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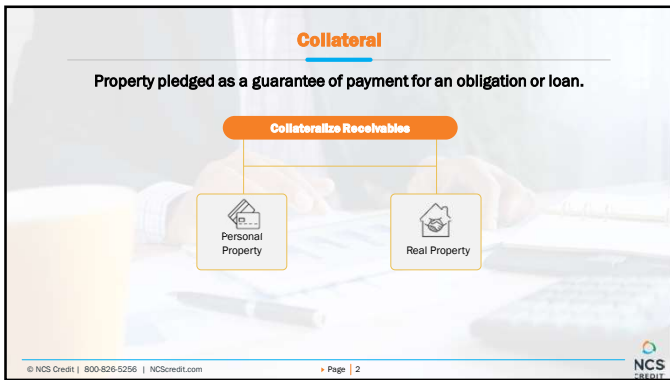
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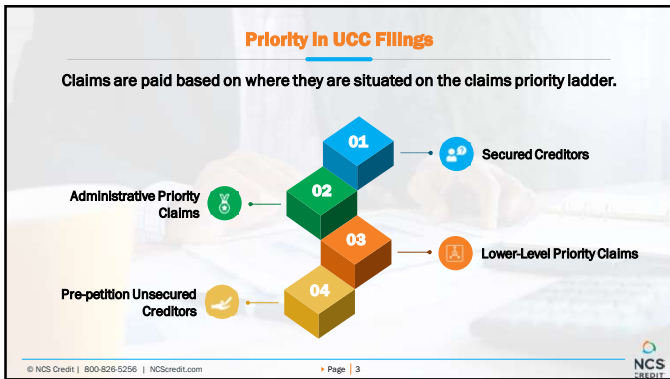
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**Evolution**

**1 of the 10 of the 15...**

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**Responsibilities**

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**The Uniform Commercial Code**

- Article 1: General Provisions
- Article 2: Sales
- Article 2A: Leases
- Article 3: Negotiable Instruments
- Article 4: Bank Deposits and Collections
- Article 4A: Funds Transfers
- Article 5: Letters of Credit
- Article 6: Bulk Transfers
- Article 7: Warehouse Receipts, Bills of Lading
- Article 8: Investment Securities
- Article 9: Secured Transactions

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### The Expanding Code

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### Benefits of Secured Transactions

- Secured creditor status in a Chapter 7
- Right of Repossession (PMI)
- Part of the secured creditor team in a Chapter 11
- Generally protected from preferential payment suits
- Public record of debt in case business is sold
- Public record of ownership of assets

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### Two Types of UCC Filings

1. Blanket, or Basic
2. Purchase Money Security Interest

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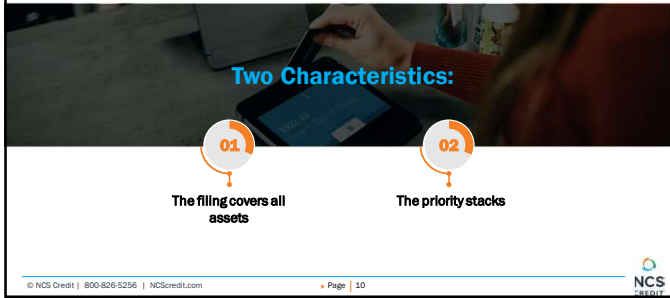
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**Blanket, or Basic, UCC-1 Filing**

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**Two Characteristics:**

**01**

The filing covers all assets

**02**

The priority stacks

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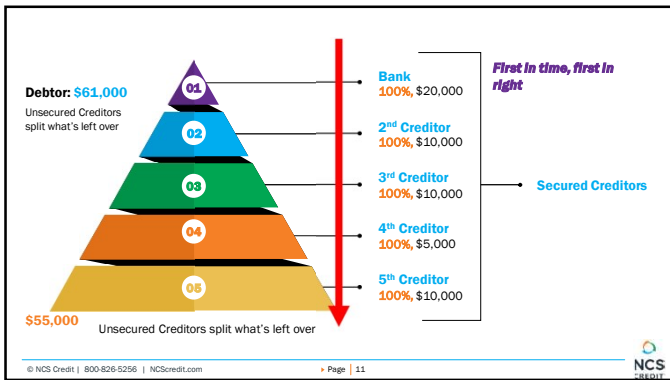
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**Debtor: \$61,000**  
Unsecured Creditors split what's left over

