

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 1066

SPONSOR: Judiciary Committee and Senator Campbell

SUBJECT: Secured Transactions-Uniform Commercial Code

DATE: February 22, 2002 REVISED: 02/25/02 _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Forgas</u>	<u>Johnson</u>	<u>JU</u>	<u>Favorable/CS</u>
2.	<u>Deffenbaugh</u>	<u>Deffenbaugh</u>	<u>BI</u>	<u>Fav/1 amendment</u>
3.	_____	_____	<u>AGG</u>	_____
4.	_____	_____	<u>AP</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

Article 9 of the Uniform Commercial Code governs the process of establishing and foreclosing liens against personal property. Article 9 is found at ch. 679, F.S., entitled “Uniform Commercial Code: Secured Transactions”.

In the 2001 legislative session, the Revised Article 9 of the Uniform Commercial Code, as prepared by the National Conference of Commissioners on Uniform State Laws, with Florida modifications, passed and was subsequently enacted into law as Chapter 2001-198, L.O.F. This bill corrects errors in that enactment and clarifies the relationship between fixtures filings and Florida real property law.

This bill does not appear to have a fiscal impact on state or local government.

This bill substantially amends the following sections of the Florida Statutes: 679.1021; 679.1081; 679.2031; 679.210; 679.3011; 679.3171; 679.334; 679.5011; 679.510; 679.513; 679.516; 679.519; 679.527; and 679.625.

II. Present Situation:

Background on Article 9 of the Uniform Commercial Code (by the National Conference of Commissioners on Uniform Laws):

The Uniform Commercial Code has eleven substantive articles. Article 9, Secured Transactions, may be the most important of the eleven. Article 9 provides the rules governing any transaction (other than a finance lease) that couples a debt with a creditor's interest in a debtor's personal property. If the debtor defaults, the creditor may repossess and sell the property (generally called

collateral) to satisfy the debt. The creditor's interest is called a "security interest." Article 9 also covers certain kinds of sales that look like a grant of a security interest.

The operation of Article 9 appears deceptively simple. There are two key concepts: "attachment" and "perfection." These terms describe the two key events in the creation of a "security interest." Attachment generally occurs when the security interest is effective between the creditor and the debtor, and that usually happens when their agreement provides that it take place. Perfection occurs when the creditor establishes his or her "priority" in relation to other creditors of the debtor in the same collateral. The creditor with "priority" may use the collateral to satisfy the debtor's obligation when the debtor defaults before other creditors subsequent in priority may do so. Perfection occurs usually when a "financing statement" is filed in the appropriate public record. Generally, the first to file has the first priority, and so on.

Article 9 relies on the public record because it provides the means for creditors to determine if there is any security interest that precedes theirs--a notice function. A subsequent secured creditor cannot complain that his or her grant of credit was made in ignorance of the prior security interests easily found in the public record, and cannot complain of the priority of the prior interests as a result. Every secured creditor has a priority over any unsecured creditor.

The somewhat simple description in the prior paragraphs should not mislead anyone. Article 9 is not simple. There are substantial exceptions to the above-stated perfection rule. For example, filing is not the only method for perfection. Much depends upon the kind of property that is collateral. Possession of collateral by the secured party is an alternative method of perfection for many kinds of collateral. For some kinds of property, control (a defined term) either perfects the interest or provides a better priority than filing does. There are kinds of transactions for which attachment is perfection. Priority is, also, not always a matter of perfecting a security interest first in time.

III. Effect of Proposed Changes:

Section 1. Amends s. 679.1021(1)(nn), F.S., to correct a cross-reference error.

Section 2. Amends s. 679.1081, F.S., regarding descriptions of collateral, to correct a cross-reference error referring to the entire "Uniform Commercial Code" (thus making reference to chapters 670-679, F.S.), to the correct cross-reference to ch. 679, F.S., only. Also, the bill provides that a specific type of collateral (i.e. an account consisting of a right to payment of a monetary obligation for the sale of real property that is the debtor's homestead) cannot be sufficiently described in any filing as "a type of collateral defined in [ch. 679, F.S.]"

Section 3. Amends s. 679.2031, F.S., relating to the attachment and enforceability of security interests.

Present Situation: Subsection (2) of s. 679.2031, F.S., currently provides that, with the exception of provisions in subsections (3)-(9) of s. 679.2031, F.S., a security interest is enforceable against the debtor and third parties with respect to the collateral only if certain conditions are met.

Effect of Proposed Change: New subsection (10) states that a security interest in an account consisting of a right to payment of a monetary obligation for the sale of real property that is the debtor's homestead under the laws of this state is not enforceable unless:

- The description of the account in the security agreement conspicuously states that the collateral includes the debtor's right to payment of a monetary obligation for the sale of real property;
- The description of the account in the security agreement includes a legal description of the real property;
- The description of the account in the security agreement conspicuously states that the real property is the debtor's homestead; and
- The security agreement is also authenticated by the debtor's spouse, if the debtor is married; if the debtor's spouse is incompetent, then the method of authentication by the debtor's spouse is the same as provided by the laws of this state, other than the laws of this chapter, which apply to the alienation or encumbrance of homestead property by an incompetent person.

