The right to reimbursement of a financing agency which has in good faith honored or  
4 purchased the draft under commitment to or authority from the buyer is not impaired by  
5 subsequent discovery of defects with reference to any relevant document which was  
6 apparently regular [on its face].

7 § 12. Subsection 2 of section 2-509 of part 5 of article 2 of the uniform commercial code is  
8 amended to read as follows:

9 (2) Where the goods are held by a bailee to be delivered without being moved, the risk of  
10 loss passes to the buyer

11 (a) on his receipt of possession or control of a negotiable document of title covering  
12 the goods; or

13 (b) on acknowledgment by the bailee of the buyer's right to possession of the goods;  
14 or

15 (c) after his receipt of possession or control of a non-negotiable document of title or  
16 other [written] direction to deliver in a record, as provided in subsection (4)(b) of Section  
17 2-503.

18 § 13. Subsection 2 of section 2-605 of part 6 of article 2 of the uniform commercial code is  
19 amended to read as follows:

20 (2) Payment against documents made without reservation of rights precludes recovery of  
21 the payment for defects apparent [on the face of] in the documents.

22 § 14. Paragraph (c) of subsection (2) of section 2-705 of part 7 of article 2 of the uniform  
23 commercial code is amended to read as follows:

24 (2) As against such buyer the seller may stop delivery until

25 (a) receipt of the goods by the buyer; or

26 (b) acknowledgment to the buyer by any bailee of the goods except a carrier that the  
27 bailee holds the goods for the buyer; or

28 (c) such acknowledgment to the buyer by a carrier by reshipment or as a  
29 warehouse[man]; or

30 (d) negotiation to the buyer of any negotiable document of title covering the goods.

1 § 15. Paragraph (c) of subsection (3) of section 2-705 of part 7 of article 2 of the uniform  
2 commercial code is amended to read as follows:

3 (3)(a) To stop delivery the seller must so notify as to enable the bailee by reasonable  
4 diligence to prevent delivery of the goods.

5 (b) After such notification the bailee must hold and deliver the goods according to  
6 the directions of the seller but the seller is liable to the bailee for any ensuing charges or  
7 damages.

8 (c) If a negotiable document of title has been issued for goods the bailee is not  
9 obliged to obey a notification to stop until surrender of possession or control of the  
10 document.

11 (d) A carrier who has issued a non-negotiable bill of lading is not obliged to obey a  
12 notification to stop received from a person other than the consignor.  
13

ARTICLE 2-A - LEASES

§ 16. Paragraphs (a) and (o) of subsection (1) of section 2-A-103 of part 1 of article 2-a of the uniform commercial code is amended to read as follows:

(1) In this Article unless the context otherwise requires:

(a) “Buyer in ordinary course of business” means a person who in good faith and without knowledge that the sale to him [or her] is in violation of the ownership rights or security interest or leasehold interest of a third party in the goods, buys in ordinary course from a person in the business of selling goods of that kind but does not include a pawnbroker. “Buying” may be for cash or by exchange of other property or on secured or unsecured credit and includes [receiving] acquiring goods or documents of title under a pre-existing contract for sale but does not include a transfer in bulk or as security for or in total or partial satisfaction of a money debt.

(o) “Lessee in ordinary course of business” means a person who in good faith and without knowledge that the lease to him [or her] is in violation of the ownership rights or security interest or leasehold interest of a third party in the goods, leases in ordinary course from a person in the business of selling or leasing goods of that kind but does not include a pawnbroker. “Leasing” may be for cash or by exchange of other property or on secured or unsecured credit and includes [receiving] acquiring goods or documents of title under a pre-existing lease contract but does not include a transfer in bulk or as security for or in total or partial satisfaction of a money debt.

§ 17. Subsection (3) of section 2-A-103 of part 1 of article 2-A of the uniform commercial code is amended to read as follows:

(3) The following definitions in other Articles apply to this Article:

- |                       |                       |
|-----------------------|-----------------------|
| “Account”.            | Section 9-102(a)(2).  |
| “Between merchants”.  | Section 2-104(3).     |
| “Buyer”.              | Section 2-103(1)(a).  |
| “Chattel paper”.      | Section 9-102(a)(11). |
| “Consumer goods”.     | Section 9-102(a)(23). |
| “Document”.           | Section 9-102(a)(30). |
| “Entrusting”.         | Section 2-403(3).     |
| “General intangible”. | Section 9-102(a)(42). |

1	“Instrument”.	Section 9-102(a)(47).
2	“Merchant”.	Section 2-104(1).
3	“Mortgage”.	Section 9-102(a)(55).
4	“Pursuant to commitment”.	Section [9-102(a)(68)] <u>9-</u>
5		<u>102(a)(69)</u> .
6	“Receipt”.	Section 2-103(1)(c).
7	“Sale”.	Section 2-106(1).
8	“Sale on approval”.	Section 2-326.
9	“Sale or return”.	Section 2-326.
10	“Seller”.	Section 2-103(1)(d).

11 § 18. Subsection 2-A-207 of part 2 of article 2A of the uniform commercial code is REPEALED.

12 § 19. Subsection (4) of section 2-A-501 of part 5 of article 2A of the uniform commercial code  
13 is amended to read as follows:

14 (1) Whether the lessor or the lessee is in default under a lease contract is determined  
15 by the lease agreement and this Article.

16 (2) If the lessor or the lessee is in default under the lease contract, the party seeking  
17 enforcement has rights and remedies as provided in this Article and, except as limited by this  
18 Article, as provided in the lease agreement.

19 (3) If the lessor or the lessee is in default under the lease contract, the party seeking  
20 enforcement may reduce the party's claim to judgment, or otherwise enforce the lease  
21 contract by self-help or any available judicial procedure or nonjudicial procedure, including  
22 administrative proceeding, arbitration, or the like, in accordance with this Article.

23 (4) Except as otherwise provided in Section [1-106(1)] 1-305(a) or this Article or the  
24 lease agreement, the rights and remedies referred to in subsections (2) and (3) are cumulative.

25 (5) If the lease agreement covers both real property and goods, the party seeking  
26 enforcement may proceed under this part as to the goods, or under other applicable law as to  
27 both the real property and the goods in accordance with that party's rights and remedies in  
28 respect of the real property, in which case this part does not apply.

29 § 20. Subsection (2) of section 2-A-514 of part 5 of article 2A of the uniform commercial code is  
30 amended to read as follows:

1           (2) A lessee’s failure to reserve rights when paying rent or other consideration against  
2 documents precludes recovery of the payment for defects apparent [on the face of] in the  
3 documents.

4 § 21. Subsection (2) of section 2-A-518 of part 5 of article 2A of the uniform commercial code is  
5 amended to read as follows:

6           (2) Except as otherwise provided with respect to damages liquidated in the lease  
7 agreement (Section 2A–504) or otherwise determined pursuant to agreement of the parties  
8 (Sections [1–102(3)] 1-302 and 2A–503), if a lessee’s cover is by a lease agreement  
9 substantially similar to the original lease agreement and the new lease agreement is made in  
10 good faith and in a commercially reasonable manner, the lessee may recover from the lessor  
11 as damages (i) the present value, as of the date of the commencement of the term of the new  
12 lease agreement, of the rent under the new lease agreement applicable to that period of the  
13 new lease term which is comparable to the then remaining term of the original lease  
14 agreement minus the present value as of the same date of the total rent for the then remaining  
15 lease term of the original lease agreement, and (ii) any incidental or consequential damages,  
16 less expenses saved in consequence of the lessor’s default.

17 § 22. Subsection (1) of section 2-A-519 of part 5 of article 2A of the uniform commercial code is  
18 amended to read as follows:

19           (1) Except as otherwise provided with respect to damages liquidated in the lease  
20 agreement (Section 2A–504) or otherwise determined pursuant to agreement of the parties  
21 (Sections [1–102(3)] 1-302 and 2A–503), if a lessee elects not to cover or a lessee elects to  
22 cover and the cover is by lease agreement that for any reason does not qualify for treatment  
23 under Section 2A–518(2), or is by purchase or otherwise, the measure of damages for non-  
24 delivery or repudiation by the lessor or for rejection or revocation of acceptance by the lessee  
25 is the present value, as of the date of the default, of the then market rent minus the present  
26 value as of the same date of the original rent, computed for the remaining lease term of the  
27 original lease agreement, together with incidental and consequential damages, less expenses  
28 saved in consequence of the lessor’s default.

29 § 23. Paragraph (c) of subsection (2) of section 2-A-526 of part 5 of article 2A of the uniform  
30 commercial code is amended to read as follows:

1 (1) A lessor may stop delivery of goods in the possession of a carrier or other bailee if  
2 the lessor discovers the lessee to be insolvent and may stop delivery of carload, truckload,  
3 planeload, or larger shipments of express or freight if the lessee repudiates or fails to make a  
4 payment due before delivery, whether for rent, security or otherwise under the lease contract,  
5 or for any other reason the lessor has a right to withhold or take possession of the goods.

6 (2) In pursuing its remedies under subsection (1), the lessor may stop delivery until:

7 (a) receipt of the goods by the lessee;

8 (b) acknowledgment to the lessee by any bailee of the goods, except a carrier, that the  
9 bailee holds the goods for the lessee; or

10 (c) such an acknowledgment to the lessee by a carrier via reshipment or as a  
11 warehouse[man].

12 § 24. Subsection (2) of section 2-A-527 of part 5 of article 2A of the uniform commercial code is  
13 amended to read as follows:

14 (2) Except as otherwise provided with respect to damages liquidated in the lease  
15 agreement (Section 2A-504) or otherwise determined pursuant to agreement of the parties  
16 (Sections [1-102(3)] 1-302 and 2A-503), if the disposition is by lease agreement  
17 substantially similar to the original lease agreement and the new lease agreement is made in  
18 good faith and in a commercially reasonable manner, the lessor may recover from the lessee  
19 as damages (i) accrued and unpaid rent as of the date of the commencement of the term of the  
20 new lease agreement, (ii) the present value, as of the same date, of the total rent for the then  
21 remaining lease term of the original lease agreement minus the present value, as of the same  
22 date, of the rent under the new lease agreement applicable to that period of the new lease  
23 term which is comparable to the then remaining term of the original lease agreement, and (iii)  
24 any incidental damages allowed under Section 2A-530, less expenses saved in consequence  
25 of the lessee's default.

26 § 25. Subsection (1) of section 2-A-528 of part 5 of article 2A of the uniform commercial code is  
27 amended to read as follows:

28 (1) Except as otherwise provided with respect to damages liquidated in the lease  
29 agreement (Section 2A-504) or otherwise determined pursuant to agreement of the parties  
30 (Sections [1-102(3)] 1-302 and 2A-503), if a lessor elects to retain the goods or a lessor

1 elects to dispose of the goods and the disposition is by lease agreement that for any reason  
2 does not qualify for treatment under Section 2A-527(2), or is by sale or otherwise, the lessor  
3 may recover from the lessee as damages for a default of the type described in Section 2A-  
4 523(1) or 2A-523(3)(a), or, if agreed, for other default of the lessee, (i) accrued and unpaid  
5 rent as of the date of default if the lessee has never taken possession of the goods, or, if the  
6 lessee has taken possession of the goods, as of the date the lessor repossesses the goods or an  
7 earlier date on which the lessee makes a tender of the goods to the lessor, (ii) the present  
8 value as of the date determined under clause (i) of the total rent for the then remaining lease  
9 term of the original lease agreement minus the present value as of the same date of the  
10 market rent at the place where the goods are located computed for the same lease term, and  
11 (iii) any incidental damages allowed under Section 2A-530, less expenses saved in  
12 consequence of the lessee's default.

13

1 § 26. Article 3 of the uniform commercial code is REPEALED and a new article 3 is added to  
2 read as follows

3 **ARTICLE 3 – NEGOTIABLE INSTRUMENTS**

4 **PART 1**

5 **GENERAL PROVISIONS AND DEFINITIONS**

6 **SECTION 3–101. SHORT TITLE.**

7 This Article may be cited as Uniform Commercial Code—Negotiable Instruments.

8 **§ 3–102. SUBJECT MATTER.**

9 (a) This Article applies to negotiable instruments. It does not apply to money, to  
10 payment orders governed by Article 4A, or to securities governed by Article 8.

11 (b) If there is conflict between this Article and Article 4 or 9, Articles 4 and 9 govern.

12 (c) Regulations of the Board of Governors of the Federal Reserve System and operating  
13 circulares of the Federal Reserve Banks supersede any inconsistent provision of this Article to  
14 the extent of the inconsistency.

15 **§3-103. DEFINITIONS.**

16 (a) In this Article:

17 (1) “Acceptor” means a drawee who has accepted a draft.

18 (2) “Consumer account” means an account established by an individual primarily for  
19 personal, family, or household purposes.

20 (3) “Consumer transaction” means a transaction in which an individual incurs an  
21 obligation primarily for personal, family, or household purposes.

22 (4) “Drawee” means a person ordered in a draft to make payment.

23 (5) “Drawer” means a person who signs or is identified in a draft as a person  
24 ordering payment.

25 (6) “Good faith” means honesty in fact and the observance of reasonable commercial  
26 standards of fair dealing.

27 (7) “Maker” means a person who signs or is identified in a note as a person  
28 undertaking to pay.

29 (8) “Order” means a written instruction to pay money signed by the person giving the  
30 instruction. The instruction may be addressed to any person, including the person giving  
31 the instruction, or to one or more persons jointly or in the alternative but not in

1 succession. An authorization to pay is not an order unless the person authorized to pay is  
2 also instructed to pay.

3 (9) “Ordinary care” in the case of a person engaged in business means observance of  
4 reasonable commercial standards, prevailing in the area in which the person is located,  
5 with respect to the business in which the person is engaged. In the case of a bank that  
6 takes an instrument for processing for collection or payment by automated means,  
7 reasonable commercial standards do not require the bank to examine the instrument if the  
8 failure to examine does not violate the bank’s prescribed procedures and the bank’s  
9 procedures do not vary unreasonably from general banking usage not disapproved by this  
10 Article or Article 4.

11 (10) “Party” means a party to an instrument.

12 (11) “Principal obligor,” with respect to an instrument, means the accommodated  
13 party or any other party to the instrument against whom a secondary obligor has recourse  
14 under this article.

15 (12) “Promise” means a written undertaking to pay money signed by the person  
16 undertaking to pay. An acknowledgment of an obligation by the obligor is not a promise  
17 unless the obligor also undertakes to pay the obligation.

18 (13) “Prove” with respect to a fact means to meet the burden of establishing the fact  
19 (Section 1-201(b)(8)).

20 (14) [Reserved]

21 (15) “Remitter” means a person who purchases an instrument from its issuer if the  
22 instrument is payable to an identified person other than the purchaser.

23 (16) “Remotely-created consumer item” means an item drawn on a consumer  
24 account, which is not created by the payor bank and does not bear a handwritten signature  
25 purporting to be the signature of the drawer.

26 (17) “Secondary obligor,” with respect to an instrument, means (a) an indorser or an  
27 accommodation party, (b) a drawer having the obligation described in Section 3-414(d),  
28 or (c) any other party to the instrument that has recourse against another party to the  
29 instrument pursuant to Section 3-116(b).

30 (b) Other definitions applying to this Article and the sections in which they appear are:  
31 “Acceptance” ..... Section 3-409

1	<u>“Accommodated party”</u> .....	Section 3-419
2	<u>“Accommodation party”</u> .....	Section 3-419
3	<u>“Account”</u> .....	Section 4-104
4	<u>“Alteration”</u> .....	Section 3-407
5	<u>“Anomalous indorsement”</u> .....	Section 3-205
6	<u>“Blank indorsement”</u> .....	Section 3-205
7	<u>“Cashier’s check”</u> .....	Section 3-104
8	<u>“Certificate of deposit”</u> .....	Section 3-104
9	<u>“Certified check”</u> .....	Section 3-409
10	<u>“Check”</u> .....	Section 3-104
11	<u>“Consideration”</u> .....	Section 3-303
12	<u>“Draft”</u> .....	Section 3-104
13	<u>“Holder in due course”</u> .....	Section 3-302
14	<u>“Incomplete instrument”</u> .....	Section 3-115
15	<u>“Indorsement”</u> .....	Section 3-204
16	<u>“Indorser”</u> .....	Section 3-204
17	<u>“Instrument”</u> .....	Section 3-104
18	<u>“Issue”</u> .....	Section 3-105
19	<u>“Issuer”</u> .....	Section 3-105
20	<u>“Negotiable instrument”</u> .....	Section 3-104
21	<u>“Negotiation”</u> .....	Section 3-201
22	<u>“Note”</u> .....	Section 3-104
23	<u>“Payable at a definite time”</u> .....	Section 3-108
24	<u>“Payable on demand”</u> .....	Section 3-108
25	<u>“Payable to bearer”</u> .....	Section 3-109
26	<u>“Payable to order”</u> .....	Section 3-109
27	<u>“Payment”</u> .....	Section 3-602
28	<u>“Person entitled to enforce”</u> .....	Section 3-301
29	<u>“Presentment”</u> .....	Section 3-501
30	<u>“Reacquisition”</u> .....	Section 3-207
31	<u>“Special indorsement”</u> .....	Section 3-205

1      “Teller’s check” .....Section 3-104  
2      “Transfer of instrument” .....Section 3-203  
3      “Traveler’s check” .....Section 3-104  
4      “Value”. .....Section 3-303

5           (c) The following definitions in other Articles apply to this Article:

6      “Banking day”.....Section 4-104  
7      “Clearing house”.....Section 4-104  
8      “Collecting bank”.....Section 4-105  
9      “Depositary bank”.....Section 4-105  
10     “Documentary draft”.....Section 4-104  
11     “Intermediary bank”.....Section 4-105  
12     “Item”.....Section 4-104  
13     “Payor bank”.....Section 4-105  
14     “Suspends payments”.....Section 4-104

15           (d) In addition, Article 1 contains general definitions and principles of construction and  
16           interpretation applicable throughout this Article.

17     **§3-104. NEGOTIABLE INSTRUMENT.**

18           (a) Except as provided in subsections (c) and (d), “negotiable instrument” means an  
19           unconditional promise or order to pay a fixed amount of money, with or without interest or  
20           other charges described in the promise or order, if it:

21                   (1) is payable to bearer or to order at the time it is issued or first comes into  
22                   possession of a holder;

23                   (2) is payable on demand or at a definite time; and

24                   (3) does not state any other undertaking or instruction by the person promising or  
25                   ordering payment to do any act in addition to the payment of money, but the promise or  
26                   order may contain (i) an undertaking or power to give, maintain, or protect collateral to  
27                   secure payment, (ii) an authorization or power to the holder to confess judgment or  
28                   realize on or dispose of collateral, or (iii) a waiver of the benefit of any law intended for  
29                   the advantage or protection of an obligor.

30           (b) “Instrument” means a negotiable instrument.

1           (c) An order that meets all of the requirements of subsection (a), except paragraph (1),  
2           and otherwise falls within the definition of “check” in subsection (f) is a negotiable  
3           instrument and a check.

4           (d) A promise or order other than a check is not an instrument if, at the time it is issued  
5           or first comes into possession of a holder, it contains a conspicuous statement, however  
6           expressed, to the effect that the promise or order is not negotiable or is not an instrument  
7           governed by this Article.

8           (e) An instrument is a “note” if it is a promise and is a “draft” if it is an order. If an  
9           instrument falls within the definition of both “note” and “draft,” a person entitled to enforce  
10           the instrument may treat it as either.

11           (f) “Check” means (i) a draft, other than a documentary draft, payable on demand and  
12           drawn on a bank or (ii) a cashier’s check or teller’s check. An instrument may be a check  
13           even though it is described on its face by another term, such as “money order.”

14           (g) “Cashier’s check” means a draft with respect to which the drawer and drawee are the  
15           same bank or branches of the same bank.

16           (h) “Teller’s check” means a draft drawn by a bank (i) on another bank, or (ii) payable at  
17           or through a bank.

18           (i) “Traveler’s check” means an instrument that (i) is payable on demand, (ii) is drawn  
19           on or payable at or through a bank, (iii) is designated by the term “traveler’s check” or by a  
20           substantially similar term, and (iv) requires, as a condition to payment, a countersignature by  
21           a person whose specimen signature appears on the instrument.

22           (j) “Certificate of deposit” means an instrument containing an acknowledgment by a  
23           bank that a sum of money has been received by the bank and a promise by the bank to repay  
24           the sum of money. A certificate of deposit is a note of the bank.

25           **§3-105. ISSUE OF INSTRUMENT.**

26           (a) “Issue” means the first delivery of an instrument by the maker or drawer, whether to  
27           a holder or nonholder, for the purpose of giving rights on the instrument to any person.

28           (b) An unissued instrument, or an unissued incomplete instrument that is completed, is  
29           binding on the maker or drawer, but nonissuance is a defense. An instrument that is  
30           conditionally issued or is issued for a special purpose is binding on the maker or drawer, but  
31           failure of the condition or special purpose to be fulfilled is a defense.

1           (c) “Issuer” applies to issued and unissued instruments and means a maker or drawer of  
2           an instrument.

3 **§3-106. UNCONDITIONAL PROMISE OR ORDER.**

4           (a) Except as provided in this section, for the purposes of Section 3-104(a), a promise or  
5           order is unconditional unless it states (i) an express condition to payment, (ii) that the  
6           promise or order is subject to or governed by another record, or (iii) that rights or obligations  
7           with respect to the promise or order are stated in another record. A reference to another  
8           record does not of itself make the promise or order conditional.

9           (b) A promise or order is not made conditional (i) by a reference to another record for a  
10           statement of rights with respect to collateral, prepayment, or acceleration, or (ii) because  
11           payment is limited to resort to a particular fund or source.

12           (c) If a promise or order requires, as a condition to payment, a countersignature by a  
13           person whose specimen signature appears on the promise or order, the condition does not  
14           make the promise or order conditional for the purposes of Section 3-104(a). If the person  
15           whose specimen signature appears on an instrument fails to countersign the instrument, the  
16           failure to countersign is a defense to the obligation of the issuer, but the failure does not  
17           prevent a transferee of the instrument from becoming a holder of the instrument.

18           (d) If a promise or order at the time it is issued or first comes into possession of a holder  
19           contains a statement, required by applicable statutory or administrative law, to the effect that  
20           the rights of a holder or transferee are subject to claims or defenses that the issuer could  
21           assert against the original payee, the promise or order is not thereby made conditional for the  
22           purposes of Section 3-104(a); but if the promise or order is an instrument, there cannot be a  
23           holder in due course of the instrument.

24 **§3-107. INSTRUMENT PAYABLE IN FOREIGN MONEY.**

25           Unless the instrument otherwise provides, an instrument that states the amount payable in  
26           foreign money may be paid in the foreign money or in an equivalent amount in dollars calculated  
27           by using the current bank-offered spot rate at the place of payment for the purchase of dollars on  
28           the day on which the instrument is paid.

1 **§3-108. PAYABLE ON DEMAND OR AT DEFINITE TIME.**

2 (a) A promise or order is “payable on demand” if it (i) states that it is payable on demand  
3 or at sight, or otherwise indicates that it is payable at the will of the holder, or (ii) does not  
4 state any time of payment.

5 (b) A promise or order is “payable at a definite time” if it is payable on elapse of a  
6 definite period of time after sight or acceptance or at a fixed date or dates or at a time or  
7 times readily ascertainable at the time the promise or order is issued, subject to rights of (i)  
8 prepayment, (ii) acceleration, (iii) extension at the option of the holder, or (iv) extension to a  
9 further definite time at the option of the maker or acceptor or automatically upon or after a  
10 specified act or event.

11 (c) If an instrument, payable at a fixed date, is also payable upon demand made before  
12 the fixed date, the instrument is payable on demand until the fixed date and, if demand for  
13 payment is not made before that date, becomes payable at a definite time on the fixed date.

14 **§3-109. PAYABLE TO BEARER OR TO ORDER.**

15 (a) A promise or order is payable to bearer if it:

16 (1) states that it is payable to bearer or to the order of bearer or otherwise indicates  
17 that the person in possession of the promise or order is entitled to payment;

18 (2) does not state a payee; or

19 (3) states that it is payable to or to the order of cash or otherwise indicates that it is  
20 not payable to an identified person.

21 (b) A promise or order that is not payable to bearer is payable to order if it is payable (i)  
22 to the order of an identified person or (ii) to an identified person or order. A promise or order  
23 that is payable to order is payable to the identified person.

24 (c) An instrument payable to bearer may become payable to an identified person if it is  
25 specially indorsed pursuant to Section 3-205(a). An instrument payable to an identified  
26 person may become payable to bearer if it is indorsed in blank pursuant to Section 3-205(b).

27 **§3-110. IDENTIFICATION OF PERSON TO WHOM INSTRUMENT IS PAYABLE.**

28 (a) The person to whom an instrument is initially payable is determined by the intent of  
29 the person, whether or not authorized, signing as, or in the name or behalf of, the issuer of the  
30 instrument. The instrument is payable to the person intended by the signer even if that  
31 person is identified in the instrument by a name or other identification that is not that of the

1 intended person. If more than one person signs in the name or behalf of the issuer of an  
2 instrument and all the signers do not intend the same person as payee, the instrument is  
3 payable to any person intended by one or more of the signers.

4 (b) If the signature of the issuer of an instrument is made by automated means, such as a  
5 check-writing machine, the payee of the instrument is determined by the intent of the person  
6 who supplied the name or identification of the payee, whether or not authorized to do so.

7 (c) A person to whom an instrument is payable may be identified in any way, including  
8 by name, identifying number, office, or account number. For the purpose of determining the  
9 holder of an instrument, the following rules apply:

10 (1) If an instrument is payable to an account and the account is identified only by  
11 number, the instrument is payable to the person to whom the account is payable. If an  
12 instrument is payable to an account identified by number and by the name of a person,  
13 the instrument is payable to the named person, whether or not that person is the owner of  
14 the account identified by number.

15 (2) If an instrument is payable to:

16 (i) a trust, an estate, or a person described as trustee or representative of a trust or  
17 estate, the instrument is payable to the trustee, the representative, or a successor of  
18 either, whether or not the beneficiary or estate is also named;

19 (ii) a person described as agent or similar representative of a named or identified  
20 person, the instrument is payable to the represented person, the representative, or a  
21 successor of the representative;

22 (iii) a fund or organization that is not a legal entity, the instrument is payable to a  
23 representative of the members of the fund or organization; or

24 (iv) an office or to a person described as holding an office, the instrument is  
25 payable to the named person, the incumbent of the office, or a successor to the  
26 incumbent.

27 (d) If an instrument is payable to two or more persons alternatively, it is payable to any  
28 of them and may be negotiated, discharged, or enforced by any or all of them in possession  
29 of the instrument. If an instrument is payable to two or more persons not alternatively, it is  
30 payable to all of them and may be negotiated, discharged, or enforced only by all of them. If

1 an instrument payable to two or more persons is ambiguous as to whether it is payable to the  
2 persons alternatively, the instrument is payable to the persons alternatively.

3 **§3-111. PLACE OF PAYMENT.**

4 Except as otherwise provided for items in Article 4, an instrument is payable at the place of  
5 payment stated in the instrument. If no place of payment is stated, an instrument is payable at  
6 the address of the drawee or maker stated in the instrument. If no address is stated, the place of  
7 payment is the place of business of the drawee or maker. If a drawee or maker has more than  
8 one place of business, the place of payment is any place of business of the drawee or maker  
9 chosen by the person entitled to enforce the instrument. If the drawee or maker has no place of  
10 business, the place of payment is the residence of the drawee or maker.

11 **§3-112. INTEREST.**

12 (a) Unless otherwise provided in the instrument, (i) an instrument is not payable with  
13 interest, and (ii) interest on an interest-bearing instrument is payable from the date of the  
14 instrument.

15 (b) Interest may be stated in an instrument as a fixed or variable amount of money or it  
16 may be expressed as a fixed or variable rate or rates. The amount or rate of interest may be  
17 stated or described in the instrument in any manner and may require reference to information  
18 not contained in the instrument. If an instrument provides for interest, but the amount of  
19 interest payable cannot be ascertained from the description, interest is payable at the  
20 judgment rate in effect at the place of payment of the instrument and at the time interest first  
21 accrues.

22 **§3-113. DATE OF INSTRUMENT.**

23 (a) An instrument may be antedated or postdated. The date stated determines the time of  
24 payment if the instrument is payable at a fixed period after date. Except as provided in  
25 Section 4-401(c), an instrument payable on demand is not payable before the date of the  
26 instrument.

27 (b) If an instrument is undated, its date is the date of its issue or, in the case of an  
28 unissued instrument, the date it first comes into possession of a holder.

29 **§3-114. CONTRADICTORY TERMS OF INSTRUMENT.**

30 If an instrument contains contradictory terms, typewritten terms prevail over printed terms,  
31 handwritten terms prevail over both, and words prevail over numbers.

1 **§3-115. INCOMPLETE INSTRUMENT.**

2 (a) “Incomplete instrument” means a signed writing, whether or not issued by the signer,  
3 the contents of which show at the time of signing that it is incomplete but that the signer  
4 intended it to be completed by the addition of words or numbers.

5 (b) Subject to subsection (c), if an incomplete instrument is an instrument under Section  
6 3-104, it may be enforced according to its terms if it is not completed, or according to its  
7 terms as augmented by completion. If an incomplete instrument is not an instrument under  
8 Section 3-104, but, after completion, the requirements of Section 3-104 are met, the  
9 instrument may be enforced according to its terms as augmented by completion.

10 (c) If words or numbers are added to an incomplete instrument without authority of the  
11 signer, there is an alteration of the incomplete instrument under Section 3-407.

12 (d) The burden of establishing that words or numbers were added to an incomplete  
13 instrument without authority of the signer is on the person asserting the lack of authority.

14 **§3-116. JOINT AND SEVERAL LIABILITY; CONTRIBUTION.**

15 (a) Except as otherwise provided in the instrument, two or more persons who have the  
16 same liability on an instrument as makers, drawers, acceptors, indorsers who indorse as joint  
17 payees, or anomalous indorsers are jointly and severally liable in the capacity in which they  
18 sign.

19 (b) Except as provided in Section 3-419(f) or by agreement of the affected parties, a  
20 party having joint and several liability who pays the instrument is entitled to receive from  
21 any party having the same joint and several liability contribution in accordance with  
22 applicable law.

23 **§3-117. OTHER AGREEMENTS AFFECTING INSTRUMENT.**

24 Subject to applicable law regarding exclusion of proof of contemporaneous or previous  
25 agreements, the obligation of a party to an instrument to pay the instrument may be modified,  
26 supplemented, or nullified by a separate agreement of the obligor and a person entitled to enforce  
27 the instrument, if the instrument is issued or the obligation is incurred in reliance on the  
28 agreement or as part of the same transaction giving rise to the agreement. To the extent an  
29 obligation is modified, supplemented, or nullified by an agreement under this section, the  
30 agreement is a defense to the obligation.

1 **§3-118. STATUTE OF LIMITATIONS.**

2 (a) Except as provided in subsection (e), an action to enforce the obligation of a party to  
3 pay a note payable at a definite time must be commenced within six years after the due date  
4 or dates stated in the note or, if a due date is accelerated, within six years after the accelerated  
5 due date.

6 (b) Except as provided in subsection (d) or (e), if demand for payment is made to the  
7 maker of a note payable on demand, an action to enforce the obligation of a party to pay the  
8 note must be commenced within six years after the demand. If no demand for payment is  
9 made to the maker, an action to enforce the note is barred if neither principal nor interest on  
10 the note has been paid for a continuous period of 10 years.

11 (c) Except as provided in subsection (d), an action to enforce the obligation of a party to  
12 an unaccepted draft to pay the draft must be commenced within three years after dishonor of  
13 the draft or 10 years after the date of the draft, whichever period expires first.

14 (d) An action to enforce the obligation of the acceptor of a certified check or the issuer of  
15 a teller's check, cashier's check, or traveler's check must be commenced within three years  
16 after demand for payment is made to the acceptor or issuer, as the case may be.

17 (e) An action to enforce the obligation of a party to a certificate of deposit to pay the  
18 instrument must be commenced within six years after demand for payment is made to the  
19 maker, but if the instrument states a due date and the maker is not required to pay before that  
20 date, the six-year period begins when a demand for payment is in effect and the due date has  
21 passed.

22 (f) An action to enforce the obligation of a party to pay an accepted draft, other than a  
23 certified check, must be commenced (i) within six years after the due date or dates stated in  
24 the draft or acceptance if the obligation of the acceptor is payable at a definite time, or (ii)  
25 within six years after the date of the acceptance if the obligation of the acceptor is payable on  
26 demand.

27 (g) Unless governed by other law regarding claims for indemnity or contribution, an  
28 action (i) for conversion of an instrument, for money had and received, or like action based  
29 on conversion, (ii) for breach of warranty, or (iii) to enforce an obligation, duty, or right  
30 arising under this Article and not governed by this section must be commenced within three  
31 years after the cause of action accrues.

1 **§3-119. NOTICE OF RIGHT TO DEFEND ACTION.**

2 In an action for breach of an obligation for which a third person is answerable over pursuant  
3 to this Article or Article 4, the defendant may give the third person notice of the litigation in a  
4 record, and the person notified may then give similar notice to any other person who is  
5 answerable over. If the notice states (i) that the person notified may come in and defend and (ii)  
6 that failure to do so will bind the person notified in an action later brought by the person giving  
7 the notice as to any determination of fact common to the two litigations, the person notified is so  
8 bound unless after seasonable receipt of the notice the person notified does come in and defend.

9 **PART 2**

10 **NEGOTIATION, TRANSFER, AND INDORSEMENT**

11 **§3-201. NEGOTIATION.**

12 (a) “Negotiation” means a transfer of possession, whether voluntary or involuntary, of an  
13 instrument by a person other than the issuer to a person who thereby becomes its holder.

14 (b) Except for negotiation by a remitter, if an instrument is payable to an identified  
15 person, negotiation requires transfer of possession of the instrument and its indorsement by  
16 the holder. If an instrument is payable to bearer, it may be negotiated by transfer of  
17 possession alone.

18 **§3-202. NEGOTIATION SUBJECT TO RESCISSION.**

19 (a) Negotiation is effective even if obtained (i) from an infant, a corporation exceeding  
20 its powers, or a person without capacity, (ii) by fraud, duress, or mistake, or (iii) in breach of  
21 duty or as part of an illegal transaction.

22 (b) To the extent permitted by other law, negotiation may be rescinded or may be subject  
23 to other remedies, but those remedies may not be asserted against a subsequent holder in due  
24 course or a person paying the instrument in good faith and without knowledge of facts that  
25 are a basis for rescission or other remedy.

26 **§3-203. TRANSFER OF INSTRUMENT; RIGHTS ACQUIRED BY TRANSFER.**

27 (a) An instrument is transferred when it is delivered by a person other than its issuer for  
28 the purpose of giving to the person receiving delivery the right to enforce the instrument.