01	Bank	100%, \$20,000
02	2 <sup>nd</sup> Creditor	100%, \$10,000
03	3 <sup>rd</sup> Creditor	100%, \$10,000
04	4 <sup>th</sup> Creditor	100%, \$5,000
05	5 <sup>th</sup> Creditor	100%, \$10,000

**\$55,000** Unsecured Creditors split what's left over

*First in time, first in right*

Secured Creditors

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**Purchase Money Security Interest**

A priority security interest in specific identifiable goods with a secondary non-priority interest in intangibles.



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**Purchase Money Security Interest**

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**Two Characteristics:**

**01**

Creditor finances goods

**02**

There is value in repossessing those goods

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**Inventory vs. Equipment**

It depends on what your customer does with the goods you sell to them.

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**Inventory vs. Equipment**

It depends on what your customer does with the goods you sell to them.  
Is your customer **reselling** or **using** your products in their business?

**INVENTORY (GOODS)**

- Search
- Customer resells the goods to another entity
- Notify

**EQUIPMENT**

- Contract
- Customer uses the goods in the course of their business
- 20-day Rule

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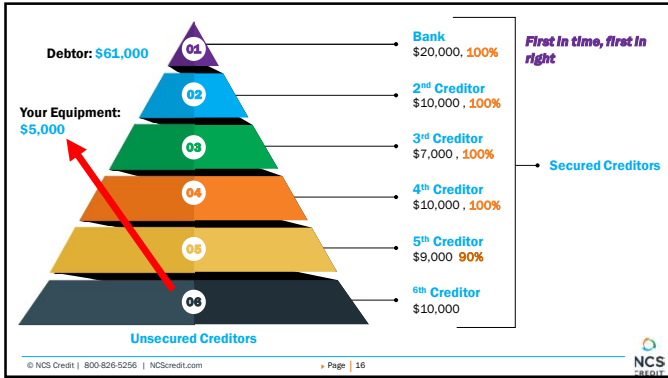
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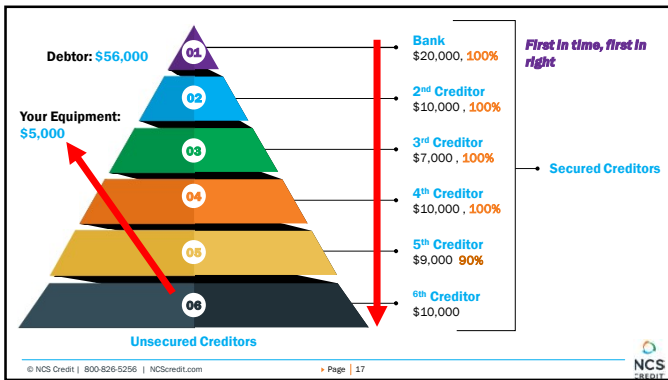
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## PMSI: The Value of Repossession