This change will have the effect of making certain that individuals do not inadvertently grant a security interest in the right to payment under a contract for the sale of homestead property when taking out a loan for a proprietorship business secured in whole, or in part, by "accounts" and "general intangibles."

Section 4. Amends s. 679.210, F.S., regarding requests for accounting.

Present Situation: Article 9 of the Uniform Commercial Code is applicable to both consumer transactions and commercial transactions. Much of the code is the same for either type of debtor, but some provisions are changed to account for the differences between consumers and businesses. Section 679.210(6), F.S., provides, in part, that a "debtor in a consumer transaction is entitled to a single response to a request regarding a list of collateral, for a transaction other than a consumer transaction," A debtor in a consumer transaction cannot, by definition, engage in a transaction other than a consumer transaction. Accordingly, the exception here makes no sense.

Effect of Proposed Change: This bill removes the exception "for a transaction other than a consumer transaction".

Section 5. Amends s. 679.3011, F.S., regarding the law governing perfection and priority of security interests.

Present Situation: Section 679.3011, F.S., provides the general rules on which state's law is controlling over a particular secured transaction. Subsection (3) provides that, in general, while negotiable documents, goods, instruments, money, or tangible chattel paper are located within a jurisdiction, the local law of that jurisdiction governs perfection of a security interest in the goods by filing a fixture filing; perfection of a security interest in timber to be cut; and the effect of perfection or nonperfection and the priority of a nonpossessory security interest in the collateral.

Section 679.1021(nn), F.S., defines "fixture filing" to mean "the filing of a financing statement covering goods that are or are to become fixtures and satisfying s. 679.502(1) and (2). The term includes the filing of a financing statement covering goods of a transmitting utility which are or are to become fixtures." Section 679.1021(oo), F.S., defines "fixtures" to mean "goods that have become so related to particular real property that an interest in them arises under real property law." A fixture filing is accomplished by notice at the county level in the Official Records, other secured transaction filings are at the state level. Filing a secured transaction record in the wrong place will generally result in a loss of the creditor's protections under Article 9 of the Uniform Commercial Code.

There are, in general, three categories of goods: (1) those that retain their chattel character entirely and are not part of the real property; (2) ordinary building materials that have become an integral part of the real property and cannot retain their chattel character for purposes of finance; and (3) an intermediate class that has become real property for certain purposes, but as to which chattel financing may be preserved. It is this third category to which the term "fixtures" and the concept of "fixtures filings" address. Because the question whether goods have become fixtures often is a difficult one under applicable real property law, a secured party may make a fixture filing as a precaution.

Effect of Proposed Changes: This bill adds a new subsection (5) to s. 679.3011, F.S., which provides an exception to the general rule of subsection (3). This new subsection provides that Florida law governs the perfection of a security interest in goods that are or are to become fixtures in this state by the filing of a fixture filing. Also, Florida law governs the effect of perfection or nonperfection and the priority of a security interest in goods that are or are to become fixtures in this state.

Section 6. Amends s. 679.3171, F.S., regarding interests that take priority over or take free of a security interest or an agricultural lien.

Present Situation: Section 679.3171, F.S., provides exceptions to the general rules of priority of security interests. In general, the priority order for security interests that are properly perfected is "first in time, first in right." Section 695.01, F.S., provides that no conveyance, transfer, or mortgage of real property, or of any interest therein, nor any lease for a term of 1 year or longer, is good and effectual in law or equity against creditors or subsequent purchasers for a valuable consideration and without notice; unless the conveyance, transfer, or mortgage is recorded in the Official Records of the county or counties in which the real property lies.

Effect of Proposed Changes: This bill adds a new subsection (6) to s. 679.3171, F.S. This new subsection provides that an encumbrancer or owner, other than the debtor or a lien creditor, who acquires an interest in the related real property takes free of a security interest in goods that are or become fixtures in this state, which interest is perfected only with a financing statement not filed as a fixture filing, even if the encumbrancer or owner knows of its existence. For purposes of s. 695.01, F.S., the filing of a financing statement covering goods that are or become fixtures in this state, which statement is not filed as a fixture filing, does not constitute constructive notice of such security interest to any person, other than a lien creditor, who acquires an interest in the related real property.

The bill also adds a new subsection (7) to s. 679.3171, F.S. This provision states that the holder of a mortgage or other lien against real property arising under the laws of Florida, other than ch. 679, F.S., has priority with respect to rents, issues, profits, and proceeds of the real property, including proceeds from the sale thereof, over a security interest in an account consisting of a right to payment of a monetary obligation for the sale of the real property. This provision should remove any doubt about competing claims on property proceeds under real property law versus the law in ch. 679, F.S.

Section 7. Amends s. 679.334, F.S., regarding the priority of a security interest in fixtures and crops.