29 (b) Transfer of an instrument, whether or not the transfer is a negotiation, vests in the  
30 transferee any right of the transferor to enforce the instrument, including any right as a holder  
31 in due course, but the transferee cannot acquire rights of a holder in due course by a transfer,

1 directly or indirectly, from a holder in due course if the transferee engaged in fraud or  
2 illegality affecting the instrument.

3 (c) Unless otherwise agreed, if an instrument is transferred for value and the transferee  
4 does not become a holder because of lack of indorsement by the transferor, the transferee has  
5 a specifically enforceable right to the unqualified indorsement of the transferor, but  
6 negotiation of the instrument does not occur until the indorsement is made.

7 (d) If a transferor purports to transfer less than the entire instrument, negotiation of the  
8 instrument does not occur. The transferee obtains no rights under this Article and has only  
9 the rights of a partial assignee.

10 **§3-204. INDORSEMENT.**

11 (a) “Indorsement” means a signature, other than that of a signer as maker, drawer, or  
12 acceptor, that alone or accompanied by other words is made on an instrument for the purpose  
13 of (i) negotiating the instrument, (ii) restricting payment of the instrument, or (iii) incurring  
14 indorser’s liability on the instrument, but regardless of the intent of the signer, a signature  
15 and its accompanying words is an indorsement unless the accompanying words, terms of the  
16 instrument, place of the signature, or other circumstances unambiguously indicate that the  
17 signature was made for a purpose other than indorsement. For the purpose of determining  
18 whether a signature is made on an instrument, a paper affixed to the instrument is a part of  
19 the instrument.

20 (b) “Indorser” means a person who makes an indorsement.

21 (c) For the purpose of determining whether the transferee of an instrument is a holder, an  
22 indorsement that transfers a security interest in the instrument is effective as an unqualified  
23 indorsement of the instrument.

24 (d) If an instrument is payable to a holder under a name that is not the name of the  
25 holder, indorsement may be made by the holder in the name stated in the instrument or in the  
26 holder’s name or both, but signature in both names may be required by a person paying or  
27 taking the instrument for value or collection.

28 **§3-205. SPECIAL INDORSEMENT; BLANK INDORSEMENT; ANOMALOUS**  
29 **INDORSEMENT.**

30 (a) If an indorsement is made by the holder of an instrument, whether payable to an  
31 identified person or payable to bearer, and the indorsement identifies a person to whom it

1 makes the instrument payable, it is a “special indorsement.” When specially indorsed, an  
2 instrument becomes payable to the identified person and may be negotiated only by the  
3 indorsement of that person. The principles stated in Section 3–110 apply to special  
4 indorsements.

5 (b) If an indorsement is made by the holder of an instrument and it is not a special  
6 indorsement, it is a “blank indorsement.” When indorsed in blank, an instrument becomes  
7 payable to bearer and may be negotiated by transfer of possession alone until specially  
8 indorsed.

9 (c) The holder may convert a blank indorsement that consists only of a signature into a  
10 special indorsement by writing, above the signature of the indorser, words identifying the  
11 person to whom the instrument is made payable.

12 (d) “Anomalous indorsement” means an indorsement made by a person who is not the  
13 holder of the instrument. An anomalous indorsement does not affect the manner in which the  
14 instrument may be negotiated.

15 **§3–206. RESTRICTIVE INDORSEMENT.**

16 (a) An indorsement limiting payment to a particular person or otherwise prohibiting  
17 further transfer or negotiation of the instrument is not effective to prevent further transfer or  
18 negotiation of the instrument.

19 (b) An indorsement stating a condition to the right of the indorsee to receive payment  
20 does not affect the right of the indorsee to enforce the instrument. A person paying the  
21 instrument or taking it for value or collection may disregard the condition, and the rights and  
22 liabilities of that person are not affected by whether the condition has been fulfilled.

23 (c) If an instrument bears an indorsement (i) described in Section 4–201(b), or (ii) in  
24 blank or to a particular bank using the words “for deposit,” “for collection,” or other words  
25 indicating a purpose of having the instrument collected by a bank for the indorser or for a  
26 particular account, the following rules apply:

27 (1) A person, other than a bank, who purchases the instrument when so indorsed  
28 converts the instrument unless the amount paid for the instrument is received by the  
29 indorser or applied consistently with the indorsement.

1           (2) A depository bank that purchases the instrument or takes it for collection when so  
2           indorsed converts the instrument unless the amount paid by the bank with respect to the  
3           instrument is received by the indorser or applied consistently with the indorsement.

4           (3) A payor bank that is also the depository bank or that takes the instrument for  
5           immediate payment over the counter from a person other than a collecting bank converts  
6           the instrument unless the proceeds of the instrument are received by the indorser or  
7           applied consistently with the indorsement.

8           (4) Except as otherwise provided in paragraph (3), a payor bank or intermediary bank  
9           may disregard the indorsement and is not liable if the proceeds of the instrument are not  
10           received by the indorser or applied consistently with the indorsement.

11           (d) Except for an indorsement covered by subsection (c), if an instrument bears an  
12           indorsement using words to the effect that payment is to be made to the indorsee as agent,  
13           trustee, or other fiduciary for the benefit of the indorser or another person, the following rules  
14           apply:

15           (1) Unless there is notice of breach of fiduciary duty as provided in Section 3–307, a  
16           person who purchases the instrument from the indorsee or takes the instrument from the  
17           indorsee for collection or payment may pay the proceeds of payment or the value given  
18           for the instrument to the indorsee without regard to whether the indorsee violates a  
19           fiduciary duty to the indorser.

20           (2) A subsequent transferee of the instrument or person who pays the instrument is  
21           neither given notice nor otherwise affected by the restriction in the indorsement unless  
22           the transferee or payor knows that the fiduciary dealt with the instrument or its proceeds  
23           in breach of fiduciary duty.

24           (e) The presence on an instrument of an indorsement to which this section applies does  
25           not prevent a purchaser of the instrument from becoming a holder in due course of the  
26           instrument unless the purchaser is a converter under subsection (c) or has notice or  
27           knowledge of breach of fiduciary duty as stated in subsection (d).

28           (f) In an action to enforce the obligation of a party to pay the instrument, the obligor has  
29           a defense if payment would violate an indorsement to which this section applies and the  
30           payment is not permitted by this section.

1 **§3–207. REACQUISITION.**

2 Reacquisition of an instrument occurs if it is transferred to a former holder, by negotiation or  
3 otherwise. A former holder who reacquires the instrument may cancel indorsements made after  
4 the reacquirer first became a holder of the instrument. If the cancellation causes the instrument  
5 to be payable to the reacquirer or to bearer, the reacquirer may negotiate the instrument. An  
6 indorser whose indorsement is canceled is discharged, and the discharge is effective against any  
7 subsequent holder.

8 **PART 3**

9 **ENFORCEMENT OF INSTRUMENTS**

10 **§3–301. PERSON ENTITLED TO ENFORCE INSTRUMENT.**

11 “Person entitled to enforce” an instrument means (i) the holder of the instrument, (ii) a  
12 nonholder in possession of the instrument who has the rights of a holder, or (iii) a person not in  
13 possession of the instrument who is entitled to enforce the instrument pursuant to Section 3–309  
14 or 3–418(d). A person may be a person entitled to enforce the instrument even though the person  
15 is not the owner of the instrument or is in wrongful possession of the instrument.

16 **§3–302. HOLDER IN DUE COURSE.**

17 (a) Subject to subsection (c) and Section 3–106(d), “holder in due course” means the  
18 holder of an instrument if:

19 (1) the instrument when issued or negotiated to the holder does not bear such  
20 apparent evidence of forgery or alteration or is not otherwise so irregular or incomplete as  
21 to call into question its authenticity; and

22 (2) the holder took the instrument (i) for value, (ii) in good faith, (iii) without notice  
23 that the instrument is overdue or has been dishonored or that there is an uncured default  
24 with respect to payment of another instrument issued as part of the same series, (iv)  
25 without notice that the instrument contains an unauthorized signature or has been altered,  
26 (v) without notice of any claim to the instrument described in Section 3–306, and (vi)  
27 without notice that any party has a defense or claim in recoupment described in Section  
28 3–305(a).

29 (b) Notice of discharge of a party, other than discharge in an insolvency proceeding, is  
30 not notice of a defense under subsection (a), but discharge is effective against a person who  
31 became a holder in due course with notice of the discharge. Public filing or recording of a

1 document does not of itself constitute notice of a defense, claim in recoupment, or claim to  
2 the instrument.

3 (c) Except to the extent a transferor or predecessor in interest has rights as a holder in  
4 due course, a person does not acquire rights of a holder in due course of an instrument taken  
5 (i) by legal process or by purchase in an execution, bankruptcy, or creditor's sale or similar  
6 proceeding, (ii) by purchase as part of a bulk transaction not in ordinary course of business of  
7 the transferor, or (iii) as the successor in interest to an estate or other organization.

8 (d) If, under Section 3-303(a)(1), the promise of performance that is the consideration  
9 for an instrument has been partially performed, the holder may assert rights as a holder in due  
10 course of the instrument only to the fraction of the amount payable under the instrument  
11 equal to the value of the partial performance divided by the value of the promised  
12 performance.

13 (e) If (i) the person entitled to enforce an instrument has only a security interest in the  
14 instrument and (ii) the person obliged to pay the instrument has a defense, claim in  
15 recoupment, or claim to the instrument that may be asserted against the person who granted  
16 the security interest, the person entitled to enforce the instrument may assert rights as a  
17 holder in due course only to an amount payable under the instrument which, at the time of  
18 enforcement of the instrument, does not exceed the amount of the unpaid obligation secured.

19 (f) To be effective, notice must be received at a time and in a manner that gives a  
20 reasonable opportunity to act on it.

21 (g) This section is subject to any law limiting status as a holder in due course in  
22 particular classes of transactions.

23 **§3-303. VALUE AND CONSIDERATION.**

24 (a) An instrument is issued or transferred for value if:

25 (1) the instrument is issued or transferred for a promise of performance, to the extent  
26 the promise has been performed;

27 (2) the transferee acquires a security interest or other lien in the instrument other than  
28 a lien obtained by judicial proceeding;

29 (3) the instrument is issued or transferred as payment of, or as security for, an  
30 antecedent claim against any person, whether or not the claim is due;

31 (4) the instrument is issued or transferred in exchange for a negotiable instrument; or

1           (5) the instrument is issued or transferred in exchange for the incurring of an  
2           irrevocable obligation to a third party by the person taking the instrument.

3           (b) “Consideration” means any consideration sufficient to support a simple contract. The  
4           drawer or maker of an instrument has a defense if the instrument is issued without  
5           consideration. If an instrument is issued for a promise of performance, the issuer has a  
6           defense to the extent performance of the promise is due and the promise has not been  
7           performed. If an instrument is issued for value as stated in subsection (a), the instrument is  
8           also issued for consideration.

9           **§3-304. OVERDUE INSTRUMENT.**

10           (a) An instrument payable on demand becomes overdue at the earliest of the following  
11           times:

12                   (1) on the day after the day demand for payment is duly made;

13                   (2) if the instrument is a check, 90 days after its date; or

14                   (3) if the instrument is not a check, when the instrument has been outstanding for a  
15           period of time after its date which is unreasonably long under the circumstances of the  
16           particular case in light of the nature of the instrument and usage of the trade.

17           (b) With respect to an instrument payable at a definite time the following rules apply:

18                   (1) If the principal is payable in installments and a due date has not been accelerated,  
19           the instrument becomes overdue upon default under the instrument for nonpayment of an  
20           installment, and the instrument remains overdue until the default is cured.

21                   (2) If the principal is not payable in installments and the due date has not been  
22           accelerated, the instrument becomes overdue on the day after the due date.

23                   (3) If a due date with respect to principal has been accelerated, the instrument  
24           becomes overdue on the day after the accelerated due date.

25           (c) Unless the due date of principal has been accelerated, an instrument does not become  
26           overdue if there is default in payment of interest but no default in payment of principal.

27           **§3-305. DEFENSES AND CLAIMS IN RECOUPMENT; CLAIMS IN CONSUMER**  
28           **TRANSACTIONS.**

29           (a) Except as otherwise provided in this section, the right to enforce the obligation of a  
30           party to pay an instrument is subject to the following:

1           (1) a defense of the obligor based on (i) infancy of the obligor to the extent it is a  
2           defense to a simple contract, (ii) duress, lack of legal capacity, or illegality of the  
3           transaction which, under other law, nullifies the obligation of the obligor, (iii) fraud that  
4           induced the obligor to sign the instrument with neither knowledge nor reasonable  
5           opportunity to learn of its character or its essential terms, or (iv) discharge of the obligor  
6           in insolvency proceedings;

7           (2) a defense of the obligor stated in another section of this Article or a defense of the  
8           obligor that would be available if the person entitled to enforce the instrument were  
9           enforcing a right to payment under a simple contract; and

10           (3) a claim in recoupment of the obligor against the original payee of the instrument  
11           if the claim arose from the transaction that gave rise to the instrument; but the claim of  
12           the obligor may be asserted against a transferee of the instrument only to reduce the  
13           amount owing on the instrument at the time the action is brought.

14           (b) The right of a holder in due course to enforce the obligation of a party to pay the  
15           instrument is subject to defenses of the obligor stated in subsection (a)(1), but is not subject  
16           to defenses of the obligor stated in subsection (a)(2) or claims in recoupment stated in  
17           subsection (a)(3) against a person other than the holder.

18           (c) Except as stated in subsection (d), in an action to enforce the obligation of a party to  
19           pay the instrument, the obligor may not assert against the person entitled to enforce the  
20           instrument a defense, claim in recoupment, or claim to the instrument (Section 3-306) of  
21           another person, but the other person's claim to the instrument may be asserted by the obligor  
22           if the other person is joined in the action and personally asserts the claim against the person  
23           entitled to enforce the instrument. An obligor is not obliged to pay the instrument if the  
24           person seeking enforcement of the instrument does not have rights of a holder in due course  
25           and the obligor proves that the instrument is a lost or stolen instrument.

26           (d) In an action to enforce the obligation of an accommodation party to pay an  
27           instrument, the accommodation party may assert against the person entitled to enforce the  
28           instrument any defense or claim in recoupment under subsection (a) that the accommodated  
29           party could assert against the person entitled to enforce the instrument, except the defenses of  
30           discharge in insolvency proceedings, infancy, and lack of legal capacity.

1           (e) In a consumer transaction, if law other than this article requires that an instrument  
2           include a statement to the effect that the rights of a holder or transferee are subject to a claim  
3           or defense that the issuer could assert against the original payee, and the instrument does not  
4           include such a statement:

5                   (1) the instrument has the same effect as if the instrument included such a statement;

6                   (2) the issuer may assert against the holder or transferee all claims and defenses that  
7                   would have been available if the instrument included such a statement; and

8                   (3) the extent to which claims may be asserted against the holder or transferee is  
9                   determined as if the instrument included such a statement.

10           (f) This section is subject to law other than this article that establishes a different rule for  
11           consumer transactions.

12    **§3-306. CLAIMS TO AN INSTRUMENT.**

13           A person taking an instrument, other than a person having rights of a holder in due course, is  
14           subject to a claim of a property or possessory right in the instrument or its proceeds, including a  
15           claim to rescind a negotiation and to recover the instrument or its proceeds. A person having  
16           rights of a holder in due course takes free of the claim to the instrument.

17    **§3-307. NOTICE OF BREACH OF FIDUCIARY DUTY.**

18           (a) In this section:

19                   (1) “Fiduciary” means an agent, trustee, partner, corporate officer or director, or  
20                   other representative owing a fiduciary duty with respect to an instrument.

21                   (2) “Represented person” means the principal, beneficiary, partnership, corporation,  
22                   or other person to whom the duty stated in paragraph (1) is owed.

23           (b) If (i) an instrument is taken from a fiduciary for payment or collection or for value,  
24           (ii) the taker has knowledge of the fiduciary status of the fiduciary, and (iii) the represented  
25           person makes a claim to the instrument or its proceeds on the basis that the transaction of the  
26           fiduciary is a breach of fiduciary duty, the following rules apply:

27                   (1) Notice of breach of fiduciary duty by the fiduciary is notice of the claim of the  
28                   represented person.

29                   (2) In the case of an instrument payable to the represented person or the fiduciary as  
30                   such, the taker has notice of the breach of fiduciary duty if the instrument is (i) taken in  
31                   payment of or as security for a debt known by the taker to be the personal debt of the

1 fiduciary, (ii) taken in a transaction known by the taker to be for the personal benefit of  
2 the fiduciary, or (iii) deposited to an account other than an account of the fiduciary, as  
3 such, or an account of the represented person.

4 (3) If an instrument is issued by the represented person or the fiduciary as such, and  
5 made payable to the fiduciary personally, the taker does not have notice of the breach of  
6 fiduciary duty unless the taker knows of the breach of fiduciary duty.

7 (4) If an instrument is issued by the represented person or the fiduciary as such, to  
8 the taker as payee, the taker has notice of the breach of fiduciary duty if the instrument is  
9 (i) taken in payment of or as security for a debt known by the taker to be the personal  
10 debt of the fiduciary, (ii) taken in a transaction known by the taker to be for the personal  
11 benefit of the fiduciary, or (iii) deposited to an account other than an account of the  
12 fiduciary, as such, or an account of the represented person.

13 **§3-308. PROOF OF SIGNATURES AND STATUS AS HOLDER IN DUE COURSE.**

14 (a) In an action with respect to an instrument, the authenticity of, and authority to make,  
15 each signature on the instrument is admitted unless specifically denied in the pleadings. If  
16 the validity of a signature is denied in the pleadings, the burden of establishing validity is on  
17 the person claiming validity, but the signature is presumed to be authentic and authorized  
18 unless the action is to enforce the liability of the purported signer and the signer is dead or  
19 incompetent at the time of trial of the issue of validity of the signature. If an action to  
20 enforce the instrument is brought against a person as the undisclosed principal of a person  
21 who signed the instrument as a party to the instrument, the plaintiff has the burden of  
22 establishing that the defendant is liable on the instrument as a represented person under  
23 Section 3-402(a).

24 (b) If the validity of signatures is admitted or proved and there is compliance with  
25 subsection (a), a plaintiff producing the instrument is entitled to payment if the plaintiff  
26 proves entitlement to enforce the instrument under Section 3-301, unless the defendant  
27 proves a defense or claim in recoupment. If a defense or claim in recoupment is proved, the  
28 right to payment of the plaintiff is subject to the defense or claim, except to the extent the  
29 plaintiff proves that the plaintiff has rights of a holder in due course which are not subject to  
30 the defense or claim.

1 **§3-309. ENFORCEMENT OF LOST, DESTROYED, OR STOLEN INSTRUMENT.**

2 (a) A person not in possession of an instrument is entitled to enforce the instrument if:

3 (1) the person seeking to enforce the instrument:

4 (A) was entitled to enforce the instrument when loss of possession occurred; or

5 (B) has directly or indirectly acquired ownership of the instrument from a person  
6 who was entitled to enforce the instrument when loss of possession occurred;

7 (2) the loss of possession was not the result of a transfer by the person or a lawful  
8 seizure; and

9 (3) the person cannot reasonably obtain possession of the instrument because the  
10 instrument was destroyed, its whereabouts cannot be determined, or it is in the wrongful  
11 possession of an unknown person or a person that cannot be found or is not amenable to  
12 service of process.

13 (b) A person seeking enforcement of an instrument under subsection (a) must prove the  
14 terms of the instrument and the person's right to enforce the instrument. If that proof is  
15 made, Section 3-308 applies to the case as if the person seeking enforcement had produced  
16 the instrument. The court may not enter judgment in favor of the person seeking  
17 enforcement unless it finds that the person required to pay the instrument is adequately  
18 protected against loss that might occur by reason of a claim by another person to enforce the  
19 instrument. Adequate protection may be provided by any reasonable means.

20 **§3-310. EFFECT OF INSTRUMENT ON OBLIGATION FOR WHICH TAKEN.**

21 (a) Unless otherwise agreed, if a certified check, cashier's check, or teller's check is  
22 taken for an obligation, the obligation is discharged to the same extent discharge would result  
23 if an amount of money equal to the amount of the instrument were taken in payment of the  
24 obligation. Discharge of the obligation does not affect any liability that the obligor may have  
25 as an indorser of the instrument.

26 (b) Unless otherwise agreed and except as provided in subsection (a), if a note or an  
27 uncertified check is taken for an obligation, the obligation is suspended to the same extent the  
28 obligation would be discharged if an amount of money equal to the amount of the instrument  
29 were taken, and the following rules apply:

1           (1) In the case of an uncertified check, suspension of the obligation continues until  
2           dishonor of the check or until it is paid or certified. Payment or certification of the check  
3           results in discharge of the obligation to the extent of the amount of the check.

4           (2) In the case of a note, suspension of the obligation continues until dishonor of the  
5           note or until it is paid. Payment of the note results in discharge of the obligation to the  
6           extent of the payment.

7           (3) Except as provided in paragraph (4), if the check or note is dishonored and the  
8           obligee of the obligation for which the instrument was taken is the person entitled to  
9           enforce the instrument, the obligee may enforce either the instrument or the obligation.  
10          In the case of an instrument of a third person which is negotiated to the obligee by the  
11          obligor, discharge of the obligor on the instrument also discharges the obligation.

12          (4) If the person entitled to enforce the instrument taken for an obligation is a person  
13          other than the obligee, the obligee may not enforce the obligation to the extent the  
14          obligation is suspended. If the obligee is the person entitled to enforce the instrument but  
15          no longer has possession of it because it was lost, stolen, or destroyed, the obligation may  
16          not be enforced to the extent of the amount payable on the instrument, and to that extent  
17          the obligee's rights against the obligor are limited to enforcement of the instrument.

18          (c) If an instrument other than one described in subsection (a) or (b) is taken for an  
19          obligation, the effect is (i) that stated in subsection (a) if the instrument is one on which a  
20          bank is liable as maker or acceptor, or (ii) that stated in subsection (b) in any other case.

21    **§3-311. ACCORD AND SATISFACTION BY USE OF INSTRUMENT.**

22          (a) If a person against whom a claim is asserted proves that (i) that person in good faith  
23          tendered an instrument to the claimant as full satisfaction of the claim, (ii) the amount of the  
24          claim was unliquidated or subject to a bona fide dispute, and (iii) the claimant obtained  
25          payment of the instrument, the following subsections apply.

26          (b) Unless subsection (c) applies, the claim is discharged if the person against whom the  
27          claim is asserted proves that the instrument or an accompanying written communication  
28          contained a conspicuous statement to the effect that the instrument was tendered as full  
29          satisfaction of the claim.

30          (c) Subject to subsection (d), a claim is not discharged under subsection (b) if either of  
31          the following applies:

1           (1) The claimant, if an organization, proves that (i) within a reasonable time before  
2           the tender, the claimant sent a conspicuous statement to the person against whom the  
3           claim is asserted that communications concerning disputed debts, including an instrument  
4           tendered as full satisfaction of a debt, are to be sent to a designated person, office, or  
5           place, and (ii) the instrument or accompanying communication was not received by that  
6           designated person, office, or place.

7           (2) The claimant, whether or not an organization, proves that within 90 days after  
8           payment of the instrument, the claimant tendered repayment of the amount of the  
9           instrument to the person against whom the claim is asserted. This paragraph does not  
10           apply if the claimant is an organization that sent a statement complying with paragraph  
11           (1)(i).

12           (d) A claim is discharged if the person against whom the claim is asserted proves that  
13           within a reasonable time before collection of the instrument was initiated, the claimant, or an  
14           agent of the claimant having direct responsibility with respect to the disputed obligation,  
15           knew that the instrument was tendered in full satisfaction of the claim.

16           **§3-312. LOST, DESTROYED, OR STOLEN CASHIER’S CHECK, TELLER’S CHECK,**  
17           **OR CERTIFIED CHECK.**

18           (a) In this section:

19           (1) “Check” means a cashier’s check, teller’s check, or certified check.

20           (2) “Claimant” means a person who claims the right to receive the amount of a  
21           cashier’s check, teller’s check, or certified check that was lost, destroyed, or stolen.

22           (3) “Declaration of loss” means a statement, made in a record under penalty of  
23           perjury, to the effect that (i) the declarer lost possession of a check, (ii) the declarer is the  
24           drawer or payee of the check, in the case of a certified check, or the remitter or payee of  
25           the check, in the case of a cashier’s check or teller’s check, (iii) the loss of possession  
26           was not the result of a transfer by the declarer or a lawful seizure, and (iv) the declarer  
27           cannot reasonably obtain possession of the check because the check was destroyed, its  
28           whereabouts cannot be determined, or it is in the wrongful possession of an unknown  
29           person or a person that cannot be found or is not amenable to service of process.

30           (4) “Obligated bank” means the issuer of a cashier’s check or teller’s check or the  
31           acceptor of a certified check.

1           (b) A claimant may assert a claim to the amount of a check by a communication to the  
2           obligated bank describing the check with reasonable certainty and requesting payment of the  
3           amount of the check, if (i) the claimant is the drawer or payee of a certified check or the  
4           remitter or payee of a cashier’s check or teller’s check, (ii) the communication contains or is  
5           accompanied by a declaration of loss of the claimant with respect to the check, (iii) the  
6           communication is received at a time and in a manner affording the bank a reasonable time to  
7           act on it before the check is paid, and (iv) the claimant provides reasonable identification if  
8           requested by the obligated bank. Delivery of a declaration of loss is a warranty of the truth  
9           of the statements made in the declaration. If a claim is asserted in compliance with this  
10           subsection, the following rules apply:

11                   (1) The claim becomes enforceable at the later of (i) the time the claim is asserted, or  
12                   (ii) the 90th day following the date of the check, in the case of a cashier’s check or  
13                   teller’s check, or the 90th day following the date of the acceptance, in the case of a  
14                   certified check.

15                   (2) Until the claim becomes enforceable, it has no legal effect and the obligated bank  
16                   may pay the check or, in the case of a teller’s check, may permit the drawee to pay the  
17                   check. Payment to a person entitled to enforce the check discharges all liability of the  
18                   obligated bank with respect to the check.

19                   (3) If the claim becomes enforceable before the check is presented for payment, the  
20                   obligated bank is not obliged to pay the check.

21                   (4) When the claim becomes enforceable, the obligated bank becomes obliged to pay  
22                   the amount of the check to the claimant if payment of the check has not been made to a  
23                   person entitled to enforce the check. Subject to Section 4-302(a)(1), payment to the  
24                   claimant discharges all liability of the obligated bank with respect to the check.

25           (c) If the obligated bank pays the amount of a check to a claimant under subsection  
26           (b)(4) and the check is presented for payment by a person having rights of a holder in due  
27           course, the claimant is obliged to (i) refund the payment to the obligated bank if the check is  
28           paid, or (ii) pay the amount of the check to the person having rights of a holder in due course  
29           if the check is dishonored.

30           (d) If a claimant has the right to assert a claim under subsection (b) and is also a person  
31           entitled to enforce a cashier’s check, teller’s check, or certified check which is lost,

1 destroyed, or stolen, the claimant may assert rights with respect to the check either under this  
2 section or Section 3-309.

3 **PART 4**

4 **LIABILITY OF PARTIES**

5 **§3-401. SIGNATURE.**

6 (a) A person is not liable on an instrument unless (i) the person signed the instrument, or  
7 (ii) the person is represented by an agent or representative who signed the instrument and the  
8 signature is binding on the represented person under Section 3-402.

9 (b) A signature may be made (i) manually or by means of a device or machine, and (ii)  
10 by the use of any name, including a trade or assumed name, or by a word, mark, or symbol  
11 executed or adopted by a person with present intention to authenticate a writing.

12 **§3-402. SIGNATURE BY REPRESENTATIVE.**

13 (a) If a person acting, or purporting to act, as a representative signs an instrument by  
14 signing either the name of the represented person or the name of the signer, the represented  
15 person is bound by the signature to the same extent the represented person would be bound if  
16 the signature were on a simple contract. If the represented person is bound, the signature of  
17 the representative is the “authorized signature of the represented person” and the represented  
18 person is liable on the instrument, whether or not identified in the instrument.

19 (b) If a representative signs the name of the representative to an instrument and the  
20 signature is an authorized signature of the represented person, the following rules apply:

21 (1) If the form of the signature shows unambiguously that the signature is made on  
22 behalf of the represented person who is identified in the instrument, the representative is  
23 not liable on the instrument.

24 (2) Subject to subsection (c), if (i) the form of the signature does not show  
25 unambiguously that the signature is made in a representative capacity or (ii) the  
26 represented person is not identified in the instrument, the representative is liable on the  
27 instrument to a holder in due course that took the instrument without notice that the  
28 representative was not intended to be liable on the instrument. With respect to any other  
29 person, the representative is liable on the instrument unless the representative proves that  
30 the original parties did not intend the representative to be liable on the instrument.

1           (c) If a representative signs the name of the representative as drawer of a check without  
2           indication of the representative status and the check is payable from an account of the  
3           represented person who is identified on the check, the signer is not liable on the check if the  
4           signature is an authorized signature of the represented person.

5           **§3-403. UNAUTHORIZED SIGNATURE.**

6           (a) Unless otherwise provided in this Article or Article 4, an unauthorized signature is  
7           ineffective except as the signature of the unauthorized signer in favor of a person who in  
8           good faith pays the instrument or takes it for value. An unauthorized signature may be  
9           ratified for all purposes of this Article.

10           (b) If the signature of more than one person is required to constitute the authorized  
11           signature of an organization, the signature of the organization is unauthorized if one of the  
12           required signatures is lacking.

13           (c) The civil or criminal liability of a person who makes an unauthorized signature is not  
14           affected by any provision of this Article which makes the unauthorized signature effective  
15           for the purposes of this Article.

16           **§3-404. IMPOSTORS; FICTITIOUS PAYEES.**

17           (a) If an impostor, by use of the mails or otherwise, induces the issuer of an instrument to  
18           issue the instrument to the impostor, or to a person acting in concert with the impostor, by  
19           impersonating the payee of the instrument or a person authorized to act for the payee, an  
20           indorsement of the instrument by any person in the name of the payee is effective as the  
21           indorsement of the payee in favor of a person who, in good faith, pays the instrument or takes  
22           it for value or for collection.

23           (b) If (i) a person whose intent determines to whom an instrument is payable (Section 3-  
24           110(a) or (b)) does not intend the person identified as payee to have any interest in the  
25           instrument, or (ii) the person identified as payee of an instrument is a fictitious person, the  
26           following rules apply until the instrument is negotiated by special indorsement:

27                   (1) Any person in possession of the instrument is its holder.

28                   (2) An indorsement by any person in the name of the payee stated in the instrument  
29                   is effective as the indorsement of the payee in favor of a person who, in good faith, pays  
30                   the instrument or takes it for value or for collection.

1           (c) Under subsection (a) or (b), an indorsement is made in the name of a payee if (i) it is  
2           made in a name substantially similar to that of the payee or (ii) the instrument, whether or not  
3           indorsed, is deposited in a depository bank to an account in a name substantially similar to  
4           that of the payee.

5           (d) With respect to an instrument to which subsection (a) or (b) applies, if a person  
6           paying the instrument or taking it for value or for collection fails to exercise ordinary care in  
7           paying or taking the instrument and that failure substantially contributes to loss resulting  
8           from payment of the instrument, the person bearing the loss may recover from the person  
9           failing to exercise ordinary care to the extent the failure to exercise ordinary care contributed  
10          to the loss.

11          **§3-405. EMPLOYER’S RESPONSIBILITY FOR FRAUDULENT INDORSEMENT BY**  
12          **EMPLOYEE.**

13          (a) In this section:

14           (1) “Employee” includes an independent contractor and employee of an independent  
15           contractor retained by the employer.

16           (2) “Fraudulent indorsement” means (i) in the case of an instrument payable to the  
17           employer, a forged indorsement purporting to be that of the employer, or (ii) in the case  
18           of an instrument with respect to which the employer is the issuer, a forged indorsement  
19           purporting to be that of the person identified as payee.

20           (3) “Responsibility” with respect to instruments means authority (i) to sign or indorse  
21           instruments on behalf of the employer, (ii) to process instruments received by the  
22           employer for bookkeeping purposes, for deposit to an account, or for other disposition,  
23           (iii) to prepare or process instruments for issue in the name of the employer, (iv) to  
24           supply information determining the names or addresses of payees of instruments to be  
25           issued in the name of the employer, (v) to control the disposition of instruments to be  
26           issued in the name of the employer, or (vi) to act otherwise with respect to instruments in  
27           a responsible capacity. “Responsibility” does not include authority that merely allows an  
28           employee to have access to instruments or blank or incomplete instrument forms that are  
29           being stored or transported or are part of incoming or outgoing mail, or similar access.

30           (b) For the purpose of determining the rights and liabilities of a person who, in good  
31           faith, pays an instrument or takes it for value or for collection, if an employer entrusted an

1 employee with responsibility with respect to the instrument and the employee or a person  
2 acting in concert with the employee makes a fraudulent indorsement of the instrument, the  
3 indorsement is effective as the indorsement of the person to whom the instrument is payable  
4 if it is made in the name of that person. If the person paying the instrument or taking it for  
5 value or for collection fails to exercise ordinary care in paying or taking the instrument and  
6 that failure substantially contributes to loss resulting from the fraud, the person bearing the  
7 loss may recover from the person failing to exercise ordinary care to the extent the failure to  
8 exercise ordinary care contributed to the loss.

9 (c) Under subsection (b), an indorsement is made in the name of the person to whom an  
10 instrument is payable if (i) it is made in a name substantially similar to the name of that  
11 person or (ii) the instrument, whether or not indorsed, is deposited in a depository bank to an  
12 account in a name substantially similar to the name of that person.

13 **§3-406. NEGLIGENCE CONTRIBUTING TO FORGED SIGNATURE OR**  
14 **ALTERATION OF INSTRUMENT.**

15 (a) A person whose failure to exercise ordinary care substantially contributes to an  
16 alteration of an instrument or to the making of a forged signature on an instrument is  
17 precluded from asserting the alteration or the forgery against a person who, in good faith,  
18 pays the instrument or takes it for value or for collection.

19 (b) Under subsection (a), if the person asserting the preclusion fails to exercise ordinary  
20 care in paying or taking the instrument and that failure substantially contributes to loss, the  
21 loss is allocated between the person precluded and the person asserting the preclusion  
22 according to the extent to which the failure of each to exercise ordinary care contributed to  
23 the loss.

24 (c) Under subsection (a), the burden of proving failure to exercise ordinary care is on the  
25 person asserting the preclusion. Under subsection (b), the burden of proving failure to  
26 exercise ordinary care is on the person precluded.

27 **§3-407. ALTERATION.**

28 (a) “Alteration” means (i) an unauthorized change in an instrument that purports to  
29 modify in any respect the obligation of a party, or (ii) an unauthorized addition of words or  
30 numbers or other change to an incomplete instrument relating to the obligation of a party.

