

### **Special Examination Instructions:**

- 1. There are six essay questions on this exam. Although the exam is designed as a two hour exam, you will have three hours to take the exam. This means you should allocate approximately 30 minutes per question. All of the questions will count for the same percentage of the points awarded on the exam.**
- 2. For this exam, if you are handwriting your answers, you are limited to the space provided on the exam itself. (In other words, do not use bluebooks for your answers.) If you are composing the exam answers on computer for EACH of the questions you are limited to one page, double-spaced (22 lines) for your answer. (And please use size 12 or larger font and standard margins.)**
- 3. You may use the statute book, the Whaley text, and any class notes or student-generated outlines in answering this exam. You may not use commercial outlines or handbooks.**
- 4. Please use the “IRAC” method to structure your answers. For the rule, include a citation to the UCC or other relevant statute AND a paraphrase or quote of the relevant statutory language. One without the other will result in a loss of points.**

**1. Billy Bob & Co. is in the oil rig supply business. It provides to oil exploration companies, which own or lease the drilling rigs, such things as pipe, connectors, drill bits, and most importantly “mud” (the lubricant/sealer used in drilling the hole). Billy Bob purchases a used tank trailer to haul the mud, paying for the trailer with a check in the amount of \$35,000. The seller of the trailer refuses to turn over the trailer, however, until the check clears.**

**Billy Bob’s cash flow is tight and when the check is forwarded on Tuesday morning for payment to Billy Bob’s bank, there are insufficient funds in the bank to cover the check. (The seller had deposited Billy Bob’s check with its bank, the Bank of Ogden, which then forwarded the check to Billy Bob’s bank, the payor bank, which is Penn Circle Bank in Salt Lake City.) However, because Billy Bob is an important customer, before dishonoring the check for insufficient funds, the vice-president for Penn Circle gives a courtesy call to Billy Bob. Upon learning that its account is \$7,000 shy of \$35,000, Billy Bob promises to bring in a deposit on Wednesday morning.**

**On Wednesday morning, Billy Bob deposits a check, payable to Billy Bob from one of its customers, PITS Exploration Co., in the amount of \$10,000. Penn Circle immediately forwards the PITS’ check to its payor bank, Continental State Bank, which is located down the street. Wednesday afternoon, the vice-president for Penn Circle calls Continental to find out whether the \$10,000 check is good. The bank officer from PITS’ bank, Continental, says that while she is not guaranteeing the check will be honored, at that point there is more than \$10,000 in PITS’ account. She suggests the Penn Circle bank officer call back later that day, but he forgets to do so.**

**On Thursday morning, the bank officer from Continental calls Penn Circle to say that the PITS’ check for \$10,000 has been dishonored. Shortly thereafter, Billy Bob calls to say that it has just inspected the tank trailer and it is a piece of junk; Billy Bob wants to stop payment on the \$35,000 check to the seller.**

**Assume Tuesday through Thursday are all banking days. Also assume that Penn Circle is willing to dishonor the check if it is legally allowed to do so. What should Penn Circle do?**

---

---

---

---

---

---

---

---

---

---



**2. A signs an unsecured note for \$10,000 due on November 30, 2003 payable to First Lender. At the behest of First Lender, B signs the note as a co-maker; First Lender is fully aware that B is signing as an accommodation maker. Without B's knowledge or consent, on November 15<sup>th</sup>, First Lender grants A an extension of time to pay the note until January 30, 2004 and First Lender adds a sentence to the bottom of the note, which now looks like this:**

**Signed by  
/s/A  
/s/B**

**The due date of this note has been extended until January 30, 2004. /s/ First Lender**

**On December 15<sup>th</sup>, First Lender sells the note to Second Lender for \$9,000. Through First Lender's negligence, Second lender is not informed of B's status as an accommodation party. On January 30<sup>th</sup>, the note is not paid. A lacks the funds to pay the note on January 30<sup>th</sup>. When Second Lender demands payment from B on January 30<sup>th</sup>, it learns for the first time that B claims to be an accommodation party and that B also thought the note had been paid on November 30<sup>th</sup>, not knowing of the extension, and so B is refusing to pay the note. Second Lender, not wanting to bother with a potential lawsuit, insists that First Lender repurchase the note from it, which First Lender does. Assuming that on November 30<sup>th</sup>, A had \$8,000 in stocks and that by January 30<sup>th</sup>, the stocks were only worth \$3,000, what amount, if any, can First Lender recover from B?**

---

---

---

---

---

---

---

---

---

---



