1. Resale
2. Differentiating your receivables

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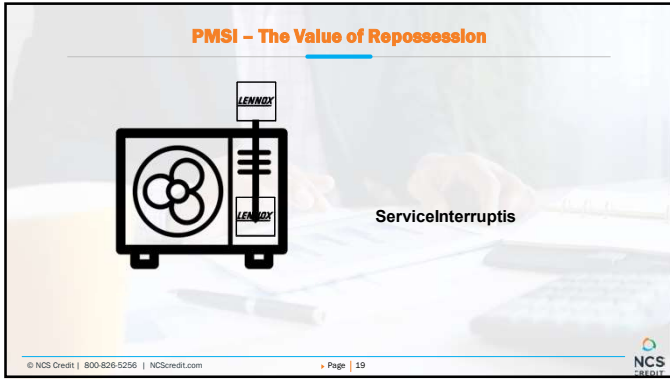
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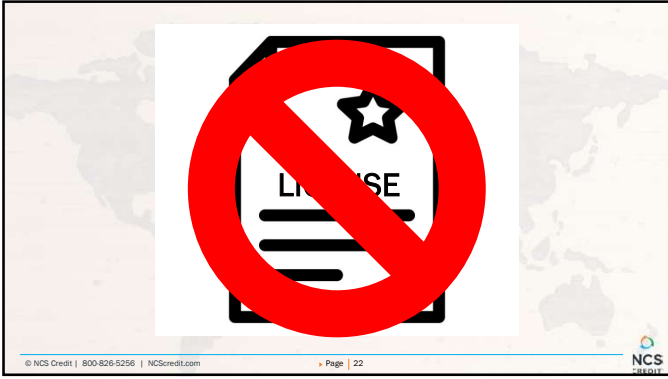
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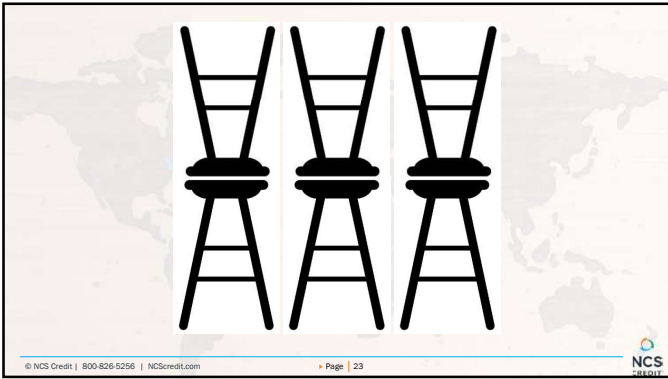
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### Financing Statement

- Records the secured interest and makes it a public record
- In effect for five years, at which time can be continued for another five-year period
- Filed in locations based on your customer's form of business



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### Factors In Financing Statements

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### Perfecting Consignment

1. Consignment Agreement
2. Financing Statement or UCC-1
3. Search and Notify



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**Opportunities to Take Security**

01 New customers

**Two Areas**

02 Existing customers

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**Opportunities to Take Security**

01 New customers

**Two Areas**

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**New Customers and Security**

- Thresholds of credit lines
- Unsecured vs. secured lines
- Credit scoring models
- Speed of credit approval
- Discounts

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**Opportunities to Take Security**

**Two Areas**

02 Existing customers

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**Recognizing Opportunities to Take Security**

- Customer requests extended terms
- Customer is past terms or asks for more time to pay
- Customer is over the credit line and orders frequently go "on hold"



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**Recognizing Opportunities to Take Security**

- Customer requests extended terms
- Customer is past terms or asks for more time to pay
- Customer is over the credit line and orders frequently go "on hold"
- Anytime you restructure debt



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### Creating A Reason

- Declare the debtor in default of the terms of their security agreement
- Advise them they must cease and desist selling the inventory or using the equipment



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### Creating A Reason

- Set a cure period
- Inform the debtor if payment isn't made by the cure period, the secured party will begin repossession proceedings
- Set a date and time for repossession



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### Creating A Reason

- Depending on what the security agreement calls out, advise the debtor that they must assemble the inventory and have it conveniently available for pickup
- Inform the debtor the next step is to send a notice for disposition of collateral to all other secured parties, which may include their bank



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### Disposition of Tangible Collateral

**§9-609. Secured Party's Right to Take Possession After Default.**

**Secured party has the right to take possession of collateral upon default.**

- Voluntary or legal
- May proceed without judicial process
- May not breach the peace
- Recovery through stealth or deception is permitted!