1           (b) Except as provided in subsection (c), an alteration fraudulently made discharges a  
2           party whose obligation is affected by the alteration unless that party assents or is precluded  
3           from asserting the alteration. No other alteration discharges a party, and the instrument may  
4           be enforced according to its original terms.

5           (c) A payor bank or drawee paying a fraudulently altered instrument or a person taking it  
6           for value, in good faith and without notice of the alteration, may enforce rights with respect  
7           to the instrument (i) according to its original terms, or (ii) in the case of an incomplete  
8           instrument altered by unauthorized completion, according to its terms as completed.

9           **§3-408. DRAWEE NOT LIABLE ON UNACCEPTED DRAFT.**

10           A check or other draft does not of itself operate as an assignment of funds in the hands of the  
11           drawee available for its payment, and the drawee is not liable on the instrument until the drawee  
12           accepts it.

13           **§3-409. ACCEPTANCE OF DRAFT; CERTIFIED CHECK.**

14           (a) “Acceptance” means the drawee’s signed agreement to pay a draft as presented. It  
15           must be written on the draft and may consist of the drawee’s signature alone. Acceptance  
16           may be made at any time and becomes effective when notification pursuant to instructions is  
17           given or the accepted draft is delivered for the purpose of giving rights on the acceptance to  
18           any person.

19           (b) A draft may be accepted although it has not been signed by the drawer, is otherwise  
20           incomplete, is overdue, or has been dishonored.

21           (c) If a draft is payable at a fixed period after sight and the acceptor fails to date the  
22           acceptance, the holder may complete the acceptance by supplying a date in good faith.

23           (d) “Certified check” means a check accepted by the bank on which it is drawn.  
24           Acceptance may be made as stated in subsection (a) or by a writing on the check which  
25           indicates that the check is certified. The drawee of a check has no obligation to certify the  
26           check, and refusal to certify is not dishonor of the check.

27           **§3-410. ACCEPTANCE VARYING DRAFT.**

28           (a) If the terms of a drawee’s acceptance vary from the terms of the draft as presented,  
29           the holder may refuse the acceptance and treat the draft as dishonored. In that case, the  
30           drawee may cancel the acceptance.

1           (b) The terms of a draft are not varied by an acceptance to pay at a particular bank or  
2           place in the United States, unless the acceptance states that the draft is to be paid only at that  
3           bank or place.

4           (c) If the holder assents to an acceptance varying the terms of a draft, the obligation of  
5           each drawer and indorser that does not expressly assent to the acceptance is discharged.

6           **§3-411. REFUSAL TO PAY CASHIER’S CHECKS, TELLER’S CHECKS, AND**  
7           **CERTIFIED CHECKS.**

8           (a) In this section, “obligated bank” means the acceptor of a certified check or the issuer  
9           of a cashier’s check or teller’s check bought from the issuer.

10           (b) If the obligated bank wrongfully (i) refuses to pay a cashier’s check or certified  
11           check, (ii) stops payment of a teller’s check, or (iii) refuses to pay a dishonored teller’s  
12           check, the person asserting the right to enforce the check is entitled to compensation for  
13           expenses and loss of interest resulting from the nonpayment and may recover consequential  
14           damages if the obligated bank refuses to pay after receiving notice of particular  
15           circumstances giving rise to the damages.

16           (c) Expenses or consequential damages under subsection (b) are not recoverable if the  
17           refusal of the obligated bank to pay occurs because (i) the bank suspends payments, (ii) the  
18           obligated bank asserts a claim or defense of the bank that it has reasonable grounds to believe  
19           is available against the person entitled to enforce the instrument, (iii) the obligated bank has a  
20           reasonable doubt whether the person demanding payment is the person entitled to enforce the  
21           instrument, or (iv) payment is prohibited by law.

22           **§3-412. OBLIGATION OF ISSUER OF NOTE OR CASHIER’S CHECK.**

23           The issuer of a note or cashier’s check or other draft drawn on the drawer is obliged to pay  
24           the instrument (i) according to its terms at the time it was issued or, if not issued, at the time it  
25           first came into possession of a holder, or (ii) if the issuer signed an incomplete instrument,  
26           according to its terms when completed, to the extent stated in Sections 3-115 and 3-407. The  
27           obligation is owed to a person entitled to enforce the instrument or to an indorser who paid the  
28           instrument under Section 3-415.

29           **§3-413. OBLIGATION OF ACCEPTOR.**

30           (a) The acceptor of a draft is obliged to pay the draft (i) according to its terms at the time  
31           it was accepted, even though the acceptance states that the draft is payable “as originally

1 drawn” or equivalent terms, (ii) if the acceptance varies the terms of the draft, according to  
2 the terms of the draft as varied, or (iii) if the acceptance is of a draft that is an incomplete  
3 instrument, according to its terms when completed, to the extent stated in Sections 3–115 and  
4 3–407. The obligation is owed to a person entitled to enforce the draft or to the drawer or an  
5 indorser who paid the draft under Section 3–414 or 3–415.

6 (b) If the certification of a check or other acceptance of a draft states the amount certified  
7 or accepted, the obligation of the acceptor is that amount. If (i) the certification or  
8 acceptance does not state an amount, (ii) the amount of the instrument is subsequently raised,  
9 and (iii) the instrument is then negotiated to a holder in due course, the obligation of the  
10 acceptor is the amount of the instrument at the time it was taken by the holder in due course.

11 **§3–414. OBLIGATION OF DRAWER.**

12 (a) This section does not apply to cashier’s checks or other drafts drawn on the drawer.

13 (b) If an unaccepted draft is dishonored, the drawer is obliged to pay the draft (i)  
14 according to its terms at the time it was issued or, if not issued, at the time it first came into  
15 possession of a holder, or (ii) if the drawer signed an incomplete instrument, according to its  
16 terms when completed, to the extent stated in Sections 3–115 and 3–407. The obligation is  
17 owed to a person entitled to enforce the draft or to an indorser who paid the draft under  
18 Section 3–415.

19 (c) If a draft is accepted by a bank, the drawer is discharged, regardless of when or by  
20 whom acceptance was obtained.

21 (d) If a draft is accepted and the acceptor is not a bank, the obligation of the drawer to  
22 pay the draft if the draft is dishonored by the acceptor is the same as the obligation of an  
23 indorser under Section 3–415(a) and (c).

24 (e) If a draft states that it is drawn “without recourse” or otherwise disclaims liability of  
25 the drawer to pay the draft, the drawer is not liable under subsection (b) to pay the draft if the  
26 draft is not a check. A disclaimer of the liability stated in subsection (b) is not effective if the  
27 draft is a check.

28 (f) If (i) a check is not presented for payment or given to a depository bank for collection  
29 within 30 days after its date, (ii) the drawee suspends payments after expiration of the 30–day  
30 period without paying the check, and (iii) because of the suspension of payments, the drawer  
31 is deprived of funds maintained with the drawee to cover payment of the check, the drawer to

1 the extent deprived of funds may discharge its obligation to pay the check by assigning to the  
2 person entitled to enforce the check the rights of the drawer against the drawee with respect  
3 to the funds.

4 **§3-415. OBLIGATION OF INDORSER.**

5 (a) Subject to subsections (b), (c), (d), (e) and to Section 3-419(d), if an instrument is  
6 dishonored, an indorser is obliged to pay the amount due on the instrument (i) according to  
7 the terms of the instrument at the time it was indorsed, or (ii) if the indorser indorsed an  
8 incomplete instrument, according to its terms when completed, to the extent stated in  
9 Sections 3-115 and 3-407. The obligation of the indorser is owed to a person entitled to  
10 enforce the instrument or to a subsequent indorser who paid the instrument under this  
11 section.

12 (b) If an indorsement states that it is made “without recourse” or otherwise disclaims  
13 liability of the indorser, the indorser is not liable under subsection (a) to pay the instrument.

14 (c) If notice of dishonor of an instrument is required by Section 3-503 and notice of  
15 dishonor complying with that section is not given to an indorser, the liability of the indorser  
16 under subsection (a) is discharged.

17 (d) If a draft is accepted by a bank after an indorsement is made, the liability of the  
18 indorser under subsection (a) is discharged.

19 (e) If an indorser of a check is liable under subsection (a) and the check is not presented  
20 for payment, or given to a depository bank for collection, within 30 days after the day the  
21 indorsement was made, the liability of the indorser under subsection (a) is discharged.

22 **§3-416. TRANSFER WARRANTIES.**

23 (a) A person who transfers an instrument for consideration warrants to the transferee  
24 and, if the transfer is by indorsement, to any subsequent transferee that:

25 (1) the warrantor is a person entitled to enforce the instrument;

26 (2) all signatures on the instrument are authentic and authorized;

27 (3) the instrument has not been altered;

28 (4) the instrument is not subject to a defense or claim in recoupment of any party  
29 which can be asserted against the warrantor;

30 (5) the warrantor has no knowledge of any insolvency proceeding commenced with  
31 respect to the maker or acceptor or, in the case of an unaccepted draft, the drawer; and

1           (6) with respect to a remotely-created consumer item, that the person on whose  
2           account the item is drawn authorized the issuance of the item in the amount for which the  
3           item is drawn.

4           (b) A person to whom the warranties under subsection (a) are made and who took the  
5           instrument in good faith may recover from the warrantor as damages for breach of warranty  
6           an amount equal to the loss suffered as a result of the breach, but not more than the amount  
7           of the instrument plus expenses and loss of interest incurred as a result of the breach.

8           (c) The warranties stated in subsection (a) cannot be disclaimed with respect to checks.  
9           Unless notice of a claim for breach of warranty is given to the warrantor within 30 days after  
10           the claimant has reason to know of the breach and the identity of the warrantor, the liability  
11           of the warrantor under subsection (b) is discharged to the extent of any loss caused by the  
12           delay in giving notice of the claim.

13           (d) A cause of action for breach of warranty under this section accrues when the claimant  
14           has reason to know of the breach.

15           **§3-417. PRESENTMENT WARRANTIES.**

16           (a) If an unaccepted draft is presented to the drawee for payment or acceptance and the  
17           drawee pays or accepts the draft, (i) the person obtaining payment or acceptance, at the time  
18           of presentment, and (ii) a previous transferor of the draft, at the time of transfer, warrant to  
19           the drawee making payment or accepting the draft in good faith that:

20           (1) the warrantor is, or was, at the time the warrantor transferred the draft, a person  
21           entitled to enforce the draft or authorized to obtain payment or acceptance of the draft on  
22           behalf of a person entitled to enforce the draft;

23           (2) the draft has not been altered;

24           (3) the warrantor has no knowledge that the signature of the drawer of the draft is  
25           unauthorized; and

26           (4) with respect to any remotely-created consumer item, that the person on whose  
27           account the item is drawn authorized the issuance of the item in the amount for which the  
28           item is drawn.

29           (b) A drawee making payment may recover from any warrantor damages for breach of  
30           warranty equal to the amount paid by the drawee less the amount the drawee received or is  
31           entitled to receive from the drawer because of the payment. In addition, the drawee is

1 entitled to compensation for expenses and loss of interest resulting from the breach. The  
2 right of the drawee to recover damages under this subsection is not affected by any failure of  
3 the drawee to exercise ordinary care in making payment. If the drawee accepts the draft,  
4 breach of warranty is a defense to the obligation of the acceptor. If the acceptor makes  
5 payment with respect to the draft, the acceptor is entitled to recover from any warrantor for  
6 breach of warranty the amounts stated in this subsection.

7 (c) If a drawee asserts a claim for breach of warranty under subsection (a) based on an  
8 unauthorized indorsement of the draft or an alteration of the draft, the warrantor may defend  
9 by proving that the indorsement is effective under Section 3–404 or 3–405 or the drawer is  
10 precluded under Section 3–406 or 4–406 from asserting against the drawee the unauthorized  
11 indorsement or alteration.

12 (d) If (i) a dishonored draft is presented for payment to the drawer or an indorser or (ii)  
13 any other instrument is presented for payment to a party obliged to pay the instrument, and  
14 (iii) payment is received, the following rules apply:

15 (1) The person obtaining payment and a prior transferor of the instrument warrant to  
16 the person making payment in good faith that the warrantor is, or was, at the time the  
17 warrantor transferred the instrument, a person entitled to enforce the instrument or  
18 authorized to obtain payment on behalf of a person entitled to enforce the instrument.

19 (2) The person making payment may recover from any warrantor for breach of  
20 warranty an amount equal to the amount paid plus expenses and loss of interest resulting  
21 from the breach.

22 (e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to  
23 checks. Unless notice of a claim for breach of warranty is given to the warrantor within 30  
24 days after the claimant has reason to know of the breach and the identity of the warrantor, the  
25 liability of the warrantor under subsection (b) or (d) is discharged to the extent of any loss  
26 caused by the delay in giving notice of the claim.

27 (f) A cause of action for breach of warranty under this section accrues when the claimant  
28 has reason to know of the breach.

29 **§3–418. PAYMENT OR ACCEPTANCE BY MISTAKE.**

30 (a) Except as provided in subsection (c), if the drawee of a draft pays or accepts the draft  
31 and the drawee acted on the mistaken belief that (i) payment of the draft had not been

1 stopped pursuant to Section 4-403 or (ii) the signature of the drawer of the draft was  
2 authorized, the drawee may recover the amount of the draft from the person to whom or for  
3 whose benefit payment was made or, in the case of acceptance, may revoke the acceptance.  
4 Rights of the drawee under this subsection are not affected by failure of the drawee to  
5 exercise ordinary care in paying or accepting the draft.

6 (b) Except as provided in subsection (c), if an instrument has been paid or accepted by  
7 mistake and the case is not covered by subsection (a), the person paying or accepting may, to  
8 the extent permitted by the law governing mistake and restitution, (i) recover the payment  
9 from the person to whom or for whose benefit payment was made or (ii) in the case of  
10 acceptance, may revoke the acceptance.

11 (c) The remedies provided by subsection (a) or (b) may not be asserted against a person  
12 who took the instrument in good faith and for value or who in good faith changed position in  
13 reliance on the payment or acceptance. This subsection does not limit remedies provided by  
14 Section 3-417 or 4-407.

15 (d) Notwithstanding Section 4-215, if an instrument is paid or accepted by mistake and  
16 the payor or acceptor recovers payment or revokes acceptance under subsection (a) or (b), the  
17 instrument is deemed not to have been paid or accepted and is treated as dishonored, and the  
18 person from whom payment is recovered has rights as a person entitled to enforce the  
19 dishonored instrument.

20 **§3-419. INSTRUMENTS SIGNED FOR ACCOMMODATION.**

21 (a) If an instrument is issued for value given for the benefit of a party to the instrument  
22 (“accommodated party”) and another party to the instrument (“accommodation party”) signs  
23 the instrument for the purpose of incurring liability on the instrument without being a direct  
24 beneficiary of the value given for the instrument, the instrument is signed by the  
25 accommodation party “for accommodation.”

26 (b) An accommodation party may sign the instrument as maker, drawer, acceptor, or  
27 indorser and, subject to subsection (d), is obliged to pay the instrument in the capacity in  
28 which the accommodation party signs. The obligation of an accommodation party may be  
29 enforced notwithstanding any statute of frauds and whether or not the accommodation party  
30 receives consideration for the accommodation.

1           (c) A person signing an instrument is presumed to be an accommodation party and there  
2           is notice that the instrument is signed for accommodation if the signature is an anomalous  
3           indorsement or is accompanied by words indicating that the signer is acting as surety or  
4           guarantor with respect to the obligation of another party to the instrument. Except as  
5           provided in Section 3-605, the obligation of an accommodation party to pay the instrument is  
6           not affected by the fact that the person enforcing the obligation had notice when the  
7           instrument was taken by that person that the accommodation party signed the instrument for  
8           accommodation.

9           (d) If the signature of a party to an instrument is accompanied by words indicating  
10           unambiguously that the party is guaranteeing collection rather than payment of the obligation  
11           of another party to the instrument, the signer is obliged to pay the amount due on the  
12           instrument to a person entitled to enforce the instrument only if (i) execution of judgment  
13           against the other party has been returned unsatisfied, (ii) the other party is insolvent or in an  
14           insolvency proceeding, (iii) the other party cannot be served with process, or (iv) it is  
15           otherwise apparent that payment cannot be obtained from the other party.

16           (e) If the signature of a party to an instrument is accompanied by words indicating that  
17           the party guarantees payment or the signer signs the instrument as an accommodation party  
18           in some other manner that does not unambiguously indicate an intention to guarantee  
19           collection rather than payment, the signer is obliged to pay the amount due on the instrument  
20           to a person entitled to enforce the instrument in the same circumstances as the accommodated  
21           party would be obliged, without prior resort to the accommodated party by the person  
22           entitled to enforce the instrument.

23           (f) An accommodation party who pays the instrument is entitled to reimbursement from  
24           the accommodated party and is entitled to enforce the instrument against the accommodated  
25           party. In proper circumstances, an accommodation party may obtain relief that requires the  
26           accommodated party to perform its obligations on the instrument. An accommodated party  
27           that pays the instrument has no right of recourse against, and is not entitled to contribution  
28           from, an accommodation party.

29           **§3-420. CONVERSION OF INSTRUMENT.**

30           (a) The law applicable to conversion of personal property applies to instruments. An  
31           instrument is also converted if it is taken by transfer, other than a negotiation, from a person

1 not entitled to enforce the instrument or a bank makes or obtains payment with respect to the  
2 instrument for a person not entitled to enforce the instrument or receive payment. An action  
3 for conversion of an instrument may not be brought by (i) the issuer or acceptor of the  
4 instrument or (ii) a payee or indorsee who did not receive delivery of the instrument either  
5 directly or through delivery to an agent or a co-payee.

6 (b) In an action under subsection (a), the measure of liability is presumed to be the  
7 amount payable on the instrument, but recovery may not exceed the amount of the plaintiff's  
8 interest in the instrument.

9 (c) A representative, other than a depository bank, who has in good faith dealt with an  
10 instrument or its proceeds on behalf of one who was not the person entitled to enforce the  
11 instrument is not liable in conversion to that person beyond the amount of any proceeds that  
12 it has not paid out.

13 **PART 5**

14 **DISHONOR**

15 **§3-501. PRESENTMENT.**

16 (a) “Presentment” means a demand made by or on behalf of a person entitled to enforce  
17 an instrument (i) to pay the instrument made to the drawee or a party obliged to pay the  
18 instrument or, in the case of a note or accepted draft payable at a bank, to the bank, or (ii) to  
19 accept a draft made to the drawee.

20 (b) The following rules are subject to Article 4, agreement of the parties, and clearing-  
21 house rules and the like:

22 (1) Presentment may be made at the place of payment of the instrument and must be  
23 made at the place of payment if the instrument is payable at a bank in the United States;  
24 may be made by any commercially reasonable means, including an oral, written, or  
25 electronic communication; is effective when the demand for payment or acceptance is  
26 received by the person to whom presentment is made; and is effective if made to any one  
27 of two or more makers, acceptors, drawees, or other payors.

28 (2) Upon demand of the person to whom presentment is made, the person making  
29 presentment must (i) exhibit the instrument, (ii) give reasonable identification and, if  
30 presentment is made on behalf of another person, reasonable evidence of authority to do

1       so, and (iii) sign a receipt on the instrument for any payment made or surrender the  
2       instrument if full payment is made.

3       (3) Without dishonoring the instrument, the party to whom presentment is made may  
4       (i) return the instrument for lack of a necessary indorsement, or (ii) refuse payment or  
5       acceptance for failure of the presentment to comply with the terms of the instrument, an  
6       agreement of the parties, or other applicable law or rule.

7       (4) The party to whom presentment is made may treat presentment as occurring on  
8       the next business day after the day of presentment if the party to whom presentment is  
9       made has established a cut-off hour not earlier than 2 p.m. for the receipt and processing  
10       of instruments presented for payment or acceptance and presentment is made after the  
11       cut-off hour.

12       **§3-502. DISHONOR.**

13       (a) Dishonor of a note is governed by the following rules:

14       (1) If the note is payable on demand, the note is dishonored if presentment is duly  
15       made to the maker and the note is not paid on the day of presentment.

16       (2) If the note is not payable on demand and is payable at or through a bank or the  
17       terms of the note require presentment, the note is dishonored if presentment is duly made  
18       and the note is not paid on the day it becomes payable or the day of presentment,  
19       whichever is later.

20       (3) If the note is not payable on demand and paragraph (2) does not apply, the note is  
21       dishonored if it is not paid on the day it becomes payable.

22       (b) Dishonor of an unaccepted draft other than a documentary draft is governed by the  
23       following rules:

24       (1) If a check is duly presented for payment to the payor bank otherwise than for  
25       immediate payment over the counter, the check is dishonored if the payor bank makes  
26       timely return of the check or sends timely notice of dishonor or nonpayment under  
27       Section 4-301 or 4-302, or becomes accountable for the amount of the check under  
28       Section 4-302.

29       (2) If a draft is payable on demand and paragraph (1) does not apply, the draft is  
30       dishonored if presentment for payment is duly made to the drawee and the draft is not  
31       paid on the day of presentment.

1           (3) If a draft is payable on a date stated in the draft, the draft is dishonored if (i)  
2           presentment for payment is duly made to the drawee and payment is not made on the day  
3           the draft becomes payable or the day of presentment, whichever is later, or (ii)  
4           presentment for acceptance is duly made before the day the draft becomes payable and  
5           the draft is not accepted on the day of presentment.

6           (4) If a draft is payable on elapse of a period of time after sight or acceptance, the  
7           draft is dishonored if presentment for acceptance is duly made and the draft is not  
8           accepted on the day of presentment.

9           (c) Dishonor of an unaccepted documentary draft occurs according to the rules stated in  
10          subsection (b)(2), (3), and (4), except that payment or acceptance may be delayed without  
11          dishonor until no later than the close of the third business day of the drawee following the  
12          day on which payment or acceptance is required by those paragraphs.

13          (d) Dishonor of an accepted draft is governed by the following rules:

14           (1) If the draft is payable on demand, the draft is dishonored if presentment for  
15           payment is duly made to the acceptor and the draft is not paid on the day of presentment.

16           (2) If the draft is not payable on demand, the draft is dishonored if presentment for  
17           payment is duly made to the acceptor and payment is not made on the day it becomes  
18           payable or the day of presentment, whichever is later.

19          (e) In any case in which presentment is otherwise required for dishonor under this  
20          section and presentment is excused under Section 3–504, dishonor occurs without  
21          presentment if the instrument is not duly accepted or paid.

22          (f) If a draft is dishonored because timely acceptance of the draft was not made and the  
23          person entitled to demand acceptance consents to a late acceptance, from the time of  
24          acceptance the draft is treated as never having been dishonored.

25          **§3–503. NOTICE OF DISHONOR.**

26           (a) The obligation of an indorser stated in Section 3–415(a) and the obligation of a  
27           drawer stated in Section 3–414(d) may not be enforced unless (i) the indorser or drawer is  
28           given notice of dishonor of the instrument complying with this section or (ii) notice of  
29           dishonor is excused under Section 3–504(b).

30           (b) Notice of dishonor may be given by any person; may be given by any commercially  
31           reasonable means, including an oral, written, or electronic communication; and is sufficient

1 if it reasonably identifies the instrument and indicates that the instrument has been  
2 dishonored or has not been paid or accepted. Return of an instrument given to a bank for  
3 collection is sufficient notice of dishonor.

4 (c) Subject to Section 3–504(c), with respect to an instrument taken for collection by a  
5 collecting bank, notice of dishonor must be given (i) by the bank before midnight of the next  
6 banking day following the banking day on which the bank receives notice of dishonor of the  
7 instrument, or (ii) by any other person within 30 days following the day on which the person  
8 receives notice of dishonor. With respect to any other instrument, notice of dishonor must be  
9 given within 30 days following the day on which dishonor occurs.

10 **§3–504. EXCUSED PRESENTMENT AND NOTICE OF DISHONOR.**

11 (a) Presentment for payment or acceptance of an instrument is excused if (i) the person  
12 entitled to present the instrument cannot with reasonable diligence make presentment, (ii) the  
13 maker or acceptor has repudiated an obligation to pay the instrument or is dead or in  
14 insolvency proceedings, (iii) by the terms of the instrument presentment is not necessary to  
15 enforce the obligation of indorsers or the drawer, (iv) the drawer or indorser whose  
16 obligation is being enforced has waived presentment or otherwise has no reason to expect or  
17 right to require that the instrument be paid or accepted, or (v) the drawer instructed the  
18 drawee not to pay or accept the draft or the drawee was not obligated to the drawer to pay the  
19 draft.

20 (b) Notice of dishonor is excused if (i) by the terms of the instrument notice of dishonor  
21 is not necessary to enforce the obligation of a party to pay the instrument, or (ii) the party  
22 whose obligation is being enforced waived notice of dishonor. A waiver of presentment is  
23 also a waiver of notice of dishonor.

24 (c) Delay in giving notice of dishonor is excused if the delay was caused by  
25 circumstances beyond the control of the person giving the notice and the person giving the  
26 notice exercised reasonable diligence after the cause of the delay ceased to operate.

27 **§3–505. EVIDENCE OF DISHONOR.**

28 (a) The following are admissible as evidence and create a presumption of dishonor and  
29 of any notice of dishonor stated:

30 (1) a document regular in form as provided in subsection (b) which purports to be a  
31 protest;



1 subsequently are to be made. Upon request, a transferee shall seasonably furnish reasonable  
2 proof that the note has been transferred. Unless the transferee complies with the request, a  
3 payment to the person that formerly was entitled to enforce the note is effective for purposes  
4 of subsection (c) even if the party obliged to pay the note has received a notification under  
5 this paragraph.

6 (c) Subject to subsection (e), to the extent of a payment under subsections (a) and (b),  
7 the obligation of the party obliged to pay the instrument is discharged even though payment  
8 is made with knowledge of a claim to the instrument under Section 3-306 by another person.

9 (d) Subject to subsection (e), a transferee, or any party that has acquired rights in the  
10 instrument directly or indirectly from a transferee, including any such party that has rights as  
11 a holder in due course, is deemed to have notice of any payment that is made under  
12 subsection (b) after the date that the note is transferred to the transferee but before the party  
13 obliged to pay the note receives adequate notification of the transfer.

14 (e) The obligation of a party to pay the instrument is not discharged under subsections  
15 (a) through (d) if:

16 (1) a claim to the instrument under Section 3-306 is enforceable against the party  
17 receiving payment and (i) payment is made with knowledge by the payor that payment is  
18 prohibited by injunction or similar process of a court of competent jurisdiction, or (ii) in  
19 the case of an instrument other than a cashier's check, teller's check, or certified check,  
20 the party making payment accepted, from the person having a claim to the instrument,  
21 indemnity against loss resulting from refusal to pay the person entitled to enforce the  
22 instrument; or

23 (2) the person making payment knows that the instrument is a stolen instrument and  
24 pays a person it knows is in wrongful possession of the instrument.

25 (f) As used in this section, "signed," with respect to a record that is not a writing,  
26 includes the attachment to or logical association with the record of an electronic symbol,  
27 sound, or process with the present intent to adopt or accept the record.

28 **§3-603. TENDER OF PAYMENT.**

29 (a) If tender of payment of an obligation to pay an instrument is made to a person  
30 entitled to enforce the instrument, the effect of tender is governed by principles of law  
31 applicable to tender of payment under a simple contract.

1           (b) If tender of payment of an obligation to pay an instrument is made to a person  
2           entitled to enforce the instrument and the tender is refused, there is discharge, to the extent of  
3           the amount of the tender, of the obligation of an indorser or accommodation party having a  
4           right of recourse with respect to the obligation to which the tender relates.

5           (c) If tender of payment of an amount due on an instrument is made to a person entitled  
6           to enforce the instrument, the obligation of the obligor to pay interest after the due date on  
7           the amount tendered is discharged. If presentment is required with respect to an instrument  
8           and the obligor is able and ready to pay on the due date at every place of payment stated in  
9           the instrument, the obligor is deemed to have made tender of payment on the due date to the  
10          person entitled to enforce the instrument.

11          **§3-604. DISCHARGE BY CANCELLATION OR RENUNCIATION.**

12          (a) A person entitled to enforce an instrument, with or without consideration, may  
13          discharge the obligation of a party to pay the instrument (i) by an intentional voluntary act,  
14          such as surrender of the instrument to the party, destruction, mutilation, or cancellation of the  
15          instrument, cancellation or striking out of the party’s signature, or the addition of words to  
16          the instrument indicating discharge, or (ii) by agreeing not to sue or otherwise renouncing  
17          rights against the party by a signed record.

18          (b) Cancellation or striking out of an indorsement pursuant to subsection (a) does not  
19          affect the status and rights of a party derived from the indorsement.

20          (c) In this section, “signed,” with respect to a record that is not a writing, includes the  
21          attachment to or logical association with the record of an electronic symbol, sound, or  
22          process with the present intent to adopt or accept the record.

23          **§3-605. DISCHARGE OF SECONDARY OBLIGORS.**

24          (a) If a person entitled to enforce an instrument releases the obligation of a principal  
25          obligor in whole or in part, and another party to the instrument is a secondary obligor with  
26          respect to the obligation of that principal obligor, the following rules apply:

27                  (1) Any obligations of the principal obligor to the secondary obligor with respect to  
28                  any previous payment by the secondary obligor are not affected. Unless the terms of the  
29                  release preserve the secondary obligor’s recourse, the principal obligor is discharged, to  
30                  the extent of the release, from any other duties to the secondary obligor under this article.

1           (2) Unless the terms of the release provide that the person entitled to enforce the  
2           instrument retains the right to enforce the instrument against the secondary obligor, the  
3           secondary obligor is discharged to the same extent as the principal obligor from any  
4           unperformed portion of its obligation on the instrument. If the instrument is a check and  
5           the obligation of the secondary obligor is based on an indorsement of the check, the  
6           secondary obligor is discharged without regard to the language or circumstances of the  
7           discharge or other release.

8           (3) If the secondary obligor is not discharged under paragraph (2), the secondary  
9           obligor is discharged to the extent of the value of the consideration for the release, and to  
10          the extent that the release would otherwise cause the secondary obligor a loss.

11          (b) If a person entitled to enforce an instrument grants a principal obligor an extension of  
12          the time at which one or more payments are due on the instrument and another party to the  
13          instrument is a secondary obligor with respect to the obligation of that principal obligor, the  
14          following rules apply:

15                (1) Any obligations of the principal obligor to the secondary obligor with respect to  
16                any previous payment by the secondary obligor are not affected. Unless the terms of the  
17                extension preserve the secondary obligor's recourse, the extension correspondingly  
18                extends the time for performance of any other duties owed to the secondary obligor by  
19                the principal obligor under this article.

20                (2) The secondary obligor is discharged to the extent that the extension would  
21                otherwise cause the secondary obligor a loss.

22                (3) To the extent that the secondary obligor is not discharged under paragraph (2),  
23                the secondary obligor may perform its obligations to a person entitled to enforce the  
24                instrument as if the time for payment had not been extended or, unless the terms of the  
25                extension provide that the person entitled to enforce the instrument retains the right to  
26                enforce the instrument against the secondary obligor as if the time for payment had not  
27                been extended, treat the time for performance of its obligations as having been extended  
28                correspondingly.

29          (c) If a person entitled to enforce an instrument agrees, with or without consideration, to  
30          a modification of the obligation of a principal obligor other than a complete or partial release

1 or an extension of the due date and another party to the instrument is a secondary obligor  
2 with respect to the obligation of that principal obligor, the following rules apply:

3 (1) Any obligations of the principal obligor to the secondary obligor with respect to  
4 any previous payment by the secondary obligor are not affected. The modification  
5 correspondingly modifies any other duties owed to the secondary obligor by the principal  
6 obligor under this article.

7 (2) The secondary obligor is discharged from any unperformed portion of its  
8 obligation to the extent that the modification would otherwise cause the secondary  
9 obligor a loss.

10 (3) To the extent that the secondary obligor is not discharged under paragraph (2),  
11 the secondary obligor may satisfy its obligation on the instrument as if the modification  
12 had not occurred, or treat its obligation on the instrument as having been modified  
13 correspondingly.

14 (d) If the obligation of a principal obligor is secured by an interest in collateral, another  
15 party to the instrument is a secondary obligor with respect to that obligation, and a person  
16 entitled to enforce the instrument impairs the value of the interest in collateral, the obligation  
17 of the secondary obligor is discharged to the extent of the impairment. The value of an  
18 interest in collateral is impaired to the extent the value of the interest is reduced to an amount  
19 less than the amount of the recourse of the secondary obligor, or the reduction in value of the  
20 interest causes an increase in the amount by which the amount of the recourse exceeds the  
21 value of the interest. For purposes of this subsection, impairing the value of an interest in  
22 collateral includes failure to obtain or maintain perfection or recordation of the interest in  
23 collateral, release of collateral without substitution of collateral of equal value or equivalent  
24 reduction of the underlying obligation, failure to perform a duty to preserve the value of  
25 collateral owed, under Article 9 or other law, to a debtor or other person secondarily liable,  
26 and failure to comply with applicable law in disposing of or otherwise enforcing the interest  
27 in collateral.

28 (e) A secondary obligor is not discharged under subsections (a)(3), (b), (c), or (d) unless  
29 the person entitled to enforce the instrument knows that the person is a secondary obligor or  
30 has notice under Section 3-419(c) that the instrument was signed for accommodation.

1           (f) A secondary obligor is not discharged under this section if the secondary obligor  
2           consents to the event or conduct that is the basis of the discharge, or the instrument or a  
3           separate agreement of the party provides for waiver of discharge under this section  
4           specifically or by general language indicating that parties waive defenses based on suretyship  
5           or impairment of collateral. Unless the circumstances indicate otherwise, consent by the  
6           principal obligor to an act that would lead to a discharge under this section constitutes  
7           consent to that act by the secondary obligor if the secondary obligor controls the principal  
8           obligor or deals with the person entitled to enforce the instrument on behalf of the principal  
9           obligor.

10           (g) A release or extension preserves a secondary obligor’s recourse if the terms of the  
11           release or extension provide that:

12                   (1) the person entitled to enforce the instrument retains the right to enforce the  
13                   instrument against the secondary obligor; and

14                   (2) the recourse of the secondary obligor continues as if the release or extension had  
15                   not been granted.

16           (h) Except as otherwise provided in subsection (i), a secondary obligor asserting  
17           discharge under this section has the burden of persuasion both with respect to the occurrence  
18           of the acts alleged to harm the secondary obligor and loss or prejudice caused by those acts.

19           (i) If the secondary obligor demonstrates prejudice caused by an impairment of its  
20           recourse, and the circumstances of the case indicate that the amount of loss is not reasonably  
21           susceptible of calculation or requires proof of facts that are not ascertainable, it is presumed  
22           that the act impairing recourse caused a loss or impairment equal to the liability of the  
23           secondary obligor on the instrument. In that event, the burden of persuasion as to any lesser  
24           amount of the loss is on the person entitled to enforce the instrument.

