### A Brief Explanation of the Uniform Commercial Code

The Uniform Commercial Code has been around since the late ’50s and early ‘60s. Within the Code there are 11 different articles that deal with different subjects. For example, Article 2 deals with a set of legal rules dealing with the sale of goods. Article 2a deals with leases. Article 3 deals with promissory notes. Article 4 deals with the banking system in terms of clearing checks.

Article 9 deals with the creation, perfection, enforcement, and priority of security interest in personal property. So any time a bank takes a security interest in a motor vehicle, a farmer’s crops or equipment, business inventory, or receivables it is dealing with Article 9. Anyone who has ever taken out a loan is probably familiar with this part of the Uniform Commercial Code. Article 9 governs what lenders may accept as collateral and how collateral agreements must be documented.

Recently, Article 9 was substantially revised to expand the types of collateral banks can accept and to streamline documentation. The new rules, introduced in July 1999 were set to take effect on July 1, pending adoption by the 50 states and the District of Columbia.

Under the old Article 9, the debtor had to sign the financing statement. (A financing statement is a piece of paper where you write down what you have as collateral.) Under the new article 9, the debtor doesn’t have to sign it, because a lot of these things will be done electronically with the Secretary of State.

There are some new types of collateral as well. Bank accounts can now be used as collateral. This is something you couldn’t do before. For example, if you are a customer of bank A and you have an account at bank B, you can now give the other bank a security interest in that account.

Check with your Secretary of State for more information regarding UCC Forms.