

1. Precision Manufacturers (“PM”) rents a drill press. The press is a used machine and it has a remaining economic life of five years. It is currently valued at \$25,000. PM signs a three-year lease obligating it to pay \$800 in rent per month. According to the lease, PM is also obliged to take out insurance on the drill press; if it fails to do so and the press is damaged or destroyed while in PM’s possession or while being shipped back to the lessor, PM will be responsible for the loss. PM is also obliged to perform regular maintenance on the machine. The lessor, however, does provide a warranty against any defects during the term of the lease not caused by mishandling or ordinary wear and tear. At the end of the three years, PM has the option of purchasing the machine for \$5,000; otherwise, PM is responsible for the costs of shipping the drill press back to the lessor. The lessor does not file a financing statement. A year after signing the lease, PM goes bankrupt. As between the trustee in bankruptcy and the lessor, who prevails as to the drill press?

2. Far West Bank (“FWB”) enters into negotiations with White Sanitation regarding a loan. White is primarily engaged in the business of hauling garbage and has entered into numerous contracts with apartment buildings and construction companies. Under these contracts, White supplies a garbage bin which remains on site and then periodically empties the bin. The garbage bin remains the property of White and at the end of the contract it removes the bin. These hauling contracts are priced by the frequency with which White empties the bin. There is one monthly charge; that is, there is no separate charge for the use of the bin and another for the hauling of the garbage.

Because its main operations give it the capacity to haul large containers, White also has a subsidiary business of renting out large, portable storage containers. These are also used by construction companies to store equipment and supplies on site, although there are other uses: for example, ranchers will sometimes rent them to store grain or equipment; and homeowners sometimes rent them to store household effects while an addition is being added to their home.

At the beginning of negotiations on August 1st, FWB files a financing statement that describes the collateral as “accounts, now owed or hereinafter arising.” When the loan agreement is finally signed on August 21st, it contains the same description of collateral. At that time White has about a hundred existing garbage hauling contracts and about two dozen rental agreements.

On August 10th, in need of some ready cash, White enters into an agreement with Central Bank (“CB”). Under this agreement, White physically transferred ten year-long rental agreements for storage containers to CB in exchange for cash. White used the cash to meet its payroll and utilities for that month, and it also contacted the ten renters and told them to pay CB for the remainder of the rental term. Four months later, White defaults on its loan from FWB. As between FWB and CB, who has priority to the income stream from the ten rental agreements?

3. Floor Art is located in North Carolina; the company makes rugs. The rugs are made on large looms that are operated by computers. Each loom costs around \$10,000 new and Floor Art has four looms. National Bank has a security interest in Floor Art’s “equipment, now owned or hereinafter acquired” which is properly perfected by filing. Floor Art decides to relocate to South Carolina and does so on June 1st. On September 1st, it borrows \$5,000 from Local Bank; the president of the company personally guarantees this loan. On October 1st, concerned about the declining fiscal health of the company, Local Bank requests and receives a security interest in Floor Art’s equipment. At the time it takes this security interest, Local Bank does a search in both North and South Carolina and discovers National Bank’s pre-existing security interest. On October 15th, National Bank learns for the first time of Floor Art’s relocation; up until that time Floor Art had been using up its old stationary with the North Carolina address. National Bank immediately refiles in South Carolina. On November 1st, Floor Art defaults on both its loans.

As between National Bank and Local Bank, who has priority in Floor Art’s equipment?