25

1 § 27. Article 4 of the uniform commercial code is REPEALED and a new article 4 is added to  
2 read as follows:

3 **ARTICLE 4 – BANK DEPOSITS-COLLECTIONS**

4 **GENERAL PROVISIONS AND DEFINITIONS**

5 **SECTION 4–101. SHORT TITLE.**

6 This Article may be cited as Uniform Commercial Code—Bank Deposits and Collections.

7 **§4–102. APPLICABILITY.**

8 (a) To the extent that items within this Article are also within Articles 3 and 8, they are  
9 subject to those Articles. If there is conflict, this Article governs Article 3, but Article 8  
10 governs this Article.

11 (b) The liability of a bank for action or non-action with respect to an item handled by it  
12 for purposes of presentment, payment, or collection is governed by the law of the place  
13 where the bank is located. In the case of action or non-action by or at a branch or separate  
14 office of a bank, its liability is governed by the law of the place where the branch or separate  
15 office is located.

16 **§4–103. VARIATION BY AGREEMENT; MEASURE OF DAMAGES; ACTION**  
17 **CONSTITUTING ORDINARY CARE.**

18 (a) The effect of the provisions of this Article may be varied by agreement, but the  
19 parties to the agreement cannot disclaim a bank’s responsibility for its lack of good faith or  
20 failure to exercise ordinary care or limit the measure of damages for the lack or failure.  
21 However, the parties may determine by agreement the standards by which the bank’s  
22 responsibility is to be measured if those standards are not manifestly unreasonable.

23 (b) Federal Reserve regulations and operating circulars, clearing-house rules, and the like  
24 have the effect of agreements under subsection (a), whether or not specifically assented to by  
25 all parties interested in items handled.

26 (c) Action or non-action approved by this Article or pursuant to Federal Reserve  
27 regulations or operating circulars is the exercise of ordinary care and, in the absence of  
28 special instructions, action or non-action consistent with clearing-house rules and the like or  
29 with a general banking usage not disapproved by this Article, is prima facie the exercise of  
30 ordinary care.

1           (d) The specification or approval of certain procedures by this Article is not disapproval  
2           of other procedures that may be reasonable under the circumstances.

3           (e) The measure of damages for failure to exercise ordinary care in handling an item is  
4           the amount of the item reduced by an amount that could not have been realized by the  
5           exercise of ordinary care. If there is also bad faith it includes any other damages the party  
6           suffered as a proximate consequence.

7           **§4-104. DEFINITIONS AND INDEX OF DEFINITIONS.**

8           (a) In this Article, unless the context otherwise requires:

9                   (1) “Account” means any deposit or credit account with a bank, including a demand,  
10                   time, savings, passbook, share draft, or like account, other than an account evidenced by  
11                   a certificate of deposit;

12                   (2) “Afternoon” means the period of a day between noon and midnight;

13                   (3) “Banking day” means the part of a day on which a bank is open to the public for  
14                   carrying on substantially all of its banking functions;

15                   (4) “Clearing house” means an association of banks or other payors regularly  
16                   clearing items;

17                   (5) “Customer” means a person having an account with a bank or for whom a bank  
18                   has agreed to collect items, including a bank that maintains an account at another bank;

19                   (6) “Documentary draft” means a draft to be presented for acceptance or payment if  
20                   specified documents, certificated securities (Section 8-102) or instructions for  
21                   uncertificated securities (Section 8-102), or other certificates, statements, or the like are  
22                   to be received by the drawee or other payor before acceptance or payment of the draft;

23                   (7) “Draft” means a draft as defined in Section 3-104 or an item, other than an  
24                   instrument, that is an order;

25                   (8) “Drawee” means a person ordered in a draft to make payment;

26                   (9) “Item” means an instrument or a promise or order to pay money handled by a  
27                   bank for collection or payment. The term does not include a payment order governed by  
28                   Article 4A or a credit or debit card slip;

29                   (10) “Midnight deadline” with respect to a bank is midnight on its next banking day  
30                   following the banking day on which it receives the relevant item or notice or from which  
31                   the time for taking action commences to run, whichever is later;

1           (11) “Settle” means to pay in cash, by clearing-house settlement, in a charge or credit  
2           or by remittance, or otherwise as agreed. A settlement may be either provisional or final;

3           (12) “Suspends payments” with respect to a bank means that it has been closed by  
4           order of the supervisory authorities, that a public officer has been appointed to take it  
5           over, or that it ceases or refuses to make payments in the ordinary course of business.

6           (b) Other definitions applying to this Article and the sections in which they appear are:

7           “Agreement for electronic presentment” ..... Section 4-110.  
8           “Collecting bank” ..... Section 4-105.  
9           “Depository bank” ..... Section 4-105.  
10          “Intermediary bank” ..... Section 4-105.  
11          “Payor bank” ..... Section 4-105.  
12          “Presenting bank” ..... Section 4-105.  
13          “Presentment notice” ..... Section 4-110.

14          (c) The following definitions in other Articles apply to this Article:

15          “Acceptance” ..... Section 3-409.  
16          “Alteration” ..... Section 3-407.  
17          “Cashier’s check” ..... Section 3-104.  
18          “Certificate of deposit” ..... Section 3-104.  
19          “Certified check” ..... Section 3-409.  
20          “Check” ..... Section 3-104.  
21          “Control” ..... Section 7-106  
22          “Good faith” ..... Section 3-103.  
23          “Holder in due course” ..... Section 3-302.  
24          “Instrument” ..... Section 3-104.  
25          “Notice of dishonor” ..... Section 3-503.  
26          “Order” ..... Section 3-103.  
27          “Ordinary care” ..... Section 3-103.  
28          “Person entitled to enforce” ..... Section 3-301.  
29          “Presentment” ..... Section 3-501.  
30          “Promise” ..... Section 3-103.  
31          “Prove” ..... Section 3-103.

- 1        “Record” ..... Section 3-103.
- 2        “Remotely-Created consumer item” ..... Section 3-103.
- 3        “Teller’s check” ..... Section 3-104.
- 4        “Unauthorized signature”..... Section 3-403.

5            (d) In addition, Article 1 contains general definitions and principles of construction and  
6            interpretation applicable throughout this Article.

7        **§4-105. DEFINITIONS OF TYPES OF BANKS.**

8            In this Article:

9            (1) [Reserved]

10           (2) “Depository bank” means the first bank to take an item even though it is also the  
11           payor bank, unless the item is presented for immediate payment over the counter;

12           (3) “Payor bank” means a bank that is the drawee of a draft;

13           (4) “Intermediary bank” means a bank to which an item is transferred in course of  
14           collection except the depository or payor bank;

15           (5) “Collecting bank” means a bank handling an item for collection except the payor  
16           bank;

17           (6) “Presenting bank” means a bank presenting an item except a payor bank.

18        **§4-106. PAYABLE THROUGH OR PAYABLE AT BANK: COLLECTING BANK**

19           (a) If an item states that it is “payable through” a bank identified in the item, (i) the item  
20           designates the bank as a collecting bank and does not by itself authorize the bank to pay the  
21           item, and (ii) the item may be presented for payment only by or through the bank.

22           (b) If an item states that it is “payable at” a bank identified in the item, the item is  
23           equivalent to a draft drawn on the bank.

24           (c) If a draft names a nonbank drawee and it is unclear whether a bank named in the draft  
25           is a co-drawee or a collecting bank, the bank is a collecting bank.

26        **§4-107. SEPARATE OFFICE OF BANK.**

27           A branch or separate office of a bank is a separate bank for the purpose of computing the  
28           time within which and determining the place at or to which action may be taken or notices or  
29           orders shall be given under this Article and under Article 3.

1 **§4-108. TIME OF RECEIPT OF ITEMS.**

2 (a) For the purpose of allowing time to process items, prove balances, and make the  
3 necessary entries on its books to determine its position for the day, a bank may fix an  
4 afternoon hour of 2 P.M. or later as a cutoff hour for the handling of money and items and  
5 the making of entries on its books.

6 (b) An item or deposit of money received on any day after a cutoff hour so fixed or after  
7 the close of the banking day may be treated as being received at the opening of the next  
8 banking day.

9 **§4-109. DELAYS.**

10 (a) Unless otherwise instructed, a collecting bank in a good faith effort to secure  
11 payment of a specific item drawn on a payor other than a bank, and with or without the  
12 approval of any person involved, may waive, modify, or extend time limits imposed or  
13 permitted by this Act for a period not exceeding two additional banking days without  
14 discharge of drawers or indorsers or liability to its transferor or a prior party.

15 (b) Delay by a collecting bank or payor bank beyond time limits prescribed or permitted  
16 by this Act or by instructions is excused if (i) the delay is caused by interruption of  
17 communication or computer facilities, suspension of payments by another bank, war,  
18 emergency conditions, failure of equipment, or other circumstances beyond the control of the  
19 bank, and (ii) the bank exercises such diligence as the circumstances require.

20 **§4-110. ELECTRONIC PRESENTMENT.**

21 (a) “Agreement for electronic presentment” means an agreement, clearing-house rule, or  
22 Federal Reserve regulation or operating circular, providing that presentment of an item may  
23 be made by transmission of an image of an item or information describing the item  
24 (“presentment notice”) rather than delivery of the item itself. The agreement may provide for  
25 procedures governing retention, presentment, payment, dishonor, and other matters  
26 concerning items subject to the agreement.

27 (b) Presentment of an item pursuant to an agreement for presentment is made when the  
28 presentment notice is received.

29 (c) If presentment is made by presentment notice, a reference to “item” or “check” in this  
30 Article means the presentment notice unless the context otherwise indicates.

1 **§4-111. STATUTE OF LIMITATIONS.**

2 An action to enforce an obligation, duty, or right arising under this Article must be  
3 commenced within three years after the cause of action accrues.

4 **PART 2**

5 **COLLECTION OF ITEMS: DEPOSITARY AND COLLECTING BANKS**

6 **§4-201. STATUS OF COLLECTING BANK AS AGENT AND PROVISIONAL STATUS**  
7 **OF CREDITS; APPLICABILITY OF ARTICLE; ITEM INDORSED “PAY ANY**  
8 **BANK”.**

9 (a) Unless a contrary intent clearly appears and before the time that a settlement given by  
10 a collecting bank for an item is or becomes final, the bank, with respect to an item, is an  
11 agent or sub-agent of the owner of the item and any settlement given for the item is  
12 provisional. This provision applies regardless of the form of indorsement or lack of  
13 indorsement and even though credit given for the item is subject to immediate withdrawal as  
14 of right or is in fact withdrawn; but the continuance of ownership of an item by its owner  
15 and any rights of the owner to proceeds of the item are subject to rights of a collecting bank,  
16 such as those resulting from outstanding advances on the item and rights of recoupment or  
17 setoff. If an item is handled by banks for purposes of presentment, payment, collection, or  
18 return, the relevant provisions of this Article apply even though action of the parties clearly  
19 establishes that a particular bank has purchased the item and is the owner of it.

20 (b) After an item has been indorsed with the words “pay any bank” or the like, only a  
21 bank may acquire the rights of a holder until the item has been:

22 (1) returned to the customer initiating collection; or

23 (2) specially indorsed by a bank to a person who is not a bank.

24 **§4-202. RESPONSIBILITY FOR COLLECTION OR RETURN; WHEN ACTION**  
25 **TIMELY.**

26 (a) A collecting bank must exercise ordinary care in:

27 (1) presenting an item or sending it for presentment;

28 (2) sending notice of dishonor or nonpayment or returning an item other than a  
29 documentary draft to the bank’s transferor after learning that the item has not been paid  
30 or accepted, as the case may be;

31 (3) settling for an item when the bank receives final settlement; and

1           (4) notifying its transferor of any loss or delay in transit within a reasonable time  
2           after discovery thereof.

3           (b) A collecting bank exercises ordinary care under subsection (a) by taking proper  
4           action before its midnight deadline following receipt of an item, notice, or settlement.  
5           Taking proper action within a reasonably longer time may constitute the exercise of ordinary  
6           care, but the bank has the burden of establishing timeliness.

7           (c) Subject to subsection (a)(1), a bank is not liable for the insolvency, neglect,  
8           misconduct, mistake, or default of another bank or person or for loss or destruction of an item  
9           in the possession of others or in transit.

10 **§4–203. EFFECT OF INSTRUCTIONS.**

11           Subject to Article 3 concerning conversion of instruments (Section 3–420) and restrictive  
12           indorsements (Section 3–206), only a collecting bank’s transferor can give instructions that  
13           affect the bank or constitute notice to it, and a collecting bank is not liable to prior parties for any  
14           action taken pursuant to the instructions or in accordance with any agreement with its transferor.

15 **§4–204. METHODS OF SENDING AND PRESENTING; SENDING DIRECTLY TO**  
16 **PAYOR BANK.**

17           (a) A collecting bank shall send items by a reasonably prompt method, taking into  
18           consideration relevant instructions, the nature of the item, the number of those items on hand,  
19           the cost of collection involved, and the method generally used by it or others to present those  
20           items.

21           (b) A collecting bank may send:

- 22                   (1) an item directly to the payor bank;  
23                   (2) an item to a nonbank payor if authorized by its transferor; and  
24                   (3) an item other than documentary drafts to a nonbank payor, if authorized by  
25                   Federal Reserve regulation or operating circular, clearing-house rule, or the like.

26           (c) Presentment may be made by a presenting bank at a place where the payor bank or  
27           other payor has requested that presentment be made.

28 **§4–205. DEPOSITARY BANK HOLDER OF UNINDORSED ITEM.**

29           If a customer delivers an item to a depositary bank for collection:

30                   (1) the depositary bank becomes a holder of the item at the time it receives the item for  
31                   collection if the customer at the time of delivery was a holder of the item, whether or not the

1 customer indorses the item, and, if the bank satisfies the other requirements of Section 3–  
2 302, it is a holder in due course; and

3 (2) the depository bank warrants to collecting banks, the payor bank or other payor, and  
4 the drawer that the amount of the item was paid to the customer or deposited to the  
5 customer’s account.

6 **§4-206. TRANSFER BETWEEN BANKS.**

7 Any agreed method that identifies the transferor bank is sufficient for the item’s further  
8 transfer to another bank.

9 **§4-207. TRANSFER WARRANTIES.**

10 (a) A customer or collecting bank that transfers an item and receives a settlement or  
11 other consideration warrants to the transferee and to any subsequent collecting bank that:

12 (1) the warrantor is a person entitled to enforce the item;

13 (2) all signatures on the item are authentic and authorized;

14 (3) the item has not been altered;

15 (4) the item is not subject to a defense or claim in recoupment (Section 3–305(a)) of  
16 any party that can be asserted against the warrantor;

17 (5) the warrantor has no knowledge of any insolvency proceeding commenced with  
18 respect to the maker or acceptor or, in the case of an unaccepted draft, the drawer; and

19 (6) with respect to any remotely-created consumer item, that the person on whose  
20 account the item is drawn authorized the issuance of the item in the amount for which the  
21 item is drawn.

22 (b) If an item is dishonored, a customer or collecting bank transferring the item and  
23 receiving settlement or other consideration is obliged to pay the amount due on the item (i)  
24 according to the terms of the item at the time it was transferred, or (ii) if the transfer was of  
25 an incomplete item, according to its terms when completed as stated in Sections 3–115 and  
26 3–407. The obligation of a transferor is owed to the transferee and to any subsequent  
27 collecting bank that takes the item in good faith. A transferor cannot disclaim its obligation  
28 under this subsection by an indorsement stating that it is made “without recourse” or  
29 otherwise disclaiming liability.

30 (c) A person to whom the warranties under subsection (a) are made and who took the  
31 item in good faith may recover from the warrantor as damages for breach of warranty an

1 amount equal to the loss suffered as a result of the breach, but not more than the amount of  
2 the item plus expenses and loss of interest incurred as a result of the breach.

3 (d) The warranties stated in subsection (a) cannot be disclaimed with respect to checks.  
4 Unless notice of a claim for breach of warranty is given to the warrantor within 30 days after  
5 the claimant has reason to know of the breach and the identity of the warrantor, the warrantor  
6 is discharged to the extent of any loss caused by the delay in giving notice of the claim.

7 (e) A cause of action for breach of warranty under this section accrues when the claimant  
8 has reason to know of the breach.

9 **§4-208. PRESENTMENT WARRANTIES.**

10 (a) If an unaccepted draft is presented to the drawee for payment or acceptance and the  
11 drawee pays or accepts the draft, (i) the person obtaining payment or acceptance, at the time  
12 of presentment, and (ii) a previous transferor of the draft, at the time of transfer, warrant to  
13 the drawee that pays or accepts the draft in good faith that:

14 (1) the warrantor is, or was, at the time the warrantor transferred the draft, a person  
15 entitled to enforce the draft or authorized to obtain payment or acceptance of the draft on  
16 behalf of a person entitled to enforce the draft;

17 (2) the draft has not been altered; and

18 (3) the warrantor has no knowledge that the signature of the purported drawer of the  
19 draft is unauthorized; and

20 (4) with respect to any remotely-created consumer item, that the person on whose  
21 account the item is drawn authorized the issuance of the item in the amount for which the  
22 item is drawn.

23 (b) A drawee making payment may recover from a warrantor damages for breach of  
24 warranty equal to the amount paid by the drawee less the amount the drawee received or is  
25 entitled to receive from the drawer because of the payment. In addition, the drawee is  
26 entitled to compensation for expenses and loss of interest resulting from the breach. The  
27 right of the drawee to recover damages under this subsection is not affected by any failure of  
28 the drawee to exercise ordinary care in making payment. If the drawee accepts the draft (i)  
29 breach of warranty is a defense to the obligation of the acceptor, and (ii) if the acceptor  
30 makes payment with respect to the draft, the acceptor is entitled to recover from a warrantor  
31 for breach of warranty the amounts stated in this subsection.

1           (c) If a drawee asserts a claim for breach of warranty under subsection (a) based on an  
2 unauthorized indorsement of the draft or an alteration of the draft, the warrantor may defend  
3 by proving that the indorsement is effective under Section 3–404 or 3–405 or the drawer is  
4 precluded under Section 3–406 or 4–406 from asserting against the drawee the unauthorized  
5 indorsement or alteration.

6           (d) If (i) a dishonored draft is presented for payment to the drawer or an indorser or (ii)  
7 any other item is presented for payment to a party obliged to pay the item, and the item is  
8 paid, the person obtaining payment and a prior transferor of the item warrant to the person  
9 making payment in good faith that the warrantor is, or was, at the time the warrantor  
10 transferred the item, a person entitled to enforce the item or authorized to obtain payment on  
11 behalf of a person entitled to enforce the item. The person making payment may recover  
12 from any warrantor for breach of warranty an amount equal to the amount paid plus expenses  
13 and loss of interest resulting from the breach.

14           (e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to  
15 checks. Unless notice of a claim for breach of warranty is given to the warrantor within 30  
16 days after the claimant has reason to know of the breach and the identity of the warrantor, the  
17 warrantor is discharged to the extent of any loss caused by the delay in giving notice of the  
18 claim.

19           (f) A cause of action for breach of warranty under this section accrues when the claimant  
20 has reason to know of the breach.

21 **§4–209. ENCODING AND RETENTION WARRANTIES.**

22           (a) A person who encodes information on or with respect to an item after issue warrants  
23 to any subsequent collecting bank and to the payor bank or other payor that the information is  
24 correctly encoded. If the customer of a depository bank encodes, that bank also makes the  
25 warranty.

26           (b) A person who undertakes to retain an item pursuant to an agreement for electronic  
27 presentment warrants to any subsequent collecting bank and to the payor bank or other payor  
28 that retention and presentment of the item comply with the agreement. If a customer of a  
29 depository bank undertakes to retain an item, that bank also makes this warranty.

30           (c) A person to whom warranties are made under this section and who took the item in  
31 good faith may recover from the warrantor as damages for breach of warranty an amount

1 equal to the loss suffered as a result of the breach, plus expenses and loss of interest incurred  
2 as a result of the breach.

3 **§4-210. SECURITY INTEREST OF COLLECTING BANK IN ITEMS,**  
4 **ACCOMPANYING DOCUMENTS AND PROCEEDS.**

5 (a) A collecting bank has a security interest in an item and any accompanying documents  
6 or the proceeds of either:

7 (1) in case of an item deposited in an account, to the extent to which credit given for  
8 the item has been withdrawn or applied;

9 (2) in case of an item for which it has given credit available for withdrawal as of  
10 right, to the extent of the credit given, whether or not the credit is drawn upon or there is  
11 a right of charge-back; or

12 (3) if it makes an advance on or against the item.

13 (b) If credit given for several items received at one time or pursuant to a single  
14 agreement is withdrawn or applied in part, the security interest remains upon all the items,  
15 any accompanying documents or the proceeds of either. For the purpose of this section,  
16 credits first given are first withdrawn.

17 (c) Receipt by a collecting bank of a final settlement for an item is a realization on its  
18 security interest in the item, accompanying documents, and proceeds. So long as the bank  
19 does not receive final settlement for the item or give up possession of the item or possession  
20 or control of the accompanying documents for purposes other than collection, the security  
21 interest continues to that extent and is subject to Article 9, but:

22 (1) no security agreement is necessary to make the security interest enforceable  
23 (Section 9-203(b)(3)(a));

24 (2) no filing is required to perfect the security interest; and

25 (3) the security interest has priority over conflicting perfected security interests in the  
26 item, accompanying documents, or proceeds.

27 **§4-211. WHEN BANK GIVES VALUE FOR PURPOSES OF HOLDER IN DUE**  
28 **COURSE.**

29 For purposes of determining its status as a holder in due course, a bank has given value to the  
30 extent it has a security interest in an item, if the bank otherwise complies with the requirements  
31 of Section 3-302 on what constitutes a holder in due course.

1 **§4-212. PRESENTMENT BY NOTICE OF ITEM NOT PAYABLE BY, THROUGH, OR**  
2 **AT BANK; LIABILITY OF DRAWER OR INDORSER.**

3 (a) Unless otherwise instructed, a collecting bank may present an item not payable by,  
4 through, or at a bank by sending to the party to accept or pay a record providing notice that  
5 the bank holds the item for acceptance or payment. The notice must be sent in time to be  
6 received on or before the day when presentment is due and the bank must meet any  
7 requirement of the party to accept or pay under Section 3-501 by the close of the bank's next  
8 banking day after it knows of the requirement.

9 (b) If presentment is made by notice and payment, acceptance, or request for compliance  
10 with a requirement under Section 3-501 is not received by the close of business on the day  
11 after maturity or, in the case of demand items, by the close of business on the third banking  
12 day after notice was sent, the presenting bank may treat the item as dishonored and charge  
13 any drawer or indorser by sending it notice of the facts.

14 **§4-213. MEDIUM AND TIME OF SETTLEMENT BY BANK.**

15 (a) With respect to settlement by a bank, the medium and time of settlement may be  
16 prescribed by Federal Reserve regulations or circulars, clearing-house rules, and the like, or  
17 agreement. In the absence of such prescription:

18 (1) the medium of settlement is cash or credit to an account in a Federal Reserve  
19 bank of or specified by the person to receive settlement; and

20 (2) the time of settlement, is:

21 (i) with respect to tender of settlement by cash, a cashier's check, or teller's  
22 check, when the cash or check is sent or delivered;

23 (ii) with respect to tender of settlement by credit in an account in a Federal  
24 Reserve Bank, when the credit is made;

25 (iii) with respect to tender of settlement by a credit or debit to an account in a  
26 bank, when the credit or debit is made or, in the case of tender of settlement by  
27 authority to charge an account, when the authority is sent or delivered; or

28 (iv) with respect to tender of settlement by a funds transfer, when payment is  
29 made pursuant to Section 4A-406(a) to the person receiving settlement.

1           **(b) If the tender of settlement is not by a medium authorized by subsection (a) or the**  
2           **time of settlement is not fixed by subsection (a), no settlement occurs until the tender of**  
3           **settlement is accepted by the person receiving settlement.**

4           **(c) If settlement for an item is made by cashier’s check or teller’s check and the person**  
5           **receiving settlement, before its midnight deadline:**

6                   **(1) presents or forwards the check for collection, settlement is final when the check is**  
7                   **finally paid; or**

8                   **(2) fails to present or forward the check for collection, settlement is final at the**  
9                   **midnight deadline of the person receiving settlement.**

10           **(d) If settlement for an item is made by giving authority to charge the account of the**  
11           **bank giving settlement in the bank receiving settlement, settlement is final when the charge is**  
12           **made by the bank receiving settlement if there are funds available in the account for the**  
13           **amount of the item.**

14           **§4-214. RIGHT OF CHARGE – BACK OR REFUND; LIABILITY OF COLLECTING**  
15           **BANK; RETURN OF ITEM.**

16           **(a) If a collecting bank has made provisional settlement with its customer for an item and**  
17           **fails by reason of dishonor, suspension of payments by a bank, or otherwise to receive**  
18           **settlement for the item which is or becomes final, the bank may revoke the settlement given**  
19           **by it, charge back the amount of any credit given for the item to its customer’s account, or**  
20           **obtain refund from its customer, whether or not it is able to return the item, if by its midnight**  
21           **deadline or within a longer reasonable time after it learns the facts it returns the item or sends**  
22           **notification of the facts. If the return or notice is delayed beyond the bank’s midnight**  
23           **deadline or a longer reasonable time after it learns the facts, the bank may revoke the**  
24           **settlement, charge back the credit, or obtain refund from its customer, but it is liable for any**  
25           **loss resulting from the delay. These rights to revoke, charge back, and obtain refund**  
26           **terminate if and when a settlement for the item received by the bank is or becomes final.**

27           **(b) A collecting bank returns an item when it is sent or delivered to the bank’s customer**  
28           **or transferor or pursuant to its instructions.**

29           **(c) A depository bank that is also the payor may charge back the amount of an item to its**  
30           **customer’s account or obtain refund in accordance with the section governing return of an**  
31           **item received by a payor bank for credit on its books (Section 4-301).**

1           (d) The right to charge back is not affected by:

2                   (1) previous use of a credit given for the item; or

3                   (2) failure by any bank to exercise ordinary care with respect to the item, but a bank  
4                   so failing remains liable.

5           (e) A failure to charge back or claim refund does not affect other rights of the bank  
6           against the customer or any other party.

7           (f) If credit is given in dollars as the equivalent of the value of an item payable in foreign  
8           money, the dollar amount of any charge-back or refund must be calculated on the basis of the  
9           bank-offered spot rate for the foreign money prevailing on the day when the person entitled  
10           to the charge-back or refund learns that it will not receive payment in ordinary course.

11   **§4-215. FINAL PAYMENT OF ITEM BY PAYOR BANK; WHEN PROVISIONAL**  
12   **DEBITS AND CREDITS BECOME FINAL; WHEN CERTAIN CREDITS BECOME**  
13   **AVAILABLE FOR WITHDRAWAL.**

14           (a) An item is finally paid by a payor bank when the bank has first done any of the  
15           following:

16                   (1) paid the item in cash;

17                   (2) settled for the item without having a right to revoke the settlement under statute,  
18                   clearing-house rule, or agreement; or

19                   (3) made a provisional settlement for the item and failed to revoke the settlement in  
20                   the time and manner permitted by statute, clearing-house rule, or agreement.

21           (b) If provisional settlement for an item does not become final, the item is not finally  
22           paid.

23           (c) If provisional settlement for an item between the presenting and payor banks is made  
24           through a clearing house or by debits or credits in an account between them, then to the  
25           extent that provisional debits or credits for the item are entered in accounts between the  
26           presenting and payor banks or between the presenting and successive prior collecting banks  
27           seriatim, they become final upon final payment of the item by the payor bank.

28           (d) If a collecting bank receives a settlement for an item which is or becomes final, the  
29           bank is accountable to its customer for the amount of the item and any provisional credit  
30           given for the item in an account with its customer becomes final.



1 **§4-301. POSTING; RECOVERY OF PAYMENT BY RETURN OF ITEMS; TIME OF**  
2 **DISHONOR; RETURN OF ITEMS BY PAYOR BANK.**

3 (a) If a payor bank settles for a demand item other than a documentary draft presented  
4 otherwise than for immediate payment over the counter before midnight of the banking day  
5 of receipt, the payor bank may revoke the settlement and recover the settlement if, before it  
6 has made final payment and before its midnight deadline, it

7 (1) returns the item;

8 (2) returns an image of the item, if the party to which the return is made has entered  
9 into an agreement to accept an image as a return of the item and the image is returned in  
10 accordance with that agreement; or

11 (3) sends a record providing notice of dishonor or nonpayment if the item is  
12 unavailable for return.

13 (b) If a demand item is received by a payor bank for credit on its books, it may return the  
14 item or send notice of dishonor and may revoke any credit given or recover the amount  
15 thereof withdrawn by its customer, if it acts within the time limit and in the manner specified  
16 in subsection (a).

17 (c) Unless previous notice of dishonor has been sent, an item is dishonored at the time  
18 when for purposes of dishonor it is returned or notice sent in accordance with this section.

19 (d) An item is returned:

20 (1) as to an item presented through a clearing house, when it is delivered to the  
21 presenting or last collecting bank or to the clearing house or is sent or delivered in  
22 accordance with clearing-house rules; or

23 (2) in all other cases, when it is sent or delivered to the bank's customer or transferor  
24 or pursuant to instructions.

25 **§4-302. PAYOR'S BANK RESPONSIBILITY FOR LATE RETURN OF ITEM.**

26 (a) If an item is presented to and received by a payor bank, the bank is accountable for  
27 the amount of:

28 (1) a demand item, other than a documentary draft, whether properly payable or not,  
29 if the bank, in any case in which it is not also the depository bank, retains the item beyond  
30 midnight of the banking day of receipt without settling for it or, whether or not it is also

1 the depository bank, does not pay or return the item or send notice of dishonor until after  
2 its midnight deadline; or

3 (2) any other properly payable item unless, within the time allowed for acceptance or  
4 payment of that item, the bank either accepts or pays the item or returns it and  
5 accompanying documents.

6 (b) The liability of a payor bank to pay an item pursuant to subsection (a) is subject to  
7 defenses based on breach of a presentment warranty (Section 4–208) or proof that the person  
8 seeking enforcement of the liability presented or transferred the item for the purpose of  
9 defrauding the payor bank.

10 **§4–303. WHEN ITEMS SUBJECT TO NOTICE, STOP-PAYMENT ORDER, LEGAL**  
11 **PROCESS, OR SETOFF; ORDER IN WHICH ITEMS MAY BE CHANGED OR**  
12 **CERTIFIED.**

13 (a) Any knowledge, notice, or stop-payment order received by, legal process served  
14 upon, or setoff exercised by a payor bank comes too late to terminate, suspend, or modify the  
15 bank’s right or duty to pay an item or to charge its customer’s account for the item if the  
16 knowledge, notice, stop-payment order, or legal process is received or served and a  
17 reasonable time for the bank to act thereon expires or the setoff is exercised after the earliest  
18 of the following:

19 (1) the bank accepts or certifies the item;

20 (2) the bank pays the item in cash;

21 (3) the bank settles for the item without having a right to revoke the settlement under  
22 statute, clearing-house rule, or agreement;

23 (4) the bank becomes accountable for the amount of the item under Section 4–302  
24 dealing with the payor bank’s responsibility for late return of items; or

25 (5) with respect to checks, a cutoff hour no earlier than one hour after the opening of  
26 the next banking day after the banking day on which the bank received the check and no  
27 later than the close of that next banking day or, if no cutoff hour is fixed, the close of the  
28 next banking day after the banking day on which the bank received the check.

29 (b) Subject to subsection (a), items may be accepted, paid, certified, or charged to the  
30 indicated account of its customer in any order.

**PART 4**

**RELATIONSHIP BETWEEN PAYOR BANK AND ITS CUSTOMER**

**§4-401. WHEN BANK MAY CHARGE CUSTOMER’S ACCOUNT.**

1  
2  
3  
4       (a) A bank may charge against the account of a customer an item that is properly payable  
5 from the account even though the charge creates an overdraft. An item is properly payable if  
6 it is authorized by the customer and is in accordance with any agreement between the  
7 customer and bank.

8       (b) A customer is not liable for the amount of an overdraft if the customer neither signed  
9 the item nor benefited from the proceeds of the item.

10       (c) A bank may charge against the account of a customer a check that is otherwise  
11 properly payable from the account, even though payment was made before the date of the  
12 check, unless the customer has given notice to the bank of the postdating describing the  
13 check with reasonable certainty. The notice is effective for the period stated in Section 4–  
14 403(b) for stop-payment orders, and must be received at such time and in such manner as to  
15 afford the bank a reasonable opportunity to act on it before the bank takes any action with  
16 respect to the check described in Section 4–303. If a bank charges against the account of a  
17 customer a check before the date stated in the notice of postdating, the bank is liable for  
18 damages for the loss resulting from its act. The loss may include damages for dishonor of  
19 subsequent items under Section 4–402.

20       (d) A bank that in good faith makes payment to a holder may charge the indicated  
21 account of its customer according to:

- 22           (1) the original terms of the altered item; or  
23           (2) the terms of the completed item, even though the bank knows the item has been  
24 completed unless the bank has notice that the completion was improper.

25 **§4-402. BANK’S LIABILITY TO CUSTOMER FOR WRONGFUL DISHONOR, TIME**  
26 **OF DETERMINING INSUFFICIENT OF ACCOUNT**

27       (a) Except as otherwise provided in this Article, a payor bank wrongfully dishonors an  
28 item if it dishonors an item that is properly payable, but a bank may dishonor an item that  
29 would create an overdraft unless it has agreed to pay the overdraft.

30       (b) A payor bank is liable to its customer for damages proximately caused by the  
31 wrongful dishonor of an item. Liability is limited to actual damages proved and may include

1 damages for an arrest or prosecution of the customer or other consequential damages.  
2 Whether any consequential damages are proximately caused by the wrongful dishonor is a  
3 question of fact to be determined in each case.

4 (c) A payor bank's determination of the customer's account balance on which a decision  
5 to dishonor for insufficiency of available funds is based may be made at any time between  
6 the time the item is received by the payor bank and the time that the payor bank returns the  
7 item or gives notice in lieu of return, and no more than one determination need be made. If,  
8 at the election of the payor bank, a subsequent balance determination is made for the purpose  
9 of reevaluating the bank's decision to dishonor the item, the account balance at that time is  
10 determinative of whether a dishonor for insufficiency of available funds is wrongful.

11 **§4-403. CUSTOMER'S RIGHT TO STOP PAYMENT; BURDEN OF PROOF OF LOSS.**

12 (a) A customer or any person authorized to draw on the account if there is more than one  
13 person may stop payment of any item drawn on the customer's account or close the account  
14 by an order to the bank describing the item or account with reasonable certainty received at a  
15 time and in a manner that affords the bank a reasonable opportunity to act on it before any  
16 action by the bank with respect to the item described in Section 4-303. If the signature of  
17 more than one person is required to draw on an account, any of these persons may stop  
18 payment or close the account.