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### Disposition of Tangible Collateral

The proceeds of disposition shall be applied in the following order:



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### Disposition of Tangible Collateral

Upon default a secured party "may notify an account debtor to pay the account directly to the secured party and not the debtor." UCC 9-607(a)(1)

In addition, the secured party may collect proceeds to which it is entitled under 9-315 and may commence legal action against third parties to collect accounts and other obligations. UCC 9-607(a)(2)



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**How do you justify the credit?**

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**Mechanic's Lien Filing Process: Three Steps**

<p><b>Notice</b> 20 days from first furnishing</p>	<p><b>LIEN</b> 90 days from last furnishing</p>	<p><b>Foreclosure</b> One year from lien filing</p>
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*Above deadlines are examples*

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**Reasons to Serve Notices**

- Notices initiate compliance with state lien laws and preserve your right to lien if needed.
- Notices identify you to the owner of the property, who wants to ensure you receive payment.
- Notices make you a priority for payment from your customers.

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### The Project Credit Application

- Customer's legal name, address and relationship to the job
- Job location and owner or awarding authority
- Lender name and address
- General contractor's legal name and address
- Sub contractor's legal name and address
- Bonding company if public
- Architect's name and address



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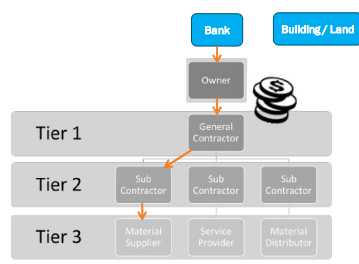
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### Full/Unpaid Balance



Claims filed below this line may be questionable.

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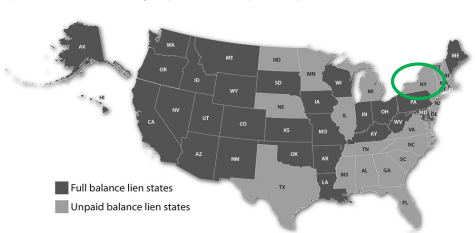
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### Unpaid Balance Lien States

- The lien is limited to the unpaid portion of the contract
- File the lien/Serve the notice as early as possible to "trap" the unpaid funds



Full balance lien states  
 Unpaid balance lien states

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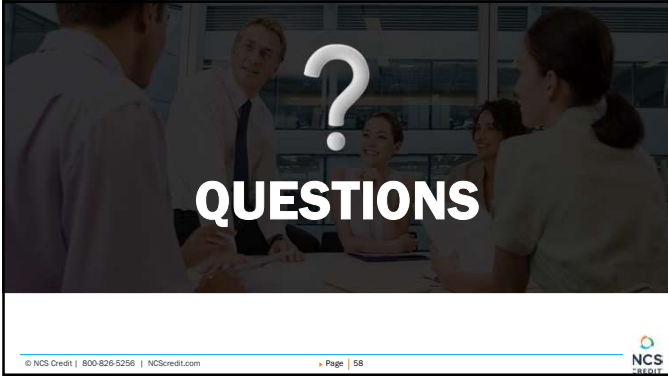
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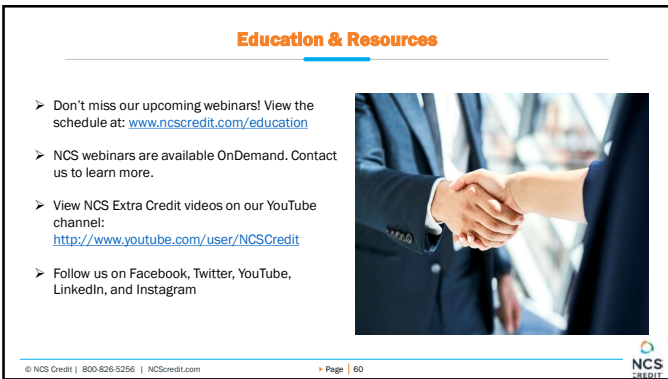
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