19 (b) A stop-payment order is effective for six months, but it lapses after 14 calendar days  
20 if the original order was oral and was not confirmed in a record within that period. A stop-  
21 payment order may be renewed for additional six-month periods by a record given to the  
22 bank within a period during which the stop-payment order is effective.

23 (c) The burden of establishing the fact and amount of loss resulting from the payment of  
24 an item contrary to a stop-payment order or order to close an account is on the customer.  
25 The loss from payment of an item contrary to a stop-payment order may include damages for  
26 dishonor of subsequent items under Section 4-402.

27 **§4-404. BANK NOT OBLIGED TO PAY CHECK MORE THAN SIX MONTHS OLD.**

28 A bank is under no obligation to a customer having a checking account to pay a check, other  
29 than a certified check, which is presented more than six months after its date, but it may charge  
30 its customer's account for a payment made thereafter in good faith.

1 **§4-405. DEATH OR INCOMPETENCE OF CUSTOMER.**

2 (a) A payor or collecting bank's authority to accept, pay, or collect an item or to account  
3 for proceeds of its collection, if otherwise effective, is not rendered ineffective by  
4 incompetence of a customer of either bank existing at the time the item is issued or its  
5 collection is undertaken if the bank does not know of an adjudication of incompetence.  
6 Neither death nor incompetence of a customer revokes the authority to accept, pay, collect, or  
7 account until the bank knows of the fact of death or of an adjudication of incompetence and  
8 has reasonable opportunity to act on it.

9 (b) Even with knowledge, a bank may for 10 days after the date of death pay or certify  
10 checks drawn on or before that date unless ordered to stop payment by a person claiming an  
11 interest in the account.

12 **§4-406. CUSTOMER'S DUTY TO DISCOVER AND REPORT UNAUTHORIZED**  
13 **SIGNATURE OR ALTERATION.**

14 (a) A bank that sends or makes available to a customer a statement of account showing  
15 payment of items for the account shall either return or make available to the customer the  
16 items paid or provide information in the statement of account sufficient to allow the customer  
17 reasonably to identify the items paid. The statement of account provides sufficient  
18 information if the item is described by item number, amount, and date of payment.

19 (b) If the items are not returned to the customer, the person retaining the items shall  
20 either retain the items or, if the items are destroyed, maintain the capacity to furnish legible  
21 copies of the items until the expiration of seven years after receipt of the items. A customer  
22 may request an item from the bank that paid the item, and that bank must provide in a  
23 reasonable time either the item or, if the item has been destroyed or is not otherwise  
24 obtainable, a legible copy of the item.

25 (c) If a bank sends or makes available a statement of account or items pursuant to  
26 subsection (a), the customer must exercise reasonable promptness in examining the statement  
27 or the items to determine whether any payment was not authorized because of an alteration of  
28 an item or because a purported signature by or on behalf of the customer was not authorized.  
29 If, based on the statement or items provided, the customer should reasonably have discovered  
30 the unauthorized payment, the customer must promptly notify the bank of the relevant facts.

1           (d) If the bank proves that the customer failed, with respect to an item, to comply with  
2           the duties imposed on the customer by subsection (c), the customer is precluded from  
3           asserting against the bank:

4                   (1) the customer’s unauthorized signature or any alteration on the item, if the bank  
5                   also proves that it suffered a loss by reason of the failure; and

6                   (2) the customer’s unauthorized signature or alteration by the same wrongdoer on  
7                   any other item paid in good faith by the bank if the payment was made before the bank  
8                   received notice from the customer of the unauthorized signature or alteration and after the  
9                   customer had been afforded a reasonable period of time, not exceeding 30 days, in which  
10                  to examine the item or statement of account and notify the bank.

11           (e) If subsection (d) applies and the customer proves that the bank failed to exercise  
12           ordinary care in paying the item and that the failure substantially contributed to loss, the loss  
13           is allocated between the customer precluded and the bank asserting the preclusion according  
14           to the extent to which the failure of the customer to comply with subsection (c) and the  
15           failure of the bank to exercise ordinary care contributed to the loss. If the customer proves  
16           that the bank did not pay the item in good faith, the preclusion under subsection (d) does not  
17           apply.

18           (f) Without regard to care or lack of care of either the customer or the bank, a customer  
19           who does not within one year after the statement or items are made available to the customer  
20           (subsection (a)) discover and report the customer’s unauthorized signature on or any  
21           alteration on the item is precluded from asserting against the bank the unauthorized signature  
22           or alteration. If there is a preclusion under this subsection, the payor bank may not recover  
23           for breach of warranty under Section 4–208 with respect to the unauthorized signature or  
24           alteration to which the preclusion applies.

25           **§4–407. PAYOR BANK’S RIGHT TO SUBROGATION ON IMPROPER PAYMENT.**

26           If a payor bank has paid an item over the order of the drawer or maker to stop payment, or  
27           after an account has been closed, or otherwise under circumstances giving a basis for objection  
28           by the drawer or maker, to prevent unjust enrichment and only to the extent necessary to prevent  
29           loss to the bank by reason of its payment of the item, the payor bank is subrogated to the rights

30                   (1) of any holder in due course on the item against the drawer or maker;



1        However the presenting bank is under no obligation with respect to goods represented by the  
2 documents except to follow any reasonable instructions seasonably received; it has a right to  
3 reimbursement for any expense incurred in following instructions and to prepayment of or  
4 indemnity for those expenses.

5 **§4-504. PRIVILEGE OF PRESENTING BANK TO DEAL WITH GOODS; SECURITY**  
6 **INTEREST FOR EXPENSES.**

7        (a) A presenting bank that, following the dishonor of a documentary draft, has  
8 seasonably requested instructions but does not receive them within a reasonable time may  
9 store, sell, or otherwise deal with the goods in any reasonable manner.

10       (b) For its reasonable expenses incurred by action under subsection (a) the presenting  
11 bank has a lien upon the goods or their proceeds, which may be foreclosed in the same  
12 manner as an unpaid seller's lien.

13

**ARTICLE 4-A – FUNDS TRANSFERS**

§ 28. Paragraph (g) of subsection (1) of section 4-A-105 of part 1 of article 4-A of the uniform commercial code is amended to read as follows:

(1) In this Article:

(g) “Prove” with respect to a fact means to meet the burden of establishing the fact (Subsection (b)(8) of section 1-201).

§ 29. Subsection (1) of section 4-A-106 of part 1 of article 4-A of the uniform commercial code is amended to read as follows:

(1) The time of receipt of a payment order or communication cancelling or amending a payment order is determined by the rules applicable to receipt of a notice stated in Section [1-201(27)] 1-202. A receiving bank may fix a cut-off time or times on a funds-transfer business day for the receipt and processing of payment orders and communications cancelling or amending payment orders. Different cut-off times may apply to payment orders, cancellations, or amendments, or to different categories of payment orders, cancellations, or amendments. A cut-off time may apply to senders generally or different cut-off times may apply to different senders or categories of payment orders. If a payment order or communication cancelling or amending a payment order is received after the close of a funds-transfer business day or after the appropriate cut-off time on a funds-transfer business day, the receiving bank may treat the payment order or communication as received at the opening of the next funds-transfer business day.

§ 30. Subsection (2) of section 4-A-204 of part 2 of article 4-A of the uniform commercial code is amended to read as follows:

(1) If a receiving bank accepts a payment order issued in the name of its customer as sender which is (a) not authorized and not effective as the order of the customer under Section 4-A-202, or (b) not enforceable, in whole or in part, against the customer under Section 4-A-203, the bank shall refund any payment of the payment order received from the customer to the extent the bank is not entitled to enforce payment and shall pay interest on the refundable amount calculated from the date the bank received payment to the date of the refund. However, the customer is not entitled to interest from the bank on the amount to be refunded if the customer fails to exercise ordinary care to determine that the order was not authorized by the customer and to notify the bank of the relevant facts within a reasonable

1 time not exceeding ninety days after the date the customer received notification from the  
2 bank that the order was accepted or that the customer's account was debited with respect to  
3 the order. The bank is not entitled to any recovery from the customer on account of a failure  
4 by the customer to give notification as stated in this section.

5 (2) Reasonable time under subsection (1) may be fixed by agreement as stated in Section  
6 [1-204(1)] 1-302(b), but the obligation of a receiving bank to refund payment as stated in  
7 subsection (1) may not otherwise be varied by agreement.

8

**ARTICLE 5 – LETTERS OF CREDIT**

§ 31. Subsection (c) of section 5-103 of article 5 of the uniform commercial code is amended to read as follows:

(a) This article applies to letters of credit and to certain rights and obligations arising out of transactions involving letters of credit.

(b) The statement of a rule in this article does not by itself require, imply, or negate application of the same or a different rule to a situation not provided for, or to a person not specified, in this article.

(c) With the exception of this subsection, subsections (a) and (d), Sections 5–102(a)(9) and (10), 5–106(d), and 5–114(d), and except to the extent prohibited in Sections [1–102(3)] 1-302 and 5–117(d), the effect of this article may be varied by agreement or by a provision stated or incorporated by reference in an undertaking. A term in an agreement or undertaking generally excusing liability or generally limiting remedies for failure to perform obligations is not sufficient to vary obligations prescribed by this article.

(d) Rights and obligations of an issuer to a beneficiary or a nominated person under a letter of credit are independent of the existence, performance, or nonperformance of a contract or arrangement out of which the letter of credit arises or which underlies it, including contracts or arrangements between the issuer and the applicant and between the applicant and the beneficiary.

1 § 32. Article 7 of the uniform commercial code is REPEALED and a new article 7 is added to  
2 read as follows:

3 **ARTICLE 7—DOCUMENTS OF TITLE**

4 **PART 1**

5 **GENERAL**

6 **SECTION 7-101. SHORT TITLE.** This article may be cited as Uniform Commercial Code-  
7 Documents of Title.

8 **§7-102. DEFINITIONS AND INDEX OF DEFINITIONS.**

9 (a) In this article, unless the context otherwise requires:

10 (1) “Bailee” means a person that by a warehouse receipt, bill of lading, or other  
11 document of title acknowledges possession of goods and contracts to deliver them.

12 (2) “Carrier” means a person that issues a bill of lading.

13 (3) “Consignee” means a person named in a bill of lading to which or to whose order  
14 the bill promises delivery.

15 (4) “Consignor” means a person named in a bill of lading as the person from which  
16 the goods have been received for shipment.

17 (5) “Delivery order” means a record that contains an order to deliver goods directed  
18 to a warehouse, carrier, or other person that in the ordinary course of business issues  
19 warehouse receipts or bills of lading.

20 (6) “Good faith” means honesty in fact and the observance of reasonable commercial  
21 standards of fair dealing.

22 (7) “Goods” means all things that are treated as movable for the purposes of a  
23 contract for storage or transportation.

24 (8) “Issuer” means a bailee that issues a document of title or, in the case of an  
25 unaccepted delivery order, the person that orders the possessor of goods to deliver. The  
26 term includes a person for which an agent or employee purports to act in issuing a  
27 document if the agent or employee has real or apparent authority to issue documents,  
28 even if the issuer did not receive any goods, the goods were misdescribed, or in any other  
29 respect the agent or employee violated the issuer’s instructions.

30 (9) “Person entitled under the document” means the holder, in the case of a  
31 negotiable document of title, or the person to which delivery of the goods is to be made

1 by the terms of, or pursuant to instructions in a record under, a nonnegotiable document  
2 of title.

3 (10) [Reserved].

4 (11) “Sign” means, with present intent to authenticate or adopt a record:

5 (A) to execute or adopt a tangible symbol; or

6 (B) to attach to or logically associate with the record an electronic sound, symbol,  
7 or process.

8 (12) “Shipper” means a person that enters into a contract of transportation with a  
9 carrier.

10 (13) “Warehouse” means a person engaged in the business of storing goods for hire.

11 (b) Definitions in other articles applying to this article and the sections in which they  
12 appear are:

13 (1) “Contract for sale”, Section 2-106.

14 (2) “Lessee in the ordinary course of business”, Section 2A-103.

15 (3) “Receipt” of goods, Section 2-103.

16 (c) In addition, Article 1 contains general definitions and principles of construction and  
17 interpretation applicable throughout this article.

18 **§7-103. RELATION OF ARTICLE TO TREATY OR STATUTE.**

19 (a) This article is subject to any treaty or statute of the United States or regulatory statute  
20 of this state to the extent the treaty, statute, or regulatory statute is applicable.

21 (b) This article does not modify or repeal any law prescribing the form or content of a  
22 document of title or the services or facilities to be afforded by a bailee, or otherwise  
23 regulating a bailee’s business in respects not specifically treated in this article. However,  
24 violation of such a law does not affect the status of a document of title that otherwise is  
25 within the definition of a document of title.

26 (c) This article modifies, limits, and supersedes the federal Electronic Signatures in  
27 Global and National Commerce Act (15 U.S.C. Section 7001, et. seq.) but does not modify,  
28 limit, or supersede Section 101(c) of that act (15 U.S.C. Section 7001(c)) or authorize  
29 electronic delivery of any of the notices described in Section 103(b) of that act (15 U.S.C.  
30 Section 7003(b)).

1           (d) To the extent there is a conflict between the Electronic Signatures and Records Act  
2           (NY CLS State Technology §103 et. Seq.) and this article, this article governs.

3           **§7-104. NEGOTIABLE AND NONNEGOTIABLE DOCUMENT OF TITLE.**

4           (a) Except as otherwise provided in subsection (c), a document of title is negotiable if by  
5           its terms the goods are to be delivered to bearer or to the order of a named person.

6           (b) A document of title other than one described in subsection (a) is nonnegotiable. A  
7           bill of lading that states that the goods are consigned to a named person is not made  
8           negotiable by a provision that the goods are to be delivered only against an order in a record  
9           signed by the same or another named person.

10           (c) A document of title is nonnegotiable if, at the time it is issued, the document has a  
11           conspicuous legend, however expressed, that it is nonnegotiable.

12           **§7-105. REISSUANCE IN ALTERNATIVE MEDIUM.**

13           (a) Upon request of a person entitled under an electronic document of title, the issuer of  
14           the electronic document may issue a tangible document of title as a substitute for the  
15           electronic document if:

16                   (1) the person entitled under the electronic document surrenders control of the  
17                   document to the issuer; and

18                   (2) the tangible document when issued contains a statement that it is issued in  
19                   substitution for the electronic document.

20           (b) Upon issuance of a tangible document of title in substitution for an electronic  
21           document of title in accordance with subsection (a):

22                   (1) the electronic document ceases to have any effect or validity; and

23                   (2) the person that procured issuance of the tangible document warrants to all  
24                   subsequent persons entitled under the tangible document that the warrantor was a person  
25                   entitled under the electronic document when the warrantor surrendered control of the  
26                   electronic document to the issuer.

27           (c) Upon request of a person entitled under a tangible document of title, the issuer of the  
28           tangible document may issue an electronic document of title as a substitute for the tangible  
29           document if:

30                   (1) the person entitled under the tangible document surrenders possession of the  
31                   document to the issuer; and

1           (2) the electronic document when issued contains a statement that it is issued in  
2           substitution for the tangible document.

3           (d) Upon issuance of an electronic document of title in substitution for a tangible  
4           document of title in accordance with subsection (c):

5                   (1) the tangible document ceases to have any effect or validity; and

6                   (2) the person that procured issuance of the electronic document warrants to all  
7                   subsequent persons entitled under the electronic document that the warrantor was a  
8                   person entitled under the tangible document when the warrantor surrendered possession  
9                   of the tangible document to the issuer.

10 **§7-106. CONTROL OF ELECTRONIC DOCUMENT OF TITLE.**

11           (a) A person has control of an electronic document of title if a system employed for  
12           evidencing the transfer of interests in the electronic document reliably establishes that person  
13           as the person to which the electronic document was issued or transferred.

14           (b) A system satisfies subsection (a), and a person is deemed to have control of an  
15           electronic document of title, if the document is created, stored, and assigned in such a manner  
16           that:

17                   (1) a single authoritative copy of the document exists which is unique, identifiable,  
18                   and, except as otherwise provided in paragraphs (4), (5), and (6), unalterable;

19                   (2) the authoritative copy identifies the person asserting control as:

20                           (A) the person to which the document was issued; or

21                           (B) if the authoritative copy indicates that the document has been transferred, the  
22                   person to which the document was most recently transferred;

23                   (3) the authoritative copy is communicated to and maintained by the person asserting  
24                   control or its designated custodian;

25                   (4) copies or amendments that add or change an identified assignee of the  
26                   authoritative copy can be made only with the consent of the person asserting control;

27                   (5) each copy of the authoritative copy and any copy of a copy is readily identifiable  
28                   as a copy that is not the authoritative copy; and

29                   (6) any amendment of the authoritative copy is readily identifiable as authorized or  
30                   unauthorized.

PART 2

WAREHOUSE RECEIPTS: SPECIAL PROVISIONS

§7-201. PERSON THAT MAY ISSUE A WAREHOUSE RECEIPT; STORAGE UNDER BOND.

(a) A warehouse receipt may be issued by any warehouse.

(b) If goods, including distilled spirits and agricultural commodities, are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods is deemed to be a warehouse receipt even if issued by a person that is the owner of the goods and is not a warehouse.

§7-202. FORM OF WAREHOUSE RECEIPT; EFFECT OF OMISSION.

(a) A warehouse receipt need not be in any particular form.

(b) Unless a warehouse receipt provides for each of the following, the warehouse is liable for damages caused to a person injured by its omission:

(1) a statement of the location of the warehouse facility where the goods are stored;

(2) the date of issue of the receipt;

(3) the unique identification code of the receipt;

(4) a statement whether the goods received will be delivered to the bearer, to a named person, or to a named person or its order;

(5) the rate of storage and handling charges, unless goods are stored under a field warehousing arrangement, in which case a statement of that fact is sufficient on a nonnegotiable receipt;

(6) a description of the goods or the packages containing them;

(7) the signature of the warehouse or its agent;

(8) if the receipt is issued for goods that the warehouse owns, either solely, jointly, or in common with others, a statement of the fact of that ownership; and

(9) a statement of the amount of advances made and of liabilities incurred for which the warehouse claims a lien or security interest, unless the precise amount of advances made or liabilities incurred, at the time of the issue of the receipt, is unknown to the warehouse or to its agent that issued the receipt, in which case a statement of the fact that advances have been made or liabilities incurred and the purpose of the advances or liabilities is sufficient.

1           (c) A warehouse may insert in its receipt any terms that are not contrary to this Act and  
2           do not impair its obligation of delivery under Section 7-403 or its duty of care under Section  
3           7-204. Any contrary provision is ineffective.

4           **§7-203. LIABILITY FOR NONRECEIPT OR MISDESCRIPTION.**

5           A party to or purchaser for value in good faith of a document of title, other than a bill of  
6           lading, that relies upon the description of the goods in the document may recover from the issuer  
7           damages caused by the nonreceipt or misdescription of the goods, except to the extent that:

8           (1) the document conspicuously indicates that the issuer does not know whether all or  
9           part of the goods in fact were received or conform to the description, such as a case in which  
10           the description is in terms of marks or labels or kind, quantity, or condition, or the receipt or  
11           description is qualified by “contents, condition, and quality unknown”, “said to contain”, or  
12           words of similar import, if the indication is true; or

13           (2) the party or purchaser otherwise has notice of the nonreceipt or misdescription.

14           **§7-204. DUTY OF CARE; CONTRACTUAL LIMITATION OF WAREHOUSE’S**  
15           **LIABILITY.**

16           (a) A warehouse is liable for damages for loss of or injury to the goods caused by its  
17           failure to exercise care with regard to the goods that a reasonably careful person would  
18           exercise under similar circumstances. Unless otherwise agreed, the warehouse is not liable  
19           for damages that could not have been avoided by the exercise of that care.

20           (b) Damages may be limited by a term in the warehouse receipt or storage agreement  
21           limiting the amount of liability in case of loss or damage beyond which the warehouse is not  
22           liable. Such a limitation is not effective with respect to the warehouse’s liability for  
23           conversion to its own use. On request of the bailor in a record at the time of signing the  
24           storage agreement or within a reasonable time after receipt of the warehouse receipt, the  
25           warehouse’s liability may be increased on part or all of the goods covered by the storage  
26           agreement or the warehouse receipt. In this event, increased rates may be charged based on  
27           an increased valuation of the goods.

28           (c) Reasonable provisions as to the time and manner of presenting claims and  
29           commencing actions based on the bailment may be included in the warehouse receipt or  
30           storage agreement.

1 **§7-205. TITLE UNDER WAREHOUSE RECEIPT DEFEATED IN CERTAIN CASES.**

2 A buyer in ordinary course of business of fungible goods sold and delivered by a warehouse  
3 that is also in the business of buying and selling such goods takes the goods free of any claim  
4 under a warehouse receipt even if the receipt is negotiable and has been duly negotiated.

5 **§7-206. TERMINATION OF STORAGE AT WAREHOUSE'S OPTION.**

6 (a) A warehouse, by giving notice to the person on whose account the goods are held and  
7 any other person known to claim an interest in the goods, may require payment of any  
8 charges and removal of the goods from the warehouse at the termination of the period of  
9 storage fixed by the document of title or, if a period is not fixed, within a stated period not  
10 less than 30 days after the warehouse gives notice. If the goods are not removed before the  
11 date specified in the notice, the warehouse may sell them pursuant to Section 7-210.

12 (b) If a warehouse in good faith believes that goods are about to deteriorate or decline in  
13 value to less than the amount of its lien within the time provided in subsection (a) and  
14 Section 7-210, the warehouse may specify in the notice given under subsection (a) any  
15 reasonable shorter time for removal of the goods and, if the goods are not removed, may sell  
16 them at public sale held not less than one week after a single advertisement or posting.

17 (c) If, as a result of a quality or condition of the goods of which the warehouse did not  
18 have notice at the time of deposit, the goods are a hazard to other property, the warehouse  
19 facilities, or other persons, the warehouse may sell the goods at public or private sale without  
20 advertisement or posting on reasonable notification to all persons known to claim an interest  
21 in the goods. If the warehouse, after a reasonable effort, is unable to sell the goods, it may  
22 dispose of them in any lawful manner and does not incur liability by reason of that  
23 disposition.

24 (d) A warehouse shall deliver the goods to any person entitled to them under this article  
25 upon due demand made at any time before sale or other disposition under this section.

26 (e) A warehouse may satisfy its lien from the proceeds of any sale or disposition under  
27 this section but shall hold the balance for delivery on the demand of any person to which the  
28 warehouse would have been bound to deliver the goods.

1 **§7-207. GOODS MUST BE KEPT SEPARATE; FUNGIBLE GOODS.**

2 (a) Unless the warehouse receipt provides otherwise, a warehouse shall keep separate  
3 the goods covered by each receipt so as to permit at all times identification and delivery of  
4 those goods. However, different lots of fungible goods may be commingled.

5 (b) If different lots of fungible goods are commingled, the goods are owned in common  
6 by the persons entitled thereto and the warehouse is severally liable to each owner for that  
7 owner's share. If, because of overissue, a mass of fungible goods is insufficient to meet all  
8 the receipts the warehouse has issued against it, the persons entitled include all holders to  
9 which overissued receipts have been duly negotiated.

10 **§7-208. ALTERED WAREHOUSE RECEIPTS.**

11 If a blank in a negotiable tangible warehouse receipt has been filled in without authority, a  
12 good-faith purchaser for value and without notice of the lack of authority may treat the insertion  
13 as authorized. Any other unauthorized alteration leaves any tangible or electronic warehouse  
14 receipt enforceable against the issuer according to its original tenor.

15 **§7-209. LIEN OF WAREHOUSE.**

16 (a) A warehouse has a lien against the bailor on the goods covered by a warehouse  
17 receipt or storage agreement or on the proceeds thereof in its possession for charges for  
18 storage or transportation, including demurrage and terminal charges, insurance, labor, or  
19 other charges, present or future, in relation to the goods, and for expenses necessary for  
20 preservation of the goods or reasonably incurred in their sale pursuant to law. If the person  
21 on whose account the goods are held is liable for similar charges or expenses in relation to  
22 other goods whenever deposited and it is stated in the warehouse receipt or storage  
23 agreement that a lien is claimed for charges and expenses in relation to other goods, the  
24 warehouse also has a lien against the goods covered by the warehouse receipt or storage  
25 agreement or on the proceeds thereof in its possession for those charges and expenses,  
26 whether or not the other goods have been delivered by the warehouse. However, as against a  
27 person to which a negotiable warehouse receipt is duly negotiated, a warehouse's lien is  
28 limited to charges in an amount or at a rate specified in the warehouse receipt or, if no  
29 charges are so specified, to a reasonable charge for storage of the specific goods covered by  
30 the receipt subsequent to the date of the receipt.

1           (b) A warehouse may also reserve a security interest against the bailor for the maximum  
2           amount specified on the receipt for charges other than those specified in subsection (a), such  
3           as for money advanced and interest. The security interest is governed by Article 9.

4           (c) A warehouse’s lien for charges and expenses under subsection (a) or a security  
5           interest under subsection (b) is also effective against any person that so entrusted the bailor  
6           with possession of the goods that a pledge of them by the bailor to a good-faith purchaser for  
7           value would have been valid. However, the lien or security interest is not effective against a  
8           person that before issuance of a document of title had a legal interest or a perfected security  
9           interest in the goods and that did not:

10           (1) deliver or entrust the goods or any document of title covering the goods to the  
11           bailor or the bailor’s nominee with:

12           (A) actual or apparent authority to ship, store, or sell;

13           (B) power to obtain delivery under Section 7-403; or

14           (C) power of disposition under Sections 2-403, 2A-304(2), 2A-305(2), 9-320, or 9-  
15           321(c) or other statute or rule of law; or

16           (2) acquiesce in the procurement by the bailor or its nominee of any document.

17           (d) A warehouse’s lien on household goods for charges and expenses in relation to the  
18           goods under subsection (a) is also effective against all persons if the depositor was the legal  
19           possessor of the goods at the time of deposit. In this subsection, “household goods” means  
20           furniture, furnishings, or personal effects used by the depositor in a dwelling.

21           (e) A warehouse loses its lien on any goods that it voluntarily delivers or unjustifiably  
22           refuses to deliver.

23           **§7-210. ENFORCEMENT OF WAREHOUSE’S LIEN.**

24           (a) Except as otherwise provided in subsection (b), a warehouse’s lien may be enforced  
25           by public or private sale of the goods, in bulk or in packages, at any time or place and on any  
26           terms that are commercially reasonable, after notifying all persons known to claim an interest  
27           in the goods. The notification must include a statement of the amount due, the nature of the  
28           proposed sale, and the time and place of any public sale. The fact that a better price could  
29           have been obtained by a sale at a different time or in a method different from that selected by  
30           the warehouse is not of itself sufficient to establish that the sale was not made in a  
31           commercially reasonable manner. The warehouse sells in a commercially reasonable manner

1 if the warehouse sells the goods in the usual manner in any recognized market therefore, sells  
2 at the price current in that market at the time of the sale, or otherwise sells in conformity with  
3 commercially reasonable practices among dealers in the type of goods sold. A sale of more  
4 goods than apparently necessary to be offered to ensure satisfaction of the obligation is not  
5 commercially reasonable, except in cases covered by the preceding sentence.

6 (b) A warehouse may enforce its lien on goods, other than goods stored by a merchant in  
7 the course of its business, only if the following requirements are satisfied:

8 (1) All persons known to claim an interest in the goods must be notified.

9 (2) The notification must include an itemized statement of the claim, a description of  
10 the goods subject to the lien, a demand for payment within a specified time not less than  
11 10 days after receipt of the notification, and a conspicuous statement that unless the claim  
12 is paid within that time the goods will be advertised for sale and sold by auction at a  
13 specified time and place.

14 (3) The sale must conform to the terms of the notification.

15 (4) The sale must be held at the nearest suitable place to where the goods are held or  
16 stored.

17 (5) After the expiration of the time given in the notification, an advertisement of the  
18 sale must be published once a week for two weeks consecutively in a newspaper of  
19 general circulation where the sale is to be held. The advertisement must include a  
20 description of the goods, the name of the person on whose account the goods are being  
21 held, and the time and place of the sale. The sale must take place at least 15 days after  
22 the first publication. If there is no newspaper of general circulation where the sale is to  
23 be held, the advertisement must be posted at least 10 days before the sale in not fewer  
24 than six conspicuous places in the neighborhood of the proposed sale.

25 (c) Before any sale pursuant to this section, any person claiming a right in the goods may  
26 pay the amount necessary to satisfy the lien and the reasonable expenses incurred in  
27 complying with this section. In that event, the goods may not be sold but must be retained by  
28 the warehouse subject to the terms of the receipt and this article.

29 (d) A warehouse may buy at any public sale held pursuant to this section.



1           (2) words such as “shipper’s weight, load, and count,” or words of similar import  
2           indicating that the description was made by the shipper are ineffective except as to goods  
3           concealed in packages.

4           (c) If bulk goods are loaded by a shipper that makes available to the issuer of a bill of  
5           lading adequate facilities for weighing those goods, the issuer shall ascertain the kind and  
6           quantity within a reasonable time after receiving the shipper’s request in a record to do so. In  
7           that case, “shipper’s weight” or words of similar import are ineffective.

8           (d) The issuer of a bill of lading, by including in the bill the words “shipper’s weight,  
9           load, and count,” or words of similar import, may indicate that the goods were loaded by the  
10           shipper, and, if that statement is true, the issuer is not liable for damages caused by the  
11           improper loading. However, omission of such words does not imply liability for damages  
12           caused by improper loading.

13           (e) A shipper guarantees to an issuer the accuracy at the time of shipment of the  
14           description, marks, labels, number, kind, quantity, condition, and weight, as furnished by the  
15           shipper, and the shipper shall indemnify the issuer against damage caused by inaccuracies in  
16           those particulars. This right of indemnity does not limit the issuer’s responsibility or  
17           liability under the contract of carriage to any person other than the shipper.

18           **§7-302. THROUGH BILLS OF LADING AND SIMILAR DOCUMENTS OF TITLE.**

19           (a) The issuer of a through bill of lading, or other document of title embodying an  
20           undertaking to be performed in part by a person acting as its agent or by a performing carrier,  
21           is liable to any person entitled to recover on the bill or other document for any breach by the  
22           other person or the performing carrier of its obligation under the bill or other document.  
23           However, to the extent that the bill or other document covers an undertaking to be performed  
24           overseas or in territory not contiguous to the continental United States or an undertaking  
25           including matters other than transportation, this liability for breach by the other person or the  
26           performing carrier may be varied by agreement of the parties.

27           (b) If goods covered by a through bill of lading or other document of title embodying an  
28           undertaking to be performed in part by a person other than the issuer are received by that  
29           person, the person is subject, with respect to its own performance while the goods are in its  
30           possession, to the obligation of the issuer. The person’s obligation is discharged by delivery

1 of the goods to another person pursuant to the bill or other document and does not include  
2 liability for breach by any other person or by the issuer.

3 (c) The issuer of a through bill of lading or other document of title described in  
4 subsection (a) is entitled to recover from the performing carrier, or other person in possession  
5 of the goods when the breach of the obligation under the bill or other document occurred:

6 (1) the amount it may be required to pay to any person entitled to recover on the bill  
7 or other document for the breach, as may be evidenced by any receipt, judgment, or  
8 transcript of judgment; and

9 (2) the amount of any expense reasonably incurred by the issuer in defending any  
10 action commenced by any person entitled to recover on the bill or other document for the  
11 breach.

12 **§7-303. DIVERSION; RECONSIGNMENT; CHANGE OF INSTRUCTIONS.**

13 (a) Unless the bill of lading otherwise provides, a carrier may deliver the goods to a  
14 person or destination other than that stated in the bill or may otherwise dispose of the goods,  
15 without liability for misdelivery, on instructions from:

16 (1) the holder of a negotiable bill;

17 (2) the consignor on a nonnegotiable bill, even if the consignee has given contrary  
18 instructions;

19 (3) the consignee on a nonnegotiable bill in the absence of contrary instructions from  
20 the consignor, if the goods have arrived at the billed destination or if the consignee is in  
21 possession of the tangible bill or in control of the electronic bill; or

22 (4) the consignee on a nonnegotiable bill, if the consignee is entitled as against the  
23 consignor to dispose of the goods.

24 (b) Unless instructions described in subsection (a) are included in a negotiable bill of  
25 lading, a person to which the bill is duly negotiated may hold the bailee according to the  
26 original terms.

27 **§7-304. TANGIBLE BILLS OF LADING IN A SET.**

28 (a) Except as customary in international transportation, a tangible bill of lading may not  
29 be issued in a set of parts. The issuer is liable for damages caused by violation of this  
30 subsection.

1           **(b) If a tangible bill of lading is lawfully issued in a set of parts, each of which contains**  
2           **an identification code and is expressed to be valid only if the goods have not been delivered**  
3           **against any other part, the whole of the parts constitutes one bill.**

4           **(c) If a tangible negotiable bill of lading is lawfully issued in a set of parts and different**  
5           **parts are negotiated to different persons, the title of the holder to which the first due**  
6           **negotiation is made prevails as to both the document of title and the goods even if any later**  
7           **holder may have received the goods from the carrier in good faith and discharged the**  
8           **carrier’s obligation by surrendering its part.**

9           **(d) A person that negotiates or transfers a single part of a tangible bill of lading issued in**  
10           **a set is liable to holders of that part as if it were the whole set.**

11           **(e) The bailee shall deliver in accordance with Part 4 against the first presented part of a**  
12           **tangible bill of lading lawfully issued in a set. Delivery in this manner discharges the**  
13           **bailee’s obligation on the whole bill.**

14           **§7-305. DESTINATION BILLS.**

15           **(a) Instead of issuing a bill of lading to the consignor at the place of shipment, a carrier,**  
16           **at the request of the consignor, may procure the bill to be issued at destination or at any other**  
17           **place designated in the request.**

18           **(b) Upon request of any person entitled as against a carrier to control the goods while in**  
19           **transit and on surrender of possession or control of any outstanding bill of lading or other**  
20           **receipt covering the goods, the issuer, subject to Section 7-105, may procure a substitute bill**  
21           **to be issued at any place designated in the request.**

22           **§7-306. ALTERED BILLS OF LADING.**

23           **An unauthorized alteration or filling in of a blank in a bill of lading leaves the bill**  
24           **enforceable according to its original tenor.**

25           **§7-307. LIEN OF CARRIER.**

26           **(a) A carrier has a lien on the goods covered by a bill of lading or on the proceeds**  
27           **thereof in its possession for charges after the date of the carrier’s receipt of the goods for**  
28           **storage or transportation, including demurrage and terminal charges, and for expenses**  
29           **necessary for preservation of the goods incident to their transportation or reasonably incurred**  
30           **in their sale pursuant to law. However, against a purchaser for value of a negotiable bill of**

1 lading, a carrier's lien is limited to charges stated in the bill or the applicable tariffs or, if no  
2 charges are stated, a reasonable charge.

3 (b) A lien for charges and expenses under subsection (a) on goods that the carrier was  
4 required by law to receive for transportation is effective against the consignor or any person  
5 entitled to the goods unless the carrier had notice that the consignor lacked authority to  
6 subject the goods to those charges and expenses. Any other lien under subsection (a) is  
7 effective against the consignor and any person that permitted the bailor to have control or  
8 possession of the goods unless the carrier had notice that the bailor lacked authority.

9 (c) A carrier loses its lien on any goods that it voluntarily delivers or unjustifiably  
10 refuses to deliver.

11 **§7-308. ENFORCEMENT OF CARRIER'S LIEN.**

12 (a) A carrier's lien on goods may be enforced by public or private sale of the goods, in  
13 bulk or in packages, at any time or place and on any terms that are commercially reasonable,  
14 after notifying all persons known to claim an interest in the goods. The notification must  
15 include a statement of the amount due, the nature of the proposed sale, and the time and place  
16 of any public sale. The fact that a better price could have been obtained by a sale at a  
17 different time or in a method different from that selected by the carrier is not of itself  
18 sufficient to establish that the sale was not made in a commercially reasonable manner. The  
19 carrier sells goods in a commercially reasonable manner if the carrier sells the goods in the  
20 usual manner in any recognized market therefor, sells at the price current in that market at the  
21 time of the sale, or otherwise sells in conformity with commercially reasonable practices  
22 among dealers in the type of goods sold. A sale of more goods than apparently necessary to  
23 be offered to ensure satisfaction of the obligation is not commercially reasonable, except in  
24 cases covered by the preceding sentence.

25 (b) Before any sale pursuant to this section, any person claiming a right in the goods may  
26 pay the amount necessary to satisfy the lien and the reasonable expenses incurred in  
27 complying with this section. In that event, the goods may not be sold but must be retained by  
28 the carrier, subject to the terms of the bill of lading and this article.

29 (c) A carrier may buy at any public sale pursuant to this section.

1           (d) A purchaser in good faith of goods sold to enforce a carrier's lien takes the goods  
2           free of any rights of persons against which the lien was valid, despite the carrier's  
3           noncompliance with this section.

4           (e) A carrier may satisfy its lien from the proceeds of any sale pursuant to this section  
5           but shall hold the balance, if any, for delivery on demand to any person to which the carrier  
6           would have been bound to deliver the goods.

7           (f) The rights provided by this section are in addition to all other rights allowed by law to  
8           a creditor against a debtor.

9           (g) A carrier's lien may be enforced pursuant to either subsection (a) or the procedure set  
10          forth in Section 7-210(b).

11          (h) A carrier is liable for damages caused by failure to comply with the requirements for  
12          sale under this section and, in case of willful violation, is liable for conversion.

13          **§7-309. DUTY OF CARE; CONTRACTUAL LIMITATION OF CARRIER'S**  
14          **LIABILITY.**

15          (a) A carrier that issues a bill of lading, whether negotiable or nonnegotiable, shall  
16          exercise the degree of care in relation to the goods which a reasonably careful person would  
17          exercise under similar circumstances. This subsection does not affect any statute, regulation,  
18          or rule of law that imposes liability upon a common carrier for damages not caused by its  
19          negligence.

20          (b) Damages may be limited by a term in the bill of lading or in a transportation  
21          agreement that the carrier's liability may not exceed a value stated in the bill or  
22          transportation agreement if the carrier's rates are dependent upon value and the consignor is  
23          afforded an opportunity to declare a higher value and the consignor is advised of the  
24          opportunity. However, such a limitation is not effective with respect to the carrier's liability  
25          for conversion to its own use.

26          (c) Reasonable provisions as to the time and manner of presenting claims and  
27          commencing actions based on the shipment may be included in a bill of lading or a  
28          transportation agreement.

**PART 4**

**WAREHOUSE RECEIPTS AND BILLS OF LADING: GENERAL OBLIGATIONS**

**§7-401. IRREGULARITIES IN ISSUE OF RECEIPT OR BILL OR CONDUCT OF ISSUER.**

The obligations imposed by this article on an issuer apply to a document of title even if:

(1) the document does not comply with the requirements of this article or of any other statute, rule, or regulation regarding its issuance, form, or content;

(2) the issuer violated laws regulating the conduct of its business;

(3) the goods covered by the document were owned by the bailee when the document was issued; or

(4) the person issuing the document is not a warehouse but the document purports to be a warehouse receipt.

**§7-402. DUPLICATE DOCUMENT OF TITLE; OVERISSUE.**

A duplicate or any other document of title purporting to cover goods already represented by an outstanding document of the same issuer does not confer any right in the goods, except as provided in the case of tangible bills of lading in a set of parts, overissue of documents for fungible goods, substitutes for lost, stolen, or destroyed documents, or substitute documents issued pursuant to Section 7-105. The issuer is liable for damages caused by its overissue or failure to identify a duplicate document by a conspicuous notation.

**§7-403. OBLIGATION OF BAILEE TO DELIVER; EXCUSE.**

(a) A bailee shall deliver the goods to a person entitled under a document of title if the person complies with subsections (b) and (c), unless and to the extent that the bailee establishes any of the following:

(1) delivery of the goods to a person whose receipt was rightful as against the claimant;

(2) damage to or delay, loss, or destruction of the goods for which the bailee is not liable;

(3) previous sale or other disposition of the goods in lawful enforcement of a lien or on a warehouse's lawful termination of storage;

(4) the exercise by a seller of its right to stop delivery pursuant to Section 2-705 or by a lessor of its right to stop delivery pursuant to Section 2A-526;



1 named person's indorsement in blank or to bearer, any person may negotiate the  
2 document by delivery alone.

3 (2) If the document's original terms run to bearer, it is negotiated by delivery alone.

4 (3) If the document's original terms run to the order of a named person and it is  
5 delivered to the named person, the effect is the same as if the document had been  
6 negotiated.

7 (4) Negotiation of the document after it has been indorsed to a named person requires  
8 indorsement by the named person and delivery.

9 (5) A document is duly negotiated if it is negotiated in the manner stated in this  
10 subsection to a holder that purchases it in good faith, without notice of any defense  
11 against or claim to it on the part of any person, and for value, unless it is established that  
12 the negotiation is not in the regular course of business or financing or involves receiving  
13 the document in settlement or payment of a monetary obligation.

14 (b) The following rules apply to a negotiable electronic document of title:

15 (1) If the document's original terms run to the order of a named person or to bearer,  
16 the document is negotiated by delivery of the document to another person. Indorsement  
17 by the named person is not required to negotiate the document.

18 (2) If the document's original terms run to the order of a named person and the  
19 named person has control of the document, the effect is the same as if the document had  
20 been negotiated.

21 (3) A document is duly negotiated if it is negotiated in the manner stated in this  
22 subsection to a holder that purchases it in good faith, without notice of any defense  
23 against or claim to it on the part of any person, and for value, unless it is established that  
24 the negotiation is not in the regular course of business or financing or involves taking  
25 delivery of the document in settlement or payment of a monetary obligation.

26 (c) Indorsement of a nonnegotiable document of title neither makes it negotiable nor  
27 adds to the transferee's rights.

28 (d) The naming in a negotiable bill of lading of a person to be notified of the arrival of  
29 the goods does not limit the negotiability of the bill or constitute notice to a purchaser of the  
30 bill of any interest of that person in the goods.

1 **§7-502. RIGHTS ACQUIRED BY DUE NEGOTIATION.**

2 (a) Subject to Sections 7-205 and 7-503, a holder to which a negotiable document of title  
3 has been duly negotiated acquires thereby:

4 (1) title to the document;

5 (2) title to the goods;

6 (3) all rights accruing under the law of agency or estoppel, including rights to goods  
7 delivered to the bailee after the document was issued; and

8 (4) the direct obligation of the issuer to hold or deliver the goods according to the  
9 terms of the document free of any defense or claim by the issuer except those arising  
10 under the terms of the document or under this article, but in the case of a delivery order,  
11 the bailee's obligation accrues only upon the bailee's acceptance of the delivery order  
12 and the obligation acquired by the holder is that the issuer and any indorser will procure  
13 the acceptance of the bailee.

14 (b) Subject to Section 7-503, title and rights acquired by due negotiation are not defeated  
15 by any stoppage of the goods represented by the document of title or by surrender of the  
16 goods by the bailee and are not impaired even if:

17 (1) the due negotiation or any prior due negotiation constituted a breach of duty;

18 (2) any person has been deprived of possession of a negotiable tangible document or  
19 control of a negotiable electronic document by misrepresentation, fraud, accident,  
20 mistake, duress, loss, theft, or conversion; or

21 (3) a previous sale or other transfer of the goods or document has been made to a  
22 third person.

23 **§7-503. DOCUMENT OF TITLE TO GOODS DEFEATED IN CERTAIN CASES.**

24 (a) A document of title confers no right in goods against a person that before issuance of  
25 the document had a legal interest or a perfected security interest in the goods and that did not:

26 (1) deliver or entrust the goods or any document of title covering the goods to the  
27 bailor or the bailor's nominee with:

28 (A) actual or apparent authority to ship, store, or sell;

29 (B) power to obtain delivery under Section 7-403; or

30 (C) power of disposition under Section 2-403, 2A-304(2), 2A-305(2), 9-320, or  
31 9-321(c) or other statute or rule of law; or

1           (2) acquiesce in the procurement by the bailor or its nominee of any document.

2           (b) Title to goods based upon an unaccepted delivery order is subject to the rights of any  
3 person to which a negotiable warehouse receipt or bill of lading covering the goods has been  
4 duly negotiated. That title may be defeated under Section 7-504 to the same extent as the  
5 rights of the issuer or a transferee from the issuer.

6           (c) Title to goods based upon a bill of lading issued to a freight forwarder is subject to  
7 the rights of any person to which a bill issued by the freight forwarder is duly negotiated.  
8 However, delivery by the carrier in accordance with Part 4 pursuant to its own bill of lading  
9 discharges the carrier's obligation to deliver.

10 **§7-504. RIGHTS ACQUIRED IN ABSENCE OF DUE NEGOTIATION; EFFECT OF**  
11 **DIVERSION; STOPPAGE OF DELIVERY.**

12           (a) A transferee of a document of title, whether negotiable or nonnegotiable, to which the  
13 document has been delivered but not duly negotiated, acquires the title and rights that its  
14 transferor had or had actual authority to convey.

15           (b) In the case of a transfer of a nonnegotiable document of title, until but not after the  
16 bailee receives notice of the transfer, the rights of the transferee may be defeated:

17           (1) by those creditors of the transferor which could treat the transfer as void under  
18 Section 2-402 or 2A-308 ;

19           (2) by a buyer from the transferor in ordinary course of business if the bailee has  
20 delivered the goods to the buyer or received notification of the buyer's rights;

21           (3) by a lessee from the transferor in ordinary course of business if the bailee has  
22 delivered the goods to the lessee or received notification of the lessee's rights; or

23           (4) as against the bailee, by good-faith dealings of the bailee with the transferor.

24           (c) A diversion or other change of shipping instructions by the consignor in a  
25 nonnegotiable bill of lading which causes the bailee not to deliver the goods to the consignee  
26 defeats the consignee's title to the goods if the goods have been delivered to a buyer in  
27 ordinary course of business or a lessee in ordinary course of business and, in any event,  
28 defeats the consignee's rights against the bailee.

29           (d) Delivery of the goods pursuant to a nonnegotiable document of title may be stopped  
30 by a seller under Section 2-705 or a lessor under Section 2A-526, subject to the requirements

1 of due notification in those sections. A bailee that honors the seller's or lessor's instructions  
2 is entitled to be indemnified by the seller or lessor against any resulting loss or expense.

3 **§7-505. INDORSER NOT GUARANTOR FOR OTHER PARTIES.**

4 The indorsement of a tangible document of title issued by a bailee does not make the indorser  
5 liable for any default by the bailee or previous indorsers.

6 **§7-506. DELIVERY WITHOUT INDORSEMENT: RIGHT TO COMPEL**  
7 **INDORSEMENT.**

8 The transferee of a negotiable tangible document of title has a specifically enforceable right  
9 to have its transferor supply any necessary indorsement, but the transfer becomes a negotiation  
10 only as of the time the indorsement is supplied.

11 **§7-507. WARRANTIES ON NEGOTIATION OR DELIVERY OF DOCUMENT OF**  
12 **TITLE.**

13 If a person negotiates or delivers a document of title for value, otherwise than as a mere  
14 intermediary under Section 7-508, unless otherwise agreed, the transferor, in addition to any  
15 warranty made in selling or leasing the goods, warrants to its immediate purchaser only that:

16 (1) the document is genuine;

17 (2) the transferor does not have knowledge of any fact that would impair the document's  
18 validity or worth; and

19 (3) the negotiation or delivery is rightful and fully effective with respect to the title to the  
20 document and the goods it represents.

21 **§7-508. WARRANTIES OF COLLECTING BANK AS TO DOCUMENTS OF TITLE.**

22 A collecting bank or other intermediary known to be entrusted with documents of title on  
23 behalf of another or with collection of a draft or other claim against delivery of documents  
24 warrants by the delivery of the documents only its own good faith and authority even if the  
25 collecting bank or other intermediary has purchased or made advances against the claim or draft  
26 to be collected.

27 **§7-509. ADEQUATE COMPLIANCE WITH COMMERCIAL CONTRACT.**

28 Whether a document of title is adequate to fulfill the obligations of a contract for sale, a  
29 contract for lease, or the conditions of a letter of credit is determined by Article 2, 2A, or 5.

**PART 6**

**WAREHOUSE RECEIPTS AND BILLS OF LADING:**

**MISCELLANEOUS PROVISIONS**

**§7-601. LOST, STOLEN, OR DESTROYED DOCUMENTS OF TITLE.**

(a) If a document of title is lost, stolen, or destroyed, a court may order delivery of the goods or issuance of a substitute document and the bailee may without liability to any person comply with the order. If the document was negotiable, a court may not order delivery of the goods or issuance of a substitute document without the claimant’s posting security unless it finds that any person that may suffer loss as a result of nonsurrender of possession or control of the document is adequately protected against the loss. If the document was nonnegotiable, the court may require security. The court may also order payment of the bailee’s reasonable costs and attorney’s fees in any action under this subsection.

(b) A bailee that, without a court order, delivers goods to a person claiming under a missing negotiable document of title is liable to any person injured thereby. If the delivery is not in good faith, the bailee is liable for conversion. Delivery in good faith is not conversion if the claimant posts security with the bailee in an amount at least double the value of the goods at the time of posting to indemnify any person injured by the delivery which files a notice of claim within one year after the delivery.

**§7-602. JUDICIAL PROCESS AGAINST GOODS COVERED BY NEGOTIABLE DOCUMENT OF TITLE.**

Unless a document of title was originally issued upon delivery of the goods by a person that did not have power to dispose of them, a lien does not attach by virtue of any judicial process to goods in the possession of a bailee for which a negotiable document of title is outstanding unless possession or control of the document is first surrendered to the bailee or the document’s negotiation is enjoined. The bailee may not be compelled to deliver the goods pursuant to process until possession or control of the document is surrendered to the bailee or to the court. A purchaser of the document for value without notice of the process or injunction takes free of the lien imposed by judicial process.

**§7-603. CONFLICTING CLAIMS; INTERPLEADER.**

If more than one person claims title to or possession of the goods, the bailee is excused from delivery until the bailee has a reasonable time to ascertain the validity of the adverse claims or to

1 commence an action for interpleader. The bailee may assert an interpleader either in defending  
2 an action for nondelivery of the goods or by original action.

3

ARTICLE 8 – INVESTMENT SECURITIES

§ 33. Section 8-103 of part 1 of article 8 of the uniform commercial code is amended to add new subsections (g) and (h):

(g) A document of title is not a financial asset unless Section 8-102(a)(9)(iii) applies.

(h) An obligation, share, participation, or interest does not satisfy Section 8-102(a)(13)(ii) or 8-102(a)(15)(i) merely because the issuer or a person acting on its behalf:

(1) maintains records of the owner thereof for a purpose other than registration of transfer; or

(2) could, but does not, maintain books for the purpose of registration of transfer.

§ 34. Section 8-106 of part 1 of article 8 of the uniform commercial code is amended to add new subsections (h) and (i):

(h) Under subsection (c)(2) or (d)(2), authentication of a record does not impose upon the issuer or securities intermediary any duty not expressly agreed to by the issuer or securities intermediary in the record.

(i) A purchaser has “control” under subsection (c)(2) or (d)(2) even if any duty of the issuer or the securities intermediary to comply with instructions or entitlement orders originated by the purchaser is subject to any condition or conditions (other than further consent by the registered owner or the entitlement holder).

**ARTICLE 9 – SECURED TRANSACTIONS**

§ 35. Section 9-102 of article 9 of the uniform commercial code is amended to read as follows:

(a) Article 9 definitions. In this article:

(1) “Accession” means goods that are physically united with other goods in such a manner that the identity of the original goods is not lost.

(2) “Account”, except as used in “account for”, means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a State, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(3) “Account debtor” means a person obligated on an account, chattel paper, or general intangible. The term does not include persons obligated to pay a negotiable instrument, even if the instrument constitutes part of chattel paper.

(4) “Accounting”, except as used in “accounting for”, means a record: authenticated by a secured party; indicating the aggregate unpaid secured obligations as of a date not more than 35 days earlier or 35 days later than the date of the record; and identifying the components of the obligations in reasonable detail.

(5) “Agricultural lien” means an interest[, other than a security interest,] in farm products:

(A) which secures payment or performance of an obligation for:

- 1 (i) goods or services furnished in connection with a debtor’s farming  
2 operation; or
- 3 (ii) rent on real property leased by a debtor in connection with its farming  
4 operation; and
- 5 (B) which is created by statute in favor of a person that:
- 6 (i) in the ordinary course of its business furnished goods or services to a  
7 debtor in connection with a debtor’s farming operation; or
- 8 (ii) leased real property to a debtor in connection with the debtor’s farming  
9 operation; and
- 10 (C) whose effectiveness does not depend on the person’s possession of the  
11 personal property.
- 12 (6) “As-extracted collateral” means:
- 13 (A) oil, gas, or other minerals that are subject to a security interest that:
- 14 (i) is created by a debtor having an interest in the minerals before extraction;  
15 and
- 16 (ii) attaches to the minerals as extracted; or
- 17 (B) accounts arising out of the sale at the wellhead or minehead of oil, gas, or  
18 other minerals in which the debtor had an interest before extraction.
- 19 (7) “Authenticate” means:
- 20 (A) to sign; or
- 21 (B) [to execute or otherwise adopt a symbol, or encrypt or similarly process a  
22 record in whole or in part, with the present intent of the authenticating person to  
23 identify the person and adopt or accept a record] with present intent to adopt or  
24 accept a record, to attach to or logically associate with the record an electronic sound,  
25 symbol, or process.
- 26 (8) “Bank” means an organization that is engaged in the business of banking. The  
27 term includes savings banks, savings and loan associations, credit unions, and trust  
28 companies.
- 29 (9) “Cash proceeds” means proceeds that are money, checks, deposit accounts, or the  
30 like.

1 (10) “Certificate of title” means a certificate of title with respect to which a statute  
2 provides for the security interest in question to be indicated on the certificate as a  
3 condition or result of the security interest’s obtaining priority over the rights of a lien  
4 creditor with respect to the collateral. The term includes another record maintained as an  
5 alternative to a certificate of title by the governmental unit that issues certificates of title  
6 if a statute permits the security interest in question to be indicated on the record as a  
7 condition or result of the security interest’s obtaining priority over the rights of a lien  
8 creditor with respect to the collateral.

9 (11) “Chattel paper” means a record or records that evidence both a monetary  
10 obligation and a security interest in specific goods, a security interest in specific goods  
11 and software used in the goods, a security interest in specific goods and license of  
12 software used in the goods, a lease of specific goods, or a lease of specific goods and  
13 license of software used in the goods. In this paragraph, “monetary obligation” means a  
14 monetary obligation secured by the goods or owed under a lease of the goods and  
15 includes a monetary obligation with respect to software used in the goods. The term does  
16 not include (i) charters or other contracts involving the use or hire of a vessel or (ii)  
17 records that evidence a right to payment arising out of the use of a credit or charge card  
18 or information contained on or for use with the card. If a transaction is evidenced by  
19 records that include an instrument or series of instruments, the group of records taken  
20 together constitutes chattel paper.

21 (11-a) “Check” means (i) a draft, other than a documentary draft, payable on demand  
22 and drawn on a bank or (ii) a cashier’s check or a teller’s check. An instrument may  
23 be a check even though it is described on its face by another term, such as “money  
24 order”. An instrument that (i) meets all of the requirements stated in Article 3 of this  
25 chapter to be a negotiable instrument other than stating that it is payable to order or  
26 bearer and (ii) otherwise qualifies as a check is a negotiable instrument and a check.

27 (12) “Collateral” means the property subject to a security interest or agricultural lien.  
28 The term includes:

29 (A) proceeds to which a security interest attaches;

30 (B) accounts, chattel paper, payment intangibles, and promissory notes that have  
31 been sold; and

1 (C) goods that are the subject of a consignment.

2 (13) “Commercial tort claim” means a claim arising in tort with respect to which:

3 (A) the claimant is an organization; or

4 (B) the claimant is an individual and the claim:

5 (i) arose in the course of the claimant’s business or profession; and

6 (ii) does not include damages arising out of personal injury to or the death of  
7 an individual.

8 (14) “Commodity account” means an account maintained by a commodity  
9 intermediary in which a commodity contract is carried for a commodity customer.

10 (15) “Commodity contract” means a commodity futures contract, an option on a  
11 commodity futures contract, a commodity option, or another contract if the contract or  
12 option is:

13 (A) traded on or subject to the rules of a board of trade that has been designated  
14 as a contract market for such a contract pursuant to federal commodities laws; or

15 (B) traded on a foreign commodity board of trade, exchange, or market, and is  
16 carried on the books of a commodity intermediary for a commodity customer.

17 (16) “Commodity customer” means a person for which a commodity intermediary  
18 carries a commodity contract on its books.

19 (17) “Commodity intermediary” means a person that:

20 (A) is registered as a futures commission merchant under federal commodities  
21 law; or

22 (B) in the ordinary course of its business provides clearance or settlement  
23 services for a board of trade that has been designated as a contract market pursuant to  
24 federal commodities law.

25 (18) “Communicate” means:

26 (A) to send a written or other tangible record;

27 (B) to transmit a record by any means agreed upon by the persons sending and  
28 receiving the record; or

29 (C) in the case of transmission of a record to or by a filing office, to transmit a  
30 record by any means prescribed by filing-office rule.

31 (19) “Consignee” means a merchant to which goods are delivered in a consignment.

1 (20) “Consignment” means a transaction, regardless of its form, in which a person  
2 delivers goods to a merchant for the purpose of sale and:

3 (A) the merchant:

4 (i) deals in goods of that kind under a name other than the name of the person  
5 making delivery;

6 (ii) is not an auctioneer; and

7 (iii) is not generally known by its creditors to be substantially engaged in  
8 selling the goods of others;

9 (B) with respect to each delivery, the aggregate value of the goods is \$1,000 or  
10 more at the time of delivery;

11 (C) the goods are not consumer goods immediately before delivery; and

12 (D) the transaction does not create a security interest that secures an obligation.

13 (21) “Consignor” means a person that delivers goods to a consignee in a  
14 consignment.

15 (22) “Consumer debtor” means a debtor in a consumer transaction. “Consumer  
16 goods” means goods that are used or bought for use primarily for personal, family, or  
17 household purposes.

18 (23) “Consumer goods” means goods that are used or bought for use primarily for  
19 personal, family or household purposes.

20 (24) “Consumer-goods transaction” means a consumer transaction in which:

21 (A) an individual incurs an obligation primarily for personal, family, or  
22 household purposes; and

23 (B) a security interest in consumer goods secures the obligation.

24 (25) “Consumer obligor” means an obligor who is an individual and who incurred the  
25 obligation as part of a transaction entered into primarily for personal, family, or  
26 household purposes.

27 (26) “Consumer transaction” means a transaction in which (i) an individual incurs an  
28 obligation primarily for personal, family, or household purposes, (ii) a security interest  
29 secures the obligation, and (iii) the collateral is held or acquired primarily for personal,  
30 family, or household purposes. The term includes consumer-goods transactions.

31 (27) “Continuation statement” means an amendment of a financing statement which:

1 (A) identifies, by its file number, the initial financing statement to which it  
2 relates; and

3 (B) indicates that it is a continuation statement for, or that it is filed to continue  
4 the effectiveness of, the identified financing statement.

5 (27-a) “Cooperative addendum” means a record that satisfies Section 9--502(e).

6 (27-b) “Cooperative interest” means an ownership interest in a cooperative  
7 organization, which interest, when created, is coupled with possessory rights of a  
8 proprietary nature in identified physical space belonging to the cooperative  
9 organization. A subsequent termination of the possessory rights shall not cause an  
10 ownership interest to cease being a cooperative interest.

11 (27-c) “Cooperative organization” means an organization which has as its principal  
12 asset an interest in real property in this state and in which organization all  
13 ownership interests are cooperative interests.

14 (27-d) “Cooperative organization security interest” means a security interest  
15 which is in a cooperative interest, is in favor of the cooperative organization, is created  
16 by the cooperative record, and secures only obligations incident to ownership of that  
17 cooperative interest.

18 (27e) “Cooperative record” means those records which, as a whole, evidence  
19 cooperative interests and define the mutual rights and obligations of the owners of  
20 the cooperative interests and the cooperative organization.

21 (27-f) “Cooperative unit” means the physical space associated with a cooperative  
22 interest.

23 (28) “Debtor” means:

24 (A) a person having an interest, other than a security interest or other lien, in the  
25 collateral, whether or not the person is an obligor;

26 (B) a seller of accounts, chattel paper, payment intangibles, or promissory notes;  
27 or

28 (C) a consignee.

29 (29) “Deposit account” means a demand, time, savings, passbook, or similar account  
30 maintained with a bank. The term does not include investment property or accounts  
31 evidenced by an instrument.

1 (30) “Document” means a document of title or a receipt of the type described in  
2 Section 7-201[(2)](b).

3 (31) “Electronic chattel paper” means chattel paper evidenced by a record or records  
4 consisting of information stored in an electronic medium.

5 (32) “Encumbrance” means a right, other than an ownership interest, in real property.  
6 The term includes mortgages and other liens on real property.

7 (33) “Equipment” means goods other than inventory, farm products, or consumer  
8 goods.

9 (34) “Farm products” means goods, other than standing timber, with respect to which  
10 the debtor is engaged in a farming operation and which are:

11 (A) crops grown, growing, or to be grown, including:

12 (i) crops produced on trees, vines, and bushes; and

13 (ii) aquatic goods produced in aquacultural operations;

14 (B) livestock, born or unborn, including aquatic goods produced in aquacultural  
15 operations;

16 (C) supplies used or produced in a farming operation; or

17 (D) products of crops or livestock in their unmanufactured states.

18 (35) “Farming operation” means raising, cultivating, propagating, fattening, grazing,  
19 or any other farming, livestock, or aquacultural operation.

20 (36) “File number” means the number assigned to an initial financing statement  
21 pursuant to Section 9-519(a).

22 (37) “Filing office” means an office designated in Section 9-501 as the place to file a  
23 financing statement.

24 (38) “Filing-office rule” means a rule adopted pursuant to Section 9-526.

25 (39) “Financing statement” means a record or records composed of an initial  
26 financing statement and any filed record relating to the initial financing statement.

27 (40) “Fixture filing” means the filing of a financing statement covering goods that  
28 are or are to become fixtures and satisfying Section 9-502(a) and (b). The term includes  
29 the filing of a financing statement covering goods of a transmitting utility which are or  
30 are to become fixtures.

1 (41) “Fixtures” means goods that have become so related to particular real property  
2 that an interest in them arises under real property law.

3 (42) “General intangible” means any personal property, including things in action,  
4 other than accounts, chattel paper, commercial tort claims, deposit accounts, documents,  
5 goods, instruments, investment property, letter-of-credit rights, letters of credit, money,  
6 and oil, gas, or other minerals before extraction. The term includes payment intangibles  
7 and software.

8 (43) “Good faith” means honesty in fact and the observance of reasonable  
9 commercial standards of fair dealing.

10 (44) “Goods” means all things that are movable when a security interest attaches.  
11 The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a  
12 conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown,  
13 growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and  
14 (v) manufactured homes. The term also includes a computer program embedded in goods  
15 and any supporting information provided in connection with a transaction relating to the  
16 program if (i) the program is associated with the goods in such a manner that it  
17 customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a  
18 person acquires a right to use the program in connection with the goods. The term does  
19 not include a computer program embedded in goods that consist solely of the medium in  
20 which the program is embedded. The term also does not include accounts, chattel paper,  
21 commercial tort claims, deposit accounts, documents, general intangibles, instruments,  
22 investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other  
23 minerals before extraction.

24 (45) “Governmental unit” means a subdivision, agency, department, county, parish,  
25 municipality, or other unit of the government of the United States, a State, or a foreign  
26 country. The term includes an organization having a separate corporate existence if the  
27 organization is eligible to issue debt on which interest is exempt from income taxation  
28 under the laws of the United States.

29 (46) “Health-care-insurance receivable” means an interest in or claim under a policy  
30 of insurance which is a right to payment of a monetary obligation for health-care goods  
31 or services provided or to be provided.

1 (47) “Instrument” means a negotiable instrument or any other writing that evidences  
2 a right to the payment of a monetary obligation, is not itself a security agreement or lease,  
3 and is of a type that in ordinary course of business is transferred by delivery with any  
4 necessary indorsement or assignment. The term does not include (i) investment property,  
5 (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use  
6 of a credit or charge card or information contained on or for use with the card.

7 (48) “Inventory” means goods, other than farm products, which:

8 (A) are leased by a person as lessor;

9 (B) are held by a person for sale or lease or to be furnished under a contract of  
10 service;

11 (C) are furnished by a person under a contract of service; or

12 (D) consist of raw materials, work in process, or materials used or consumed in a  
13 business.

14 (49) “Investment property” means a security, whether certificated or uncertificated,  
15 security entitlement, securities account, commodity contract, or commodity account.

16 (50) “Jurisdiction of organization”, with respect to a registered organization, means  
17 the jurisdiction under whose law the organization is formed or organized.

18 “Letter-of-credit right” means a right to payment or performance under a letter of  
19 credit, whether or not the beneficiary has demanded or is at the time entitled to demand  
20 payment or performance. The term does not include the right of a beneficiary to demand  
21 payment or performance under a letter of credit.

22 (51) “Letter-of-credit right” means a right to payment or performance under a letter  
23 of credit, whether or not the beneficiary has demanded or is at the time entitled to  
24 demand payment or performance. The term does not include the right of a beneficiary to  
25 demand payment or performance under a letter of credit.

26 (52) “Lien creditor” means:

27 (A) a creditor that has acquired a lien on the property involved by attachment,  
28 levy, or the like;

29 (B) an assignee for benefit of creditors from the time of assignment;

30 (C) a trustee in bankruptcy from the date of the filing of the petition; or

31 (D) a receiver in equity from the time of appointment.

1 (53) “Manufactured home” means a structure, transportable in one or more sections,  
2 which, in the traveling mode, is eight body feet or more in width or 40 body feet or more  
3 in length, or, when erected on site, is 320 or more square feet, and which is built on a  
4 permanent chassis and designed to be used as a dwelling with or without a permanent  
5 foundation when connected to the required utilities, and includes the plumbing, heating,  
6 air-conditioning, and electrical systems contained therein. The term includes any  
7 structure that meets all of the requirements of this paragraph except the size requirements  
8 and with respect to which the manufacturer voluntarily files a certification required by  
9 the United States Secretary of Housing and Urban Development and complies with the  
10 standards established under Title 42 of the United States Code.

11 (54) “Manufactured-home transaction” means a secured transaction: that creates a  
12 purchase-money security interest in a manufactured home, other than a manufactured  
13 home held as inventory; or in which a manufactured home, other than a manufactured  
14 home held as inventory, is the primary collateral.

15 (55) “Mortgage” means a consensual interest in real property, including fixtures,  
16 which secures payment or performance of an obligation.

17 (56) “New debtor” means a person that becomes bound as debtor under Section  
18 9-203(d) by a security agreement previously entered into by another person.

19 (57) “New value” means (i) money, (ii) money’s worth in property, services, or new  
20 credit, or (iii) release by a transferee of an interest in property previously transferred to  
21 the transferee. The term does not include an obligation substituted for another obligation.  
22 “Noncash proceeds” means proceeds other than cash proceeds. “Obligor” means a person  
23 that, with respect to an obligation secured by a security interest in or an agricultural lien  
24 on the collateral, (i) owes payment or other performance of the obligation, (ii) has  
25 provided property other than the collateral to secure payment or other performance of the  
26 obligation, or (iii) is otherwise accountable in whole or in part for payment or other  
27 performance of the obligation. The term does not include issuers or nominated persons  
28 under a letter of credit.

29 (58) “Noncash proceeds” means proceeds other than cash proceeds.

30 (59) “Obligor” means a person that, with respect to an obligation secured by a  
31 security interest in or an agricultural lien on the collateral, (i) owes payment or other

1 performance of the obligation, (ii) has provided property other than the collateral to  
2 secure payment or other performance of the obligation, or (iii) is otherwise accountable in  
3 whole or in part for payment or other performance of the obligation. The term does not  
4 include issuers or nominated persons under a letter of credit.

5 (60) “Original debtor”, except as used in Section 9-310(c), means a person that, as  
6 debtor, entered into a security agreement to which a new debtor has become bound under  
7 Section 9-203(d).

8 (61) “Payment intangible” means a general intangible under which the account  
9 debtor’s principal obligation is a monetary obligation.

10 (62) “Person related to”, with respect to an individual, means:

11 (A) the spouse of the individual;

12 (B) a brother, brother-in-law, sister, or sister-in-law of the individual;

13 (C) an ancestor or lineal descendant of the individual or the individual’s spouse;

14 or

15 (D) any other relative, by blood or marriage, of the individual or the individual’s  
16 spouse who shares the same home with the individual.

17 (63) “Person related to”, with respect to an organization, means:

18 (A) a person directly or indirectly controlling, controlled by, or under common  
19 control with the organization;

20 (B) an officer or director of, or a person performing similar functions with  
21 respect to, the organization;

22 (C) an officer or director of, or a person performing similar functions with  
23 respect to, a person described in subparagraph (A);

24 (D) the spouse of an individual described in subparagraph (A), (B), or (C); or

25 (E) an individual who is related by blood or marriage to an individual described  
26 in subparagraph (A), (B), (C), or (D) and shares the same home with the individual.

27 (64) “Proceeds”, except as used in Section 9-609(b), means the following property:

28 (A) whatever is acquired upon the sale, lease, license, exchange, or other  
29 disposition of collateral;

30 (B) whatever is collected on, or distributed on account of, collateral;

31 (C) rights arising out of collateral;

1 (D) to the extent of the value of collateral, claims arising out of the loss,  
2 nonconformity, or interference with the use of, defects or infringement of rights in, or  
3 damage to, the collateral; or

4 (E) to the extent of the value of collateral and to the extent payable to the debtor  
5 or the secured party, insurance payable by reason of the loss or nonconformity of,  
6 defects or infringement of rights in, or damage to, the collateral.

7 (65) “Promissory note” means an instrument that evidences a promise to pay a  
8 monetary obligation, does not evidence an order to pay, and does not contain an  
9 acknowledgment by a bank that the bank has received for deposit a sum of money or  
10 funds.

11 (66) “Proposal” means a record authenticated by a secured party which includes the  
12 terms on which the secured party is willing to accept collateral in full or partial  
13 satisfaction of the obligation it secures pursuant to Sections 9-620, 9-621, and 9-622.

14 (67) “Public-finance transaction” means a secured transaction in connection with  
15 which:

16 (A) debt securities are issued;

17 (B) all or a portion of the securities issued have an initial stated maturity of at  
18 least 20 years; and

19 (C) the debtor, obligor, secured party, account debtor or other person obligated  
20 on collateral, assignor or assignee of a secured obligation, or assignor or assignee of a  
21 security interest is a State or a governmental unit of a State.

22 (68) “Public organic record” means a record that is available to the public for  
23 inspection and is:

24 (A) a record consisting of the record initially filed with or issued by a State or the  
25 United States to form or organize an organization and any record filed with or issued  
26 by the State or the United States which amends or restates the initial record;

27 (B) an organic record of a business trust consisting of the record initially filed  
28 with a State and any record filed with the State which amends or restates the initial  
29 record, if a statute of the State governing business trusts requires that the record be  
30 filed with the State; or

1            (C) a record consisting of legislation enacted by the legislature of a State or the  
2            Congress of the United States which forms or organizes an organization, any record  
3            amending the legislation, and any record filed with or issued by the State or the  
4            United States which amends or restates the name of the organization.

5            [(68)] (69) “Pursuant to commitment”, with respect to an advance made or other  
6            value given by a secured party, means pursuant to the secured party’s obligation, whether  
7            or not a subsequent event of default or other event not within the secured party’s control  
8            has relieved or may relieve the secured party from its obligation.

9            [(69)] (70) “Record”, except as used in “for record”, “of record”, “record or legal  
10            title”, and “record owner”, means information that is inscribed on a tangible medium or  
11            which is stored in an electronic or other medium and is retrievable in perceivable form.

12            [(70)] (71) Registered organization” means an organization formed or organized  
13            solely under the law of a single State or the United States [and as to which the State or  
14            the United States must maintain a public record showing the organization to have been  
15            organized] by the filing of a public organic record with, the issuance of a public organic  
16            record by, or the enactment of legislation by the State or the United States. The term  
17            includes a business trust that is formed or organized under the law of a single State if a  
18            statute of the State governing business trusts requires that the business trust’s organic  
19            record be filed with the State.

20            [(71)] (72) “Secondary obligor” means an obligor to the extent that:

21            (A) the obligor’s obligation is secondary; or

22            (B) the obligor has a right of recourse with respect to an obligation secured by  
23            collateral against the debtor, another obligor, or property of either.

24            [(72)] (73) “Secured party” means:

25            (A) a person in whose favor a security interest is created or provided for under a  
26            security agreement, whether or not any obligation to be secured is outstanding;

27            (B) a person that holds an agricultural lien; a consignor;

28            (C) a person to which accounts, chattel paper, payment intangibles, or promissory  
29            notes have been sold;

1 (D) a trustee, indenture trustee, agent, collateral agent, or other representative in  
2 whose favor a security interest or agricultural lien is created or provided for; or a  
3 person that holds a security interest arising under Section 2-401, 2-505, 2-711(3),  
4 2A-508(5), 4-210, or 5-118.

5 [(73)] (74) “Security agreement” means an agreement that creates or provides for a  
6 security interest. A cooperative record that provides that the owner of a cooperative  
7 interest has an obligation to pay amounts to the cooperative organization incident to  
8 ownership of that cooperative interest and which states that the cooperative organization  
9 has a direct remedy against that cooperative interest if such amounts are not paid is a  
10 security agreement creating a cooperative organization security interest.

11 [(74)] (75) “Send”, in connection with a record or notification, means:

12 (A) to deposit in the mail, deliver for transmission, or transmit by any other usual  
13 means of communication, with postage or cost of transmission provided for,  
14 addressed to any address reasonable under the circumstances; or

15 (B) to cause the record or notification to be received within the time that it would  
16 have been received if properly sent under subparagraph (A).

17 [(75)] (76) “Software” means a computer program and any supporting information  
18 provided in connection with a transaction relating to the program. The term does not  
19 include a computer program that is included in the definition of goods.

20 [(76)] (77) “State” means a state of the United States, the District of Columbia,  
21 Puerto Rico, the United States Virgin Islands, or any territory or insular possession  
22 subject to the jurisdiction of the United States.

23 [(77)] (78) “Supporting obligation” means a letter-of-credit right or secondary  
24 obligation that supports the payment or performance of an account, chattel paper, a  
25 document, a general intangible, an instrument, or investment property.

26 [(78)] (79) “Tangible chattel paper” means chattel paper evidenced by a record or  
27 records consisting of information that is inscribed on a tangible medium.

28 [(79)] (80) “Termination statement” means an amendment of a financing statement  
29 which:

1 (A) identifies, by its file number, the initial financing statement to which it  
2 relates; and

3 (B) indicates either that it is a termination statement or that the identified  
4 financing statement is no longer effective.

5 [(80)] (81) “Transmitting utility” means a person primarily engaged in the business  
6 of:

7 (A) operating a railroad, subway, street railway, or trolley bus;

8 (B) transmitting communications electrically, electromagnetically, or by light;

9 (C) transmitting goods by pipeline or sewer; or

10 (D) transmitting or producing and transmitting electricity, steam, gas, or water.

11 (b) Definitions in other articles. The following definitions in other articles apply to this  
12 article:

13 “Applicant”. . . . . Section 5-102.

14 “Beneficiary”. . . . . Section 5-102.

15 “Broker”. . . . . Section 8-102.

16 “Certificated security”. . . . . Section 8-102.

17 “Check”. . . . . Section 3-104.

18 “Clearing corporation”. . . . . Section 8-102.

19 “Contract for sale”. . . . . Section 2-106.

20 “Control” (with respect to a document of title). . . . . Section 7-106.

21 “Customer”. . . . . Section 4-104.

22 “Entitlement holder”. . . . . Section 8-102.

23 “Financial asset”. . . . . Section 8-102.

24 “Holder in due course”. . . . . Section 3-302.

25 “Issuer” (with respect to a letter of credit or letter-of-credit right). . . . . Section 5-102.

26 “Issuer” (with respect to a security). . . . . Section 8-201.

27 “Issuer” (with respect to document of title). . . . . Section 7-102.

28 “Lease”. . . . . Section 2A-103.

29 “Lease agreement”. . . . . Section 2A-103.

30 “Lease contract”. . . . . Section 2A-103.

31 “Leasehold interest”. . . . . Section 2A-103.

1 “Lessee”..... Section 2A-103.  
2 “Lessee in ordinary course of business”..... Section 2A-103.  
3 “Lessor”..... Section 2A-103.  
4 “Lessor’s residual interest”..... Section 2A-103.  
5 “Letter of credit”..... Section 5-102.  
6 “Merchant”..... Section 2-104.  
7 “Negotiable instrument”..... Section 3-104.  
8 “Nominated person”..... Section 5-102.  
9 “Note”..... Section 3-104.  
10 “Proceeds of a letter of credit”..... Section 5-114.  
11 “Prove”..... Section 3-103.  
12 “Sale”..... Section 2-106.  
13 “Securities account”..... Section 8-501.  
14 “Securities intermediary”..... Section 8-102.  
15 “Security”..... Section 8-102.  
16 “Security certificate”..... Section 8-102.  
17 “Security entitlement”..... Section 8-102.  
18 “Uncertificated security”..... Section 8-102.

19 § 36. Section 9-104 of subpart 1 of part 1 article 9 of the uniform commercial code is amended to  
20 read as follows:

- 21 (a) Requirements for control. A secured party has control of a deposit account if:  
22 (1) the secured party is the bank with which the deposit account is maintained;  
23 (2) the debtor, secured party, and bank have agreed in an authenticated record that  
24 the bank will comply with instructions originated by the secured party directing  
25 disposition of the funds in the deposit account without further consent by the debtor; [or]  
26 (3) the secured party becomes the bank’s customer with respect to the deposit  
27 account;  
28 (4) the name on the deposit account is the name of the secured party or indicates that  
29 the secured party has a security interest in the deposit account; or

1           (5) another person has control of the deposit account on behalf of the secured party  
2           or, having previously acquired control of the deposit account, acknowledges that it has  
3           control on behalf of the secured party.

4           (b) Debtor’s right to direct disposition. A secured party that has satisfied subsection (a)  
5 has control, even if the debtor retains the right to direct the disposition of funds from the  
6 deposit account.

7           (c) No implied duties of bank. The authentication of a record by the bank under  
8           subsection (a)(2) does not impose upon the bank any duty not expressly agreed to by the  
9           bank in the record. The naming of the deposit account in the name of the secured party or  
10           with an indication that the secured party has a security interest in the deposit account under  
11           subsection (a)(4) does not impose upon the bank any duty not expressly agreed to by the  
12           bank.

13           (d) Conditions not relevant. A secured party has control under subsection (a)(2) even if  
14           any duty of the bank to comply with instructions originated by the secured party directing  
15           disposition of the funds in the deposit account is subject to any condition or conditions (other  
16           than further consent by the debtor).

17           (e) No inferences. The procedures and requirements of subsection (a)(4) available to  
18           obtain control shall not be used in interpreting the sufficiency of a secured party’s  
19           compliance with the procedures and requirements of subsection (a)(1), (a)(2) or (a)(3) to  
20           obtain control. The provisions of subsection (a)(4) shall create no inference regarding the  
21           requirements for compliance with subsection (a)(1), (a)(2) or (a)(3).

22 § 37. Section 9-105 of subpart 1 of part 1 article 9 of the uniform commercial code is amended to  
23 read as follows:

24           (a) General rule: control of electronic chattel paper. A secured party has control of  
25           electronic chattel paper if a system employed for evidencing the transfer of interests in the  
26           chattel paper reliably establishes the secured party as the person to which the chattel paper  
27           was assigned.

28           (b) Specific facts giving control. A system satisfies subsection (a) if the record or  
29           records comprising the chattel paper are created, stored, and assigned in such a manner that:

30                   (1) a single authoritative copy of the record or records exists which is unique,  
31                   identifiable, and, except as otherwise provided in paragraphs (4), (5), and (6), unalterable;

1 (2) the authoritative copy identifies the secured party as the assignee of the record or  
2 records;

3 (3) the authoritative copy is communicated to and maintained by the secured party or  
4 its designated custodian;

5 (4) copies or [revisions] amendments that add or change an identified assignee of the  
6 authoritative copy can be made only with the [participation] consent of the secured party;

7 (5) each copy of the authoritative copy and any copy of a copy is readily identifiable  
8 as a copy that is not the authoritative copy; and

9 (6) any [revision] amendment of the authoritative copy is readily identifiable as [an]  
10 authorized or unauthorized [revision].

11 § 38. Subparagraph (D) of paragraph (3) of subsection (b) of section 9-203 of subpart 1 of part 2  
12 of article 9 of the uniform commercial code is amended to read as follows:

13 (b) Enforceability. Except as otherwise provided in subsections (c) through (i), a security  
14 interest is enforceable against the debtor and third parties with respect to the collateral only  
15 if:

16 (1) value has been given;

17 (2) the debtor has rights in the collateral or the power to transfer rights in the  
18 collateral to a secured party; and

19 (3) one of the following conditions is met:

20 (A) the debtor has authenticated a security agreement that provides a description  
21 of the collateral and, if the security interest covers timber to be cut, a description of  
22 the land concerned;

23 (B) the collateral is not a certificated security and is in the possession of the  
24 secured party under Section 9--313 pursuant to the debtor's security agreement;

25 (C) the collateral is a certificated security in registered form and the security  
26 certificate has been delivered to the secured party under Section 8--301 pursuant to  
27 the debtor's security agreement; or

28 (D) the collateral is deposit accounts, electronic chattel paper, investment  
29 property, [or] letter-of-credit rights, or electronic documents, and the secured party

1           has control under Section 7-106, 9-104, 9-105, 9-106, or 9-107 pursuant to the  
2           debtor’s security agreement.

3 § 39. Subsection (c) of section 9-207 of subpart 2 of part 2 of article 9 of the uniform commercial  
4 code is amended to read as follows:

5  
6           (a) Duty of care when secured party in possession. Except as otherwise provided in  
7 subsection (d), a secured party shall use reasonable care in the custody and preservation of  
8 collateral in the secured party's possession. In the case of chattel paper or an instrument,  
9 reasonable care includes taking necessary steps to preserve rights against prior parties unless  
10 otherwise agreed.

11           (b) Expenses, risks, duties, and rights when secured party in possession. Except as  
12 otherwise provided in subsection (d), if a secured party has possession of collateral:

13               (1) reasonable expenses, including the cost of insurance and payment of taxes or other  
14 charges, incurred in the custody, preservation, use, or operation of the collateral are  
15 chargeable to the debtor and are secured by the collateral;

16               (2) the risk of accidental loss or damage is on the debtor to the extent of a deficiency  
17 in any effective insurance coverage;

18               (3) the secured party shall keep the collateral identifiable, but fungible collateral may  
19 be commingled; and

20               (4) the secured party may use or operate the collateral:

21                   (A) for the purpose of preserving the collateral or its value;

22                   (B) as permitted by an order of a court having competent jurisdiction; or

23                   (C) except in the case of consumer goods, in the manner and to the extent agreed  
24 by the debtor.

25           (c) Duties and rights when secured party in possession or control. Except as otherwise  
26 provided in subsection (d), a secured party having possession of collateral or control of  
27 collateral under Section 7-106, 9-104, 9-105, 9-106, or 9- 107:

28               (1) may hold as additional security any proceeds, except money or funds, received  
29 from the collateral;

30               (2) shall apply money or funds received from the collateral to reduce the secured  
31 obligation, unless remitted to the debtor; and

1 (3) may create a security interest in the collateral.

2 (d) Buyer of certain rights to payment. If the secured party is a buyer of accounts, chattel  
3 paper, payment intangibles, or promissory notes or a consignor:

4 (1) subsection (a) does not apply unless the secured party is entitled under an  
5 agreement:

6 (A) to charge back uncollected collateral; or

7 (B) otherwise to full or limited recourse against the debtor or a secondary obligor  
8 based on the nonpayment or other default of an account debtor or other obligor on the  
9 collateral; and

10 (2) subsections (b) and (c) do not apply.

11 § 40. Subsections (4) and (5) of Section 9-208 of subpart 2 of part 2 of article 9 of the uniform  
12 commercial code are amended, and a new subsection (6) is added to read as follows:

13 (4) a secured party having control of investment property under Section 8-  
14 106(d)(2) or 9-106(b) shall send to the securities intermediary or commodity  
15 intermediary with which the security entitlement or commodity contract is maintained an  
16 authenticated record that releases the securities intermediary or commodity intermediary  
17 from any further obligation to comply with entitlement orders or directions originated by  
18 the secured party; [and]

19 (5) a secured party having control of a letter-of-credit right under Section 9-107 shall  
20 send to each person having an unfulfilled obligation to pay or deliver proceeds of the  
21 letter of credit to the secured party an authenticated release from any further obligation to  
22 pay or deliver proceeds of the letter of credit to the secured party; and

23 (6) a secured party having control of an electronic document shall:

24 (A) give control of the electronic document to the debtor or its designated  
25 custodian;

26 (B) if the debtor designates a custodian that is the designated custodian with  
27 which the authoritative copy of the electronic document is maintained for the secured  
28 party, communicate to the custodian an authenticated record releasing the designated  
29 custodian from any further obligation to comply with instructions originated by the  
30 secured party and instructing the custodian to comply with instructions originated by  
31 the debtor; and

1           (C) take appropriate action to enable the debtor or its designated custodian to  
2           make copies of or revisions to the authoritative copy which add or change an  
3           identified assignee of the authoritative copy without the consent of the secured party.

4 § 41. Subsection (c) of section 9-301 of subpart 1 of part 3 of article 9 of the uniform commercial  
5 code is amended to read as follows:

6       Except as otherwise provided in Sections 9--303 through 9--306, the following rules  
7 determine the law governing perfection, the effect of perfection or nonperfection, and the priority  
8 of a security interest in collateral:

9           (a) Except as otherwise provided in this section, while a debtor is located in a  
10          jurisdiction, the local law of that jurisdiction governs perfection, the effect of perfection or  
11          nonperfection, and the priority of a security interest in collateral.

12          (b) While collateral is located in a jurisdiction, the local law of that jurisdiction governs  
13          perfection, the effect of perfection or nonperfection, and the priority of a possessory security  
14          interest in that collateral.

15          (c) Except as otherwise provided in paragraph (d), while tangible negotiable documents,  
16          goods, instruments, money, or tangible chattel paper is located in a jurisdiction, the local law  
17          of that jurisdiction governs:

18               (1) perfection of a security interest in the goods by filing a fixture filing;

19               (2) perfection of a security interest in timber to be cut; and

20               (3) the effect of perfection or nonperfection and the priority of a nonpossessory  
21          security interest in the collateral.

22          (d) The local law of the jurisdiction in which the wellhead or minehead is located governs  
23          perfection, the effect of perfection or nonperfection, and the priority of a security interest in  
24          as-extracted collateral.

25          (e) When collateral is a cooperative interest, the law of this state governs perfection, the  
26          effect of perfection or nonperfection, and the priority of the security interest in such  
27          collateral.

28 § 42. Paragraph (1) of subsection (b) of Section 9-304 of subpart 1 of part 3 of article 9 of the  
29 uniform commercial code is amended to read as follows:

30          (b) Bank's jurisdiction. The following rules determine a bank's jurisdiction for purposes  
31          of this part:

1 (1) If an agreement between the bank and [the debtor] its customer governing the  
2 deposit account expressly provides that a particular jurisdiction is the bank's jurisdiction  
3 for purposes of this part, this article, or this Act, that jurisdiction is the bank's  
4 jurisdiction.

5 § 43. Paragraph (2) of subsection (f) of Section 9-307 of subpart 1 of part 3 of article 9 of the  
6 uniform commercial code is amended to read as follows:

7 (f) Location of registered organization organized under federal law; bank branches and  
8 agencies. Except as otherwise provided in subsection (i), a registered organization that is  
9 organized under the law of the United States and a branch or agency of a bank that is not  
10 organized under the law of the United States or a state are located:

11 (1) in the state that the law of the United States designates, if the law designates a  
12 state of location;

13 (2) in the State that the registered organization, branch, or agency designates, if the  
14 law of the United States authorizes the registered organization, branch, or agency to  
15 designate its State of location, including by designating its main office, home office, or  
16 other comparable office; or

17 (3) in the District of Columbia, if neither paragraph (1) nor paragraph (2) applies.

18 § 44. Subsections (12) and (13) of Section 9-309 of subpart 2 of part 3 of article 9 of the uniform  
19 commercial code are amended, and a new subsection (14) is added to read as follows:

20  
21 The following security interests are perfected when they attach:(12) an assignment  
22 for the benefit of all creditors of the transferor and subsequent transfers by the assignee  
23 thereunder; [and]

24 (13) a security interest created by an assignment of a beneficial interest in a  
25 decedent's estate; and

26 (14) a sale by an individual of an account that is a right to payment of winnings in a  
27 lottery or other game of chance.

28 § 45. Subdivision (b) of section 9-310 of subpart 2 of part 3 of article 9 of the uniform  
29 commercial code is amended to read as follows:

1 (b) Exceptions: filing not necessary. The filing of a financing statement is not necessary  
2 to perfect a security interest:

3 (1) that is perfected under Section 9-308(d), (e), (f), or (g);

4 (2) that is perfected under Section 9-309 when it attaches;

5 (3) in property subject to a statute, regulation, or treaty described in Section 9-311(a);

6 (4) in goods in possession of a bailee which is perfected under Section 9- 312(d)(1)

7 or (2);

8 (5) in certificated securities, documents, goods, or instruments which is perfected  
9 without filing, control, or possession under Section 9-312(e), (f), or (g);

10 (6) in collateral in the secured party's possession under Section 9-313;

11 (7) in a certificated security which is perfected by delivery of the security certificate  
12 to the secured party under Section 9-313;

13 (8) in deposit accounts, electronic chattel paper, electronic documents, investment  
14 property, or letter-of-credit rights which is perfected by control under Section 9-314;

15 (9) in proceeds which is perfected under Section 9-315; or

16 (10) that is perfected under Section 9-316; or

17 (11) that is a cooperative organization security interest.

18 § 46. Paragraph (3) of subsection (a) of section 9-311 of subpart 2 of part 3 of article 9 of the  
19 uniform commercial code is amended to read as follows:

20  
21 (a) Security interest subject to other law. Except as otherwise provided in subsection (d),  
22 the filing of a financing statement is not necessary or effective to perfect a security interest in  
23 property subject to:

24 (1) a statute, regulation, or treaty of the United States whose requirements for a  
25 security interest's obtaining priority over the rights of a lien creditor with respect to the  
26 property preempt Section 9--310(a);

27 (2) a certificate-of-title statute of this state or regulations promulgated thereunder, to  
28 the extent such statute or regulations provide for a security interest to be indicated on the  
29 certificate as a condition or result of perfection; or (3) a [certificate of title] statute of  
30 another jurisdiction which provides for a security interest to be indicated on [the] a

1 certificate of title as a condition or result of the security interest’s obtaining priority over  
2 the rights of a lien creditor with respect to the property.

3 § 47. Subsection (e) of section 9-312 of subpart 2 of part 3 of article 9 of the uniform commercial  
4 code is amended to read as follows:

5 (e) Temporary perfection: new value. A security interest in certificated securities,  
6 negotiable documents, or instruments is perfected without filing or the taking of possession  
7 or control for a period of 20 days from the time it attaches to the extent that it arises for new  
8 value given under an authenticated security agreement.

9 § 48. Subsection (a) of section 9-313 of subpart 2 of part 3 of article 9 of the uniform commercial  
10 code is amended to read as follows:

11 (a) Perfection by possession or delivery. Except as otherwise provided in subsection  
12 (b), a secured party may perfect a security interest in tangible negotiable documents, goods,  
13 instruments, money, or tangible chattel paper by taking possession of the collateral. A  
14 secured party may perfect a security interest in certificated securities by taking delivery of  
15 the certificated securities under Section 8-301.

16 § 49. Subsections (a) and (b) of section 9-314 of subpart 2 of part 3 of article 9 of the uniform  
17 commercial code are amended to read as follows:

18 (a) Perfection by control. A security interest in investment property, deposit accounts,  
19 letter-of-credit rights, [or] electronic chattel paper, or electronic documents may be perfected  
20 by control of the collateral under Section 7-106, 9-104, 9-105, 9-106, or 9- 107.

21 (b) Specified collateral: time of perfection by control; continuation of perfection. A  
22 security interest in deposit accounts, electronic chattel paper, [or] letter-of-credit rights, or  
23 electronic documents is perfected by control under Section 7-106, 9-104, 9-105, or 9-107  
24 when the secured party obtains control and remains perfected by control only while the  
25 secured party retains control.

26 § 50. Section 9-316 of subpart 2 of part 3 article 9 of the uniform commercial code is amended to  
27 to add paragraphs (h) and (i) to read as follows:

1 SECTION 9-316. [CONTINUED PERFECTION OF SECURITY INTEREST  
2 FOLLOWING] EFFECT OF CHANGE IN GOVERNING LAW.

3 (h) Effect on filed financing statement of change in governing law. The following  
4 rules apply to collateral to which a security interest attaches within four months after the  
5 debtor changes its location to another jurisdiction:

6 (1) A financing statement filed before the change pursuant to the law of the  
7 jurisdiction designated in Section 9-301(a) or 9-305(c) is effective to perfect a  
8 security interest in the collateral if the financing statement would have been effective  
9 to perfect a security interest in the collateral had the debtor not changed its location.

10 (2) If a security interest perfected by a financing statement that is effective under  
11 paragraph (1) becomes perfected under the law of the other jurisdiction before the  
12 earlier of the time the financing statement would have become ineffective under the  
13 law of the jurisdiction designated in Section 9-301(a) or 9-305(c) or the expiration of  
14 the four-month period, it remains perfected thereafter. If the security interest does not  
15 become perfected under the law of the other jurisdiction before the earlier time or  
16 event, it becomes unperfected and is deemed never to have been perfected as against  
17 a purchaser of the collateral for value.

18 (i) Effect of change in governing law on financing statement filed against original  
19 debtor. If a financing statement naming an original debtor is filed pursuant to the law of  
20 the jurisdiction designated in Section 9-301(a) or 9-305(c) and the new debtor is located  
21 in another jurisdiction, the following rules apply:

22 (1) The financing statement is effective to perfect a security interest in collateral  
23 in which the new debtor has or acquires rights before or within four months after the  
24 new debtor becomes bound under Section 9-203(d), if the financing statement would  
25 have been effective to perfect a security interest in the collateral had the collateral  
26 been acquired by the original debtor.

27 (2) A security interest that is perfected by the financing statement and which  
28 becomes perfected under the law of the other jurisdiction before the earlier of the  
29 expiration of the four month period or the time the financing statement would have  
30 become ineffective under the law of the jurisdiction designated in Section 9-301(a) or  
31 9-305(c) remains perfected thereafter. A security interest that is perfected by the

1           financing statement but which does not become perfected under the law of the other  
2           jurisdiction before the earlier time or event becomes unperfected and is deemed never  
3           to have been perfected as against a purchaser of the collateral for value.

4 § 51. Subsections (b) and (d) of section 9-317 of subpart 3 of part 3 of article 9 of the uniform  
5 commercial code are amended to read as follows:

6           (a) Conflicting security interests and rights of lien creditors. A security interest or  
7 agricultural lien is subordinate to the rights of:

8                   (1) a person entitled to priority under Section 9--322; and

9                   (2) except as otherwise provided in subsection (e), a person that becomes a lien  
10 creditor before the earlier of the time:

11                           (A) the security interest or agricultural lien is perfected; or

12                           (B) one of the conditions specified in Section 9--203(b)(3) is met and a financing  
13 statement covering the collateral is filed.

14           (b) Buyers that receive delivery. Except as otherwise provided in subsection (e), a  
15 buyer, other than a secured party, of tangible chattel paper, tangible documents, goods,  
16 instruments, or a [security certificate] certificated security takes free of a security interest or  
17 agricultural lien if the buyer gives value and receives delivery of the collateral without  
18 knowledge of the security interest or agricultural lien and before it is perfected.

19           (c) Lessees that receive delivery. Except as otherwise provided in subsection (e), a lessee  
20 of goods takes free of a security interest or agricultural lien if the lessee gives value and  
21 receives delivery of the collateral without knowledge of the security interest or agricultural  
22 lien and before it is perfected.

23           (d) Licensees and buyers of certain collateral. A licensee of a general intangible or a  
24 buyer, other than a secured party, of accounts, electronic chattel paper, electronic documents,  
25 general intangibles, or investment property other than a certificated security takes free of a  
26 security interest if the licensee or buyer gives value without knowledge of the security  
27 interest and before it is perfected.

28           (e) Purchase-money security interest. Except as otherwise provided in Sections 9--320  
29 and 9--321, if a person files a financing statement with respect to a purchase-money security  
30 interest before or within 20 days after the debtor receives delivery of the collateral, the  
31 security interest takes priority over the rights of a buyer, lessee, or lien creditor which arise

1 between the time the security interest attaches and the time of filing. The preceding sentence  
2 does not apply to cooperative interests.

3 § 52. Section 9-326 of subpart 3 of part 3 of article 9 of the uniform commercial code is amended  
4 to read as follows:

5 (a) Subordination of security interest created by new debtor. Subject to subsection (b), a  
6 security interest that is created by a new debtor [which is] in collateral in which the new  
7 debtor has or acquires rights and is perfected solely by a filed financing statement that [is  
8 effective solely under Section 9-508 in collateral in which a new debtor has or acquires  
9 rights] would be ineffective to perfect the security interest but for the application of Section  
10 9-316(i)(1) or 9-508 is subordinate to a security interest in the same collateral which is  
11 perfected other than by such a filed financing statement [that is effective solely under Section  
12 9-508].

13 (b) Priority under other provisions; multiple original debtors. The other provisions of  
14 this part determine the priority among conflicting security interests in the same collateral  
15 perfected by filed financing statements [that are effective solely under Section 9-508]  
16 described in subsection (a). However, if the security agreements to which a new debtor  
17 became bound as debtor were not entered into by the same original debtor, the conflicting  
18 security interests rank according to priority in time of the new debtor's having become  
19 bound.

20 § 53. Section 9-338 of subpart 3 of part 3 of article 9 of the uniform commercial code is amended  
21 to read as follows:

22 If a security interest or agricultural lien is perfected by a filed financing statement providing  
23 information described in Section 9-516(b)(5) which is incorrect at the time the financing  
24 statement is filed:

25 [(a)](1) the security interest or agricultural lien is subordinate to a conflicting perfected  
26 security interest in the collateral to the extent that the holder of the conflicting security  
27 interest gives value in reasonable reliance upon the incorrect information; and

28 [(b)](2) a purchaser, other than a secured party, of the collateral takes free of the security  
29 interest or agricultural lien to the extent that, in reasonable reliance upon the incorrect

1 information, the purchaser gives value and, in the case of tangible chattel paper, tangible  
2 documents, goods, instruments, or a security certificate, receives delivery of the collateral.  
3 § 54. Subsection (e) of Section 9-406 of part 4 of article 9 of the uniform commercial code is  
4 amended to read as follows:

5  
6 (a) Discharge of account debtor; effect of notification. Subject to subsections (b) through  
7 (h), an account debtor on an account, chattel paper, or a payment intangible may discharge its  
8 obligation by paying the assignor until, but not after, the account debtor receives a  
9 notification, authenticated by the assignor or the assignee, that the amount due or to become  
10 due has been assigned and that payment is to be made to the assignee. After receipt of the  
11 notification, the account debtor may discharge its obligation by paying the assignee and may  
12 not discharge the obligation by paying the assignor.

13 (b) When notification ineffective. Subject to subsection (g), notification is ineffective  
14 under subsection (a):

15 (1) if it does not reasonably identify the rights assigned;

16 (2) to the extent that an agreement between an account debtor and a seller of a  
17 payment intangible limits the account debtor's duty to pay a person other than the seller  
18 and the limitation is effective under law other than this article; or

19 (3) at the option of an account debtor, if the notification notifies the account debtor to  
20 make less than the full amount of any installment or other periodic payment to the  
21 assignee, even if:

22 (A) only a portion of the account, chattel paper, or payment intangible has been  
23 assigned to that assignee;

24 (B) a portion has been assigned to another assignee; or

25 (C) the account debtor knows that the assignment to that assignee is limited.

26 (c) Proof of assignment. Subject to subsection (g), if requested by the account debtor, an  
27 assignee shall seasonably furnish reasonable proof that the assignment has been made.  
28 Unless the assignee complies, the account debtor may discharge its obligation by paying the  
29 assignor, even if the account debtor has received a notification under subsection (a).

30 (d) Term restricting assignment generally ineffective. Except as otherwise provided in  
31 subsection (e) and Sections 2-A-303 and 9--407, and subject to subsection (g), a term in an

1 agreement between an account debtor and an assignor or in a promissory note is ineffective  
2 to the extent that it:

3 (1) prohibits, restricts, or requires the consent of the account debtor or person  
4 obligated on the promissory note to the assignment or transfer of, or the creation,  
5 attachment, perfection, or enforcement of a security interest in, the account, chattel paper,  
6 payment intangible, or promissory note; or

7 (2) provides that the assignment or transfer or the creation, attachment, perfection, or  
8 enforcement of the security interest may give rise to a default, breach, right of  
9 recoupment, claim, defense, termination, right of termination, or remedy under the  
10 account, chattel paper, payment intangible, or promissory note.

11 (e) Inapplicability of subsection (d) to certain sales. Subsection (d) does not apply to the  
12 sale of a payment intangible or promissory note, other than a sale pursuant to a disposition  
13 under Section 9-610 or an acceptance of collateral under Section 9-620.

14 (f) Subsection (b)(3) not waivable. Subject to subsection (g), an account debtor may not  
15 waive or vary its option under subsection (b)(3).

16 (g) Rule for individual under other law. This section is subject to a rule of law, statute,  
17 rule or regulation other than this article which establishes a different rule for an account  
18 debtor who is an individual and who incurred the obligation primarily for personal, family, or  
19 household purposes.

20 (h) Inapplicability. This section does not apply to:

21 (1) an assignment of a health care insurance receivable to the extent such assignment  
22 conflicts with other law or the parties have otherwise agreed in writing that such  
23 receivable is non-assignable,

24 (2) a claim or right to receive compensation for injuries or sickness as described in 26  
25 U.S.C. § 104(a)(1) and (2), as amended from time to time, or

26 (3) a claim or right to receive benefits under a special needs trust as described in 42  
27 U.S.C. § 1396p (d)(4), as amended from time to time.

28 § 55. Subsection (b) of Section 9-408 of part 4 of article 9 of the uniform commercial code is  
29 amended to read as follows:

30 (a) Term restricting assignment generally ineffective. Except as otherwise provided in  
31 subsection (b), a term in a promissory note or in an agreement between an account debtor and

1 a debtor which relates to a health-care-insurance receivable or a general intangible, including  
2 a contract, permit, license, or franchise, and which term prohibits, restricts, or requires the  
3 consent of the person obligated on the promissory note or the account debtor to, the  
4 assignment or transfer of, or creation, attachment, or perfection of a security interest in, the  
5 promissory note, health-care-insurance receivable, or general intangible, is ineffective to the  
6 extent that the term:

7 (1) would impair the creation, attachment, or perfection of a security interest; or

8 (2) provides that the assignment or transfer or the creation, attachment, or perfection  
9 of the security interest may give rise to a default, breach, right of recoupment, claim,  
10 defense, termination, right of termination, or remedy under the promissory note, health-  
11 care-insurance receivable, or general intangible.

12 (b) Applicability of subsection (a) to sales of certain rights to payment. Subsection (a)  
13 applies to a security interest in a payment intangible or promissory note only if the security  
14 interest arises out of a sale of the payment intangible or promissory note, other than a sale  
15 pursuant to a disposition under Section 9-610 or an acceptance of collateral under Section 9-  
16 620.

17 § 56. Paragraph (3) of subsection (c) of Section 9-502 of subpart 1 of part 5 of article 9 of the  
18 uniform commercial code is amended to read as follows:

19  
20 (c) Record of mortgage as financing statement. A record of a mortgage is effective, from  
21 the date of recording, as a financing statement filed as a fixture filing or as a financing  
22 statement covering as-extracted collateral or timber to be cut only if:

23 (1) the record indicates the goods or accounts that it covers;

24 (2) the goods are or are to become fixtures related to the real property described in  
25 the record or the collateral is related to the real property described in the record and is as-  
26 extracted collateral or timber to be cut; (3) the record satisfies the requirements for a  
27 financing statement in this section, but:

28 (A) the record need not indicate [other than an indication] that it is to be filed in  
29 the real property records; and

30 (B) the record sufficiently provides the name of a debtor who is an individual if it  
31 provides the individual name of the debtor or the surname and first personal name of

1           the debtor, even if the debtor is an individual to whom Section 9-503(a)(4) applies;  
2           and

3 § 57. Section 9-503 of subpart 1 of part 5 of article 9 of the uniform commercial code is amended  
4 to read as follows:

5           (a) Sufficiency of debtor's name. A financing statement sufficiently provides the name  
6 of the debtor:

7           (1) except as otherwise provided in paragraph (3), if the debtor is a registered  
8           organization or the collateral is held in a trust that is a registered organization, only if the  
9           financing statement provides the name [of the debtor indicated] that is stated to be the  
10           registered organization's name on the public organic record of most recently filed with or  
11           issued or enacted by the [debtor's] registered organization's jurisdiction of organization  
12           which [shows the debtor to have been organized] purports to state, amend, or restate the  
13           registered organization's name;

14           (2) subject to subsection (f), if the [debtor is a decedent's estate] collateral is being  
15           administered by the personal representative of a decedent, only if the financing statement  
16           provides, as the name of the debtor, the name of the decedent and, in a separate part of  
17           the financing statement, indicates that the [debtor is an estate] collateral is being  
18           administered by a personal representative;

19           (3) if the [debtor is a trust or a trustee acting with respect to property held in trust,  
20 only if the financing statement:]collateral is held in a trust that is not a registered  
21           organization, only if the financing statement:

22           (A) [provides the name specified for the trust in its organic documents or, if no  
23 name is specified, provides the name of the settlor and additional information  
24 sufficient to distinguish the debtor from other trusts having one or more of the same  
25 settlors; and] provides, as the name of the debtor:

26           (i) if the organic record of the trust specifies a name for the trust, the name  
27           specified; or

28           (ii) if the organic record of the trust does not specify a name for the trust, the  
29           name of the settlor or testator; and

1 (B) [indicates, in the debtor’s name or otherwise, that the debtor is a trust or is a  
2 trustee acting with respect to property held in trust; in a separate part of the financing  
3 statement:

4 (i) if the name is provided in accordance with subparagraph (A)(i), indicates  
5 that the collateral is held in a trust; or

6 (ii) if the name is provided in accordance with subparagraph (A)(ii), provides  
7 additional information sufficient to distinguish the trust from other trusts having  
8 one or more of the same settlors or the same testator and indicates that the  
9 collateral is held in a trust, unless the additional information so indicates;

10 (4) subject to subsection (g), if the debtor is an individual to whom this State has  
11 issued a driver’s license or non-driver photo identification card that has not expired, only  
12 if the financing statement provides the name of the individual which is indicated on the  
13 driver’s license or non-driver photo identification card;

14 (5) if the debtor is an individual to whom paragraph (4) does not apply, only if the  
15 financing statement provides the individual name of the debtor or the surname and first  
16 personal name of the debtor; and

17 (6) in other cases:

18 (A) if the debtor has a name, only if [it] the financing statement provides the  
19 [individual or] organizational name of the debtor; and

20 (B) if the debtor does not have a name, only if it provides the names of the  
21 partners, members, associates, or other persons comprising the debtor, in a manner  
22 that each name provided would be sufficient if the person named were the debtor.

23 (b) Additional debtor-related information. A financing statement that provides the name  
24 of the debtor in accordance with subsection (a) is not rendered ineffective by the absence of:

25 (1) a trade name or other name of the debtor; or

26 (2) unless required under subsection [(a)(4)(B)] (a)(6)(B) names of partners,  
27 members, associates, or other persons comprising the debtor.

28 (c) Debtor’s trade name insufficient. A financing statement that provides only the  
29 debtor’s trade name does not sufficiently provide the name of the debtor.

1 (d) Representative capacity. Failure to indicate the representative capacity of a secured  
2 party or representative of a secured party does not affect the sufficiency of a financing  
3 statement.

4 (e) Multiple debtors and secured parties. A financing statement may provide the name of  
5 more than one debtor and the name of more than one secured party.

6 (f) Name of decedent. The name of the decedent indicated on the order appointing the  
7 personal representative of the decedent issued by the court having jurisdiction over the  
8 collateral is sufficient as the “name of the decedent” under subsection (a)(2).

9 (g) Multiple driver’s licenses. If this State has issued to an individual more than one  
10 driver’s license or non-driver photo identification card of a kind described in subsection  
11 (a)(4), the one that was issued most recently is the one to which subsection (a)(4) refers.

12 (h) Definition. In this section, the “name of the settlor or testator” means:

13 (1) if the settlor is a registered organization, the name that is stated to be the settlor’s  
14 name on the public organic record most recently filed with or issued or enacted by the  
15 settlor’s jurisdiction of organization which purports to state, amend, or restate the  
16 settlor’s name; or

17 (2) in other cases, the name of the settlor or testator indicated in the trust’s organic  
18 record.

19 § 58. Subsection (c) of section 9-507 of subpart 1 of part 5 of article 9 of the uniform  
20 commercial code is amended to read as follows:

21 (c) Change in debtor’s name. If [a debtor so changes its] the name that a filed financing  
22 statement provides for a debtor becomes insufficient as the name of the debtor under Section  
23 9-503(a) so that the financing statement becomes seriously misleading under Section 9-506:

24 (1) the financing statement is effective to perfect a security interest in collateral  
25 acquired by the debtor before, or within four months after, the [change] filed financing  
26 statement becomes seriously misleading; and

27 (2) the financing statement is not effective to perfect a security interest in collateral  
28 acquired by the debtor more than four months after the [change] filed financing statement  
29 becomes seriously misleading, unless an amendment to the financing statement which

1 renders the financing statement not seriously misleading is filed within four months after  
2 [the change] the financing statement became seriously misleading.

3 § 59. Subsection (f) of section 9-515 of subpart 1 of part 5 of article 9 of the uniform commercial  
4 code is amended to read as follows:

5 (f) Transmitting utility financing statement. If a debtor is a transmitting utility and a  
6 filed initial financing statement so indicates, the financing statement is effective until a  
7 termination statement is filed.

8 § 60. Section 9-516 of subpart 1 of part 5 of article 9 of the uniform commercial code is amended  
9 to read as follows:

10 (a) What constitutes filing. Except as otherwise provided in subsection (b),  
11 communication of a record to a filing office and tender of the filing fee or acceptance of the  
12 record by the filing office constitutes filing.

13 (b) Refusal to accept record; filing does not occur. Filing does not occur with respect to  
14 a record that a filing office refuses to accept because:

15 (1) the record is not communicated by a method or medium of communication  
16 authorized by the filing office;

17 (2) an amount equal to or greater than the applicable filing fee is not tendered;

18 (3) the filing office is unable to index the record because:

19 (A) in the case of an initial financing statement, the record does not provide a  
20 name for the debtor;

21 (B) in the case of an amendment or [correction] information statement, the  
22 record:

23 (i) does not identify the initial financing statement as required by Section 9-  
24 512 or 9-518, as applicable; or

25 (ii) identifies an initial financing statement whose effectiveness has lapsed  
26 under Section 9-515;

27 (C) in the case of an initial financing statement that provides the name of a debtor  
28 identified as an individual or an amendment that provides a name of a debtor  
29 identified as an individual which was not previously provided in the financing

1 statement to which the record relates, the record does not identify the debtor's [last  
2 name] surname; or

3 (D) in the case of a record filed in the filing office described in Section 9-  
4 501(a)(1), the record does not provide a sufficient description of the real property to  
5 which it relates;

6 (4) in the case of an initial financing statement or an amendment that adds a secured  
7 party of record, the record does not provide a name and mailing address for the secured  
8 party of record;

9 (5) in the case of an initial financing statement or an amendment that provides a  
10 name of a debtor which was not previously provided in the financing statement to which  
11 the amendment relates, the record does not:

12 (A) provide a mailing address for the debtor; or

13 (B) indicate whether the name provided as the name of the debtor is the name of  
14 an individual or an organization; [or

15 (C) if the financing statement indicates that the debtor is an organization,  
16 provide:

17 (i) a type of organization for the debtor;

18 (ii) a jurisdiction of organization for the debtor; or]

19 (6) in the case of an assignment reflected in an initial financing statement under  
20 Section 9-514(a) or an amendment filed under Section 9-514(b), the record does not  
21 provide a name and mailing address for the assignee; or

22 (7) in the case of a continuation statement, the record is not filed within the six-  
23 month period prescribed by Section 9-515(d).

24 (c) Rules applicable to subsection (b). For purposes of subsection (b):

25 (1) a record does not provide information if the filing office is unable to read or  
26 decipher the information; and

27 (2) a record that does not indicate that it is an amendment or identify an initial  
28 financing statement to which it relates, as required by Section 9-512, 9-514, or 9-518, is  
29 an initial financing statement.

1 (d) Refusal to accept record; record effective as filed record. A record that is  
2 communicated to the filing office with tender of the filing fee, but which the filing office  
3 refuses to accept for a reason other than one set forth in subsection (b), is effective as a filed  
4 record except as against a purchaser of the collateral which gives value in reasonable reliance  
5 upon the absence of the record from the files.

6 (e) Special rule for cooperative interests; record effective as notice. A filing that includes  
7 a cooperative addendum covering a cooperative interest constitutes notice of the existence of the  
8 security interest in the cooperative interest as of the date of the filing of the cooperative  
9 addendum, except as against a purchaser of the collateral which gives value in reasonable reliance  
10 upon the absence of the record from the files.

11 § 61. Section 9-518 of subpart 1 of part 5 of article 9 of the uniform commercial code is amended  
12 to read as follows:

13 (a) [Correction Statement] Statement with respect to record indexed under person's  
14 name. A person may file in the filing office [a correction] an information statement with  
15 respect to a record indexed there under the person's name if the person believes that the  
16 record is inaccurate or was wrongfully filed.

17 (b) [Sufficiency] Contents of [correction] statement under subsection (a). [A  
18 correction] An information statement under subsection (a) must:

19 (1) identify the record to which it relates by:

20 (A) the file number assigned to the initial financing statement to which the record  
21 relates; and

22 (B) if the [correction] information statement relates to a record filed in a filing  
23 office described in Section 9-501(a)(1), the date that the initial financing statement  
24 was filed and the information specified in Section 9-502(b);

25 (2) indicate that it is [a correction] an information statement; and

26 (3) provide the basis for the person's belief that the record is inaccurate and indicate  
27 the manner in which the person believes the record should be amended to cure any  
28 inaccuracy or provide the basis for the person's belief that the record was wrongfully  
29 filed.

1           (c) Statement by secured party of record. A person may file in the filing office an  
2 information statement with respect to a record filed there if the person is a secured party of  
3 record with respect to the financing statement to which the record relates and believes that  
4 the person that filed the record was not entitled to do so under Section 9-509(d).

5           (d) Contents of statement under subsection (c). An information statement under  
6 subsection (c) must:

7           (1) identify the record to which it relates by:

8           (A) the file number assigned to the initial financing statement to which the record  
9 relates; and

10           (B) if the information statement relates to a record filed in a filing office  
11 described in Section 9-501(a)(1), the date that the initial financing statement was filed  
12 and the information specified in Section 9-502(b);

13           (2) indicate that it is an information statement; and

14           (3) provide the basis for the person's belief that the person that filed the record was  
15 not entitled to do so under Section 9-509(d).

16           (e) Record not affected by [correction] information statement. The filing of a  
17 [correction] an information statement does not affect the effectiveness of an initial financing  
18 statement or other filed record.

19 § 62. Section 9-521 of subpart 2 of part 5 of article 9 of the uniform commercial code is amended  
20 to read as follows:

21           (a) Initial financing statement form. A filing office that accepts written records may not  
22 refuse to accept a written initial financing statement in the following form and format except  
23 for a reason set forth in Section 9-516(b):



**UCC FINANCING STATEMENT**

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional)
B. E-MAIL CONTACT AT FILER (optional)
C. SEND ACKNOWLEDGMENT TO: (Name and Address)
<div style="border: 1px solid black; width: 100%; height: 100%; position: relative;"> <span style="position: absolute; top: 0; left: 0; border-right: 1px solid black; border-bottom: 1px solid black; width: 100%; height: 100%;"></span> </div>

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S NAME: Provide only one Debtor name (1a or 1b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here  and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION'S NAME				
OR				
1b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	
1c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

2. DEBTOR'S NAME: Provide only one Debtor name (2a or 2b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here  and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

2a. ORGANIZATION'S NAME				
OR				
2b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	
2c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

3. SECURED PARTY'S NAME (or NAME OF ASSIGNEE OF ASSIGNOR SECURED PARTY): Provide only one Secured Party name (3a or 3b)

3a. ORGANIZATION'S NAME				
OR				
3b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	
3c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

4. COLLATERAL: This financing statement covers the following collateral:

5. Check <u>only</u> if applicable and check <u>only</u> one box: Collateral is <input type="checkbox"/> held in a Trust (see UCC1Ad, item 17 and Instructions) <input type="checkbox"/> being administered by a Decedent's Personal Representative	
6a. Check <u>only</u> if applicable and check <u>only</u> one box: <input type="checkbox"/> Public-Finance Transaction <input type="checkbox"/> Manufactured-Home Transaction <input type="checkbox"/> A Debtor is a Transmitting Utility	6b. Check <u>only</u> if applicable and check <u>only</u> one box: <input type="checkbox"/> Agricultural Lien <input type="checkbox"/> Non-UCC Filing
7. ALTERNATIVE DESIGNATION (if applicable): <input type="checkbox"/> Lessee/Lessor <input type="checkbox"/> Consignee/Consignor <input type="checkbox"/> Seller/Buyer <input type="checkbox"/> Bailee/Bailor <input type="checkbox"/> Licensee/Licensor	
8. OPTIONAL FILER REFERENCE DATA:	

**UCC FINANCING STATEMENT ADDENDUM**

FOLLOW INSTRUCTIONS

9. NAME OF FIRST DEBTOR: Same as line 1a or 1b on Financing Statement; if line 1b was left blank because Individual Debtor name did not fit, check here

	9a. ORGANIZATION'S NAME
OR	9b. INDIVIDUAL'S SURNAME
	FIRST PERSONAL NAME
	ADDITIONAL NAME(S)/INITIAL(S)
	SUFFIX

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

10. DEBTOR'S NAME: Provide (10a or 10b) only one additional Debtor name or Debtor name that did not fit in line 1b or 2b of the Financing Statement (Form UCC1) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name) and enter the mailing address in line 10c

	10a. ORGANIZATION'S NAME			
OR	10b. INDIVIDUAL'S SURNAME			
	INDIVIDUAL'S FIRST PERSONAL NAME			
	INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S)			
	SUFFIX			
10c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

11.  ADDITIONAL SECURED PARTY'S NAME or  ASSIGNOR SECURED PARTY'S NAME: Provide only one name (11a or 11b)

	11a. ORGANIZATION'S NAME			
OR	11b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
11c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

12. ADDITIONAL SPACE FOR ITEM 4 (Collateral):

13.  This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS (if applicable)

14. This FINANCING STATEMENT:  
 covers timber to be cut     covers as-extracted collateral     is filed as a fixture filing

15. Name and address of a RECORD OWNER of real estate described in item 16 (if Debtor does not have a record interest):

16. Description of real estate:

17. MISCELLANEOUS:

1           (b) Amendment form. A filing office that accepts written records may not refuse to  
2 accept a written record in the following form and format except for a reason set forth in Section  
3 9-516(b):



**UCC FINANCING STATEMENT AMENDMENT**

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional)
B. E-MAIL CONTACT AT FILER (optional)
C. SEND ACKNOWLEDGMENT TO: (Name and Address)
<div style="border: 1px solid black; width: 90%; margin: 5px auto;"></div>

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1a. INITIAL FINANCING STATEMENT FILE NUMBER	1b. <input type="checkbox"/> This FINANCING STATEMENT AMENDMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS Filer: attach Amendment Addendum (Form UCC3Ad) and provide Debtor's name in item 13
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2.  **TERMINATION:** Effectiveness of the Financing Statement identified above is terminated with respect to the security interest(s) of Secured Party authorizing this Termination Statement

3.  **ASSIGNMENT** (full or partial): Provide name of Assignee in item 7a or 7b, and address of Assignee in item 7c and name of Assignor in item 9 For partial assignment, complete items 7 and 9 and also indicate affected collateral in item 8

4.  **CONTINUATION:** Effectiveness of the Financing Statement identified above with respect to the security interest(s) of Secured Party authorizing this Continuation Statement is continued for the additional period provided by applicable law

5.  **PARTY INFORMATION CHANGE:**  
 Check one of these two boxes:  Debtor or  Secured Party of record **AND** Check one of these three boxes to:  
 CHANGE name and/or address: Complete  item 6a or 6b; and item 7a or 7b and item 7c  ADD name: Complete item  7a or 7b, and item 7c  DELETE name: Give record name to be deleted in item 6a or 6b

6. **CURRENT RECORD INFORMATION:** Complete for Party Information Change - provide only one name (6a or 6b)

6a. ORGANIZATION'S NAME				
OR	6b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX

7. **CHANGED OR ADDED INFORMATION:** Complete for Assignment or Party Information Change - provide only one name (7a or 7b) (use exact, full name, do not omit, modify, or abbreviate any part of the Debtor's name)

7a. ORGANIZATION'S NAME				
OR	7b. INDIVIDUAL'S SURNAME	INDIVIDUAL'S FIRST PERSONAL NAME	INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX

7c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
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8.  **COLLATERAL CHANGE:** Also check one of these four boxes:  ADD collateral  DELETE collateral  RESTATE covered collateral  ASSIGN collateral  
 Indicate collateral:

9. **NAME OF SECURED PARTY OF RECORD AUTHORIZING THIS AMENDMENT:** Provide only one name (9a or 9b) (name of Assignor, if this is an Assignment) If this is an Amendment authorized by a DEBTOR, check here  and provide name of authorizing Debtor

9a. ORGANIZATION'S NAME				
OR	9b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX

10. **OPTIONAL FILER REFERENCE DATA:**

**UCC FINANCING STATEMENT AMENDMENT ADDENDUM**

FOLLOW INSTRUCTIONS

11. INITIAL FINANCING STATEMENT FILE NUMBER: Same as item 1a on Amendment form				
12. NAME OF PARTY AUTHORIZING THIS AMENDMENT: Same as item 9 on Amendment form				
12a. ORGANIZATION'S NAME				
OR				
12b. INDIVIDUAL'S SURNAME				
FIRST PERSONAL NAME				
ADDITIONAL NAME(S)/INITIAL(S)			SUFFIX	
<b>THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY</b>				
13. Name of DEBTOR on related financing statement (Name of a current Debtor of record required for indexing purposes only in some filing offices - see Instruction item 13): Provide only one Debtor name (13a or 13b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); see Instructions if name does not fit				
13a. ORGANIZATION'S NAME				
OR				
13b. INDIVIDUAL'S SURNAME		FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
14. ADDITIONAL SPACE FOR ITEM 8 (Collateral):				

15. This FINANCING STATEMENT AMENDMENT: <input type="checkbox"/> covers timber to be cut <input type="checkbox"/> covers as-extracted collateral <input type="checkbox"/> is filed as a fixture filing	17. Description of real estate:
16. Name and address of a RECORD OWNER of real estate described in item 17 (if Debtor does not have a record interest):	
18. MISCELLANEOUS:	

1 § 63. Subsection (b) of section 9-601 of subpart 1 of part 6 of article 9 of the uniform  
2 commercial code is amended to read as follows:

3 (b) Rights and duties of secured party in possession or control. A secured party in  
4 possession of collateral or control of collateral under Section 7-106, 9-104, 9-105, 9-106, or  
5 9-107 has the rights and duties provided in Section 9-207.

6 § 64. Subparagraph (A) of paragraph (2) of subsection (b) of section 9-607 of subpart 1 of part 6  
7 of article 9 of the uniform commercial code is amended to read as follows:

8 (a) Collection and enforcement generally. If so agreed, and in any event after default, a  
9 secured party:

10 (1) may notify an account debtor or other person obligated on collateral to make  
11 payment or otherwise render performance to or for the benefit of the secured party;

12 (2) may take any proceeds to which the secured party is entitled under Section 9--315;

13 (3) may enforce the obligations of an account debtor or other person obligated on  
14 collateral and exercise the rights of the debtor with respect to the obligation of the  
15 account debtor or other person obligated on collateral to make payment or otherwise  
16 render performance to the debtor, and with respect to any other person obligated on the  
17 collateral;

18 (4) if it holds a security interest in a deposit account perfected by control under  
19 Section 9--104 (a) (1), may apply the balance of the deposit account to the obligation  
20 secured by the deposit account; and

21 (5) if it holds a security interest in a deposit account perfected by control under  
22 Section 9--104 (a) (2) or (3), may instruct the bank to pay the balance of the deposit  
23 account to or for the benefit of the secured party.

24 (b) Nonjudicial enforcement of mortgage. If necessary to enable a secured party to  
25 exercise under subsection (a) (3) the right of a debtor to enforce a mortgage nonjudicially, the  
26 secured party may record in the office in which a record of the mortgage is recorded:

27 (1) a copy of the security agreement that creates or provides for a security interest in  
28 the obligation secured by the mortgage; and

29 (2) the secured party's sworn affidavit in recordable form stating that:

30 (A) a default has occurred with respect to the obligation secured by the mortgage;

31 and

1 (B) the secured party is entitled to enforce the mortgage nonjudicially.

2 § 65. Subsection (c) of section 9-625 of subpart 2 of part 6 of article 9 of the uniform commercial  
3 code is amended to read as follows:

4 (c) Persons entitled to recover damages; statutory damages [in consumer-goods  
5 transaction] if collateral is consumer goods. Except as otherwise provided in Section 9-628:

6 (1) a person that, at the time of the failure, was a debtor, was an obligor, or held a  
7 security interest in or other lien on the collateral may recover damages under subsection

8 (b) for its loss; and

9 (2) if the collateral is consumer goods, a person that was a debtor or a secondary  
10 obligor at the time a secured party failed to comply with this part may recover for that  
11 failure in any event an amount not less than the credit service charge plus 10 percent of  
12 the principal amount of the obligation or the time-price differential plus 10 percent of the  
13 cash price.

14 § 66. Article 9 of the uniform commercial code is amended to add Part 8, to read as follows:

15 **PART 8**

16 **TRANSITION PROVISIONS FOR 2012 AMENDMENTS**

17 **SECTION 9-801. EFFECTIVE DATE.**

18 This Omnibus Act takes effect on July 1, 2013.

19 **§ 9-802. SAVINGS CLAUSE.**

20 (a) Pre-effective-date transactions or liens. Except as otherwise provided in this part,  
21 this Omnibus Act applies to a transaction or lien within its scope, even if the transaction or  
22 lien was entered into or created before this Omnibus Act takes effect.

23 (b) Pre-effective-date proceedings. This Omnibus Act does not affect an action, case, or  
24 proceeding commenced before this Omnibus Act takes effect.

25 **§9-803. SECURITY INTEREST PERFECTED BEFORE EFFECTIVE DATE.**

26 (a) Continuing perfection: perfection requirements satisfied. A security interest that is a  
27 perfected security interest immediately before this Omnibus Act takes effect is a perfected  
28 security interest under Article 9 of this Act as amended by this Omnibus Act if, when this  
29 Omnibus Act takes effect, the applicable requirements for attachment and perfection under  
30 Article 9 of this Act as amended by this Omnibus Act are satisfied without further action.

1           (b) Continuing perfection: perfection requirements not satisfied. Except as otherwise  
2           provided in Section 9-805, if, immediately before this Omnibus Act takes effect, a security  
3           interest is a perfected security interest, but the applicable requirements for perfection under  
4           Article 9 of this Act as amended by this Omnibus Act are not satisfied when this Omnibus  
5           Act takes effect, the security interest remains perfected thereafter only if the applicable  
6           requirements for perfection under Article 9 of this Act as amended by this Omnibus Act are  
7           satisfied within one year after this Omnibus Act takes effect.

8           **§9-804. SECURITY INTEREST UNPERFECTED BEFORE EFFECTIVE DATE.**

9           A security interest that is an unperfected security interest immediately before this Omnibus  
10          Act takes effect becomes a perfected security interest:

11           (1) without further action, when this Omnibus Act takes effect if the applicable  
12           requirements for perfection under Article 9 of this Act as amended by this Omnibus Act are  
13           satisfied before or at that time; or

14           (2) when the applicable requirements for perfection are satisfied if the requirements are  
15           satisfied after that time.

16          **§9-805. EFFECTIVENESS OF ACTION TAKEN BEFORE EFFECTIVE DATE.**

17           (a) Pre-effective-date filing effective. The filing of a financing statement before this  
18           Omnibus Act takes effect is effective to perfect a security interest to the extent the filing  
19           would satisfy the applicable requirements for perfection under Article 9 of this Act as  
20           amended by this Omnibus Act.

21           (b) When pre-effective-date filing becomes ineffective. This Omnibus Act does not  
22           render ineffective an effective financing statement that, before this Omnibus Act takes effect,  
23           is filed and satisfies the applicable requirements for perfection under the law of the  
24           jurisdiction governing perfection as provided in Article 9 of this Act as it existed before this  
25           Omnibus Act took effect. However, except as otherwise provided in subsections (c) and (d)  
26           and Section 9-806, the financing statement ceases to be effective:

27           (1) if the financing statement is filed in this State, at the time the financing statement  
28           would have ceased to be effective had this Omnibus Act not taken effect; or

29           (2) if the financing statement is filed in another jurisdiction, at the earlier of:

30           (A) the time the financing statement would have ceased to be effective under the  
31           law of that jurisdiction; or

1           (B) June 30, 2018.

2           (c) Continuation statement. The filing of a continuation statement after this Omnibus  
3 Act takes effect does not continue the effectiveness of a financing statement filed before this  
4 Omnibus Act takes effect. However, upon the timely filing of a continuation statement after  
5 this Omnibus Act takes effect and in accordance with the law of the jurisdiction governing  
6 perfection as provided in Article 9 of this Act as amended by this Omnibus Act, the  
7 effectiveness of a financing statement filed in the same office in that jurisdiction before this  
8 Omnibus Act takes effect continues for the period provided by the law of that jurisdiction.

9           (d) Application of subsection (b)(2)(B) to transmitting utility financing statement.  
10 Subsection (b)(2)(B) applies to a financing statement that, before this Omnibus Act takes  
11 effect, is filed against a transmitting utility and satisfies the applicable requirements for  
12 perfection under the law of the jurisdiction governing perfection as provided in Article 9 of  
13 this Act as it existed before this Omnibus Act took effect, only to the extent that Article 9 of  
14 this Act as amended by this Omnibus Act provides that the law of a jurisdiction other than  
15 the jurisdiction in which the financing statement is filed governs perfection of a security  
16 interest in collateral covered by the financing statement.

17           (e) Application of Part 5. A financing statement that includes a financing statement filed  
18 before this Omnibus Act takes effect and a continuation statement filed after this Omnibus  
19 Act takes effect is effective only to the extent that it satisfies the requirements of Part 5 of  
20 Article 9 of this Act as amended by this Omnibus Act for an initial financing statement. A  
21 financing statement that indicates that the debtor is a decedent's estate indicates that the  
22 collateral is being administered by a personal representative within the meaning of Section 9-  
23 503(a)(2) as amended by this Omnibus Act. A financing statement that indicates that the  
24 debtor is a trust or is a trustee acting with respect to property held in trust indicates that the  
25 collateral is held in a trust within the meaning of Section 9-503(a)(3) as amended by this  
26 Omnibus Act

27 **§9-806. WHEN INITIAL FINANCING STATEMENT SUFFICES TO CONTINUE**  
28 **EFFECTIVENESS OF FINANCING STATEMENT.**

29           (a) Initial financing statement in lieu of continuation statement. The filing of an initial  
30 financing statement in the office specified in Section 9-501 continues the effectiveness of a  
31 financing statement filed before this Omnibus Act takes effect if:

1           (1) the filing of an initial financing statement in that office would be effective to  
2           perfect a security interest under Article 9 of this Act as amended by this Omnibus Act;

3           (2) the pre-effective-date financing statement was filed in an office in another State;  
4           and

5           (3) the initial financing statement satisfies subsection (c).

6           (b) Period of continued effectiveness. The filing of an initial financing statement under  
7           subsection (a) continues the effectiveness of the pre-effective-date financing statement:

8           (1) if the initial financing statement is filed before this Omnibus Act takes effect, for  
9           the period provided in Section 9-515 of Article 9 of this Act before this Omnibus took  
10           effect with respect to an initial financing statement; and

11           (2) if the initial financing statement is filed after this Omnibus Act takes effect, for  
12           the period provided in Section 9-515 of Article 9 of this Act as amended by this Omnibus  
13           Act with respect to an initial financing statement.

14           (c) Requirements for initial financing statement under subsection (a). To be effective for  
15           purposes of subsection (a), an initial financing statement must:

16           (1) satisfy the requirements of Part 5 of Article 9 of this Act as amended by this  
17           Omnibus Act for an initial financing statement;

18           (2) identify the pre-effective-date financing statement by indicating the office in  
19           which the financing statement was filed and providing the dates of filing and file  
20           numbers, if any, of the financing statement and of the most recent continuation statement  
21           filed with respect to the financing statement; and

22           (3) indicate that the pre-effective-date financing statement remains effective.

23           **§9-807. AMENDMENT OF PRE-EFFECTIVE-DATE FINANCING STATEMENT.**

24           (a) “Pre-effective-date financing statement”. In this section, “pre-effective-date  
25           financing statement” means a financing statement filed before this Omnibus Act takes effect.

26           (b) Applicable law. After this Omnibus Act takes effect, a person may add or delete  
27           collateral covered by, continue or terminate the effectiveness of, or otherwise amend the  
28           information provided in, a pre-effective-date financing statement only in accordance with the  
29           law of the jurisdiction governing perfection as provided in Article 9 of this Act as amended  
30           by this Omnibus Act. However, the effectiveness of a pre-effective-date financing statement

1 also may be terminated in accordance with the law of the jurisdiction in which the financing  
2 statement is filed.

3 (c) Method of amending: general rule. Except as otherwise provided in subsection (d), if  
4 the law of this State governs perfection of a security interest, the information in a pre-  
5 effective-date financing statement may be amended after this Omnibus Act takes effect only  
6 if:

7 (1) the pre-effective-date financing statement and an amendment are filed in the  
8 office specified in Section 9-501;

9 (2) an amendment is filed in the office specified in Section 9-501 concurrently with,  
10 or after the filing in that office of, an initial financing statement that satisfies Section 9-  
11 806(c); or

12 (3) an initial financing statement that provides the information as amended and  
13 satisfies Section 9-806(c) is filed in the office specified in Section 9-501.

14 (d) Method of amending: continuation. If the law of this State governs perfection of a  
15 security interest, the effectiveness of a pre-effective-date financing statement may be  
16 continued only under Section 9-805(c) and (e) or 9-806.

17 (e) Method of amending: additional termination rule. Whether or not the law of this  
18 State governs perfection of a security interest, the effectiveness of a pre-effective-date  
19 financing statement filed in this State may be terminated after this Omnibus Act takes effect  
20 by filing a termination statement in the office in which the pre-effective-date financing  
21 statement is filed, unless an initial financing statement that satisfies Section 9-806(c) has  
22 been filed in the office specified by the law of the jurisdiction governing perfection as  
23 provided in Article 9 as amended by this Omnibus Act as the office in which to file a  
24 financing statement.

25 **§9-808. PERSON ENTITLED TO FILE INITIAL FINANCING STATEMENT OR**  
26 **CONTINUATION STATEMENT.**

27 A person may file an initial financing statement or a continuation statement under this part if:

28 (1) the secured party of record authorizes the filing; and

29 (2) the filing is necessary under this part:

30 (A) to continue the effectiveness of a financing statement filed before this  
31 Omnibus Act takes effect; or

1           (B) to perfect or continue the perfection of a security interest.

2 **§9-809. PRIORITY.**

3           This Omnibus Act determines the priority of conflicting claims to collateral. However, if the  
4 relative priorities of the claims were established before this Omnibus Act takes effect, Article 9  
5 of this Act as it existed before this Omnibus Act took effect determines priority.

6 §67. (a) This Omnibus Act takes effect on July 1, 2013.

7           (b) The applicability of Article 9 of the Uniform Commercial Code, as amended by §§  
8 35-66 of this Omnibus Act, is determined by Sections 9-801 through 9-809 of such Article 9.

9           (c) The applicability of Articles 3, 4, and 7 of the Uniform Commercial Code, as  
10 replaced by §§ 26, 27, and 32 of this Omnibus Act, is determined by the following rules:

11           (1) Such Articles 3, 4, and 7 apply to a negotiable instrument, item, or document of  
12 title that is issued, or a bailment that arises, on or after the effective date of this Omnibus  
13 Act. Articles 3, 4, and 7 of the Uniform Commercial Code, as replaced by this Omnibus  
14 Act, do not apply to a negotiable instrument, item, or document of title that is issued or a  
15 bailment that arises before the effective date of this Omnibus Act even if the negotiable  
16 instrument, item, or document of title or bailment would be subject to such Articles if the  
17 negotiable instrument, item, or document of title had been issued or bailment had arisen  
18 on or after the effective date of this Omnibus Act.

19           (2) Such Articles 3, 4, and 7 do not apply to a right of action that has accrued before  
20 the effective date.

21           (3) Except to the extent that Article 9 of the Uniform Commercial Code, as amended  
22 by §§ 35-66 of this Omnibus Act, is applicable as provided in Sections 9-801 through 9-  
23 809 of such Article 9, a negotiable instrument, item or document of title issued or a  
24 bailment that arises before the effective date of this Omnibus Act and the rights,  
25 obligations, and interests flowing from that negotiable instrument or document or  
26 bailment are governed by any statute or other rule amended or repealed by this Omnibus  
27 Act as if amendment or repeal had not occurred and may be terminated, completed,  
28 consummated, or enforced under that statute or other rule.