Present Situation: Section 679.334(4), F.S., provides that a security interest in goods which are or become fixtures takes priority as to the goods over the claims of all persons acquiring an interest in the real property subsequent to the perfection of such security interest or the affixing of the goods to the real property, whichever occurs later.

Section 679.3171(1)(b), F.S., provides that a security interest or agricultural lien is subordinate to the rights of a person who becomes a lien creditor before the earlier of: the time the security interest or agricultural lien is perfected; the time that a security interest attaches to the property by meeting one of the conditions specified in s. 679.2031(2)(c), F.S.;¹ or the time a financing statement covering the collateral is filed.

Effect of Proposed Changes: This bill amends s. 679.334(4), F.S. to clarify that only a security interest filed as a fixtures filing (filed in the Official Records Book of the county or counties in which the real property lies) is sufficient to establish the priority of the security interest in the goods which are or become fixtures. Additionally, this bill provides that a security interest in goods which are or become fixtures perfected only with a financing statement that is not filed as a fixture filing is subject to the rights of an encumbrancer or owner of the related real property under s. 679.3171(6), F.S., and to the rights of a lien creditor under s. 679.3171(1)(b), F.S., but takes priority as to the goods over the rights of a lien creditor who does not meet the requirements of s. 679.3171(1)(b), F.S.

¹ Section 679.2031(2), F.S., provides a general rule, subject to exceptions, that a security interest is enforceable against the debtor and third parties with respect to the collateral only if several conditions are met. Section 679.2031(2)(c), F.S., requires that one of the following conditions be met:

1. The debtor has authenticated a security agreement that provides a description of the collateral and, if the security interest covers timber to be cut, a description of the land concerned;
2. The collateral is not a certificated security and is in the possession of the secured party under s. 679.3131, F.S., pursuant to the debtor's security agreement;
3. The collateral is a certificated security in registered form and the security certificate has been delivered to the secured party under s. 678.3011, F.S., pursuant to the debtor's security agreement; or
4. The collateral is deposit accounts, electronic chattel paper, investment property, or letter-of-credit rights, and the secured party has control under s. 679.1041, F.S., s. 679.1051, F.S., s. 679.1061, F.S., or s. 679.1071, F.S., pursuant to the debtor's security agreement.

Section 679.3171(6), F.S., created by this bill, provides the priority that an encumbrancer or owner, other than the debtor or a lien creditor, has in real property related to the security interest.

Section 8. Amends s. 679.5011, F.S., regarding the filing office.

Present Situation: Section 679.1021(kk), F.S., defines "filing office" to mean an office designated in s. 679.5011, F.S., as the place to file a financing statement. Section 679.5011(1)(a), F.S., provides that fixture filings are filed with the clerk of the circuit court. Section 679.5011(1)(b), F.S., provides that "in all other cases" the filing office is the Florida Secured Transaction Registry. Fixtures are items of personal property that transition into real property. This transition can create uncertainty as to the correct filing office to utilize at a given point in time.

Effect of Proposed Changes: This bill amends s. 679.5011(1), F.S., to specify that the filing office for collateral that is or is to become fixtures is the office of the clerk of the circuit court; and to specify that the filing office for all other security is the Florida Secured Transaction Registry. Additionally, this bill provides that a creditor may file a financing statement with the Florida Secured Transaction Registry where the collateral is goods that are or are to become fixtures and the financing statement is not filed as a fixture filing. Also, a cross-reference error in subsection (2) is corrected.

Section 9. Amends s. 679.510, F.S., regarding the effectiveness of a filed record.

Present Situation: Section 679.510(3), F.S., provides that, if a person files a termination statement only under s. 679.509(3)(b), F.S., the filed termination statement is effective only if the debtor authorizes the filing and the termination statement indicates that the debtor authorized it to be filed. Section 679.509(3)(b), F.S., provides that a person may file an amendment to a financing statement, other than an amendment that adds collateral covered by a financing statement or an amendment that adds a debtor to a financing statement, only if the amendment is a termination statement for a financing statement as to which the secured party of record has failed to file or send a termination statement as required.

Effect of Proposed Changes: This bill deletes s. 679.510(3), F.S., to make this section conform with the same provision in the uniform version of Revised Article 9, which does not contain a provision similar to subsection (3).

Section 10. Amends s. 679.513, F.S., regarding termination statements.

Present Situation: Section 679.513(4), F.S., includes an exception for matters covered by s. 679.510, F.S.

Effect of Proposed Changes: This bill removes the references to s. 679.510, F.S., to conform to other changes made by this bill.

Section 11. Amends s. 679.516, F.S., regarding what constitutes filing and the effectiveness of filing.

Present Situation: Subsection (1) could be read to require the filing office to accept a filing without the payment of the required fee. When identifying an individual debtor, the debtor's first name or first initial may be used to identify the individual.

Effect of Proposed Changes: A grammatical change is made to clarify that payment of the required filing fee is a prerequisite to acceptance of a filing. This bill removes the ability to identify a debtor who is an individual by using only the first initial of the individual's first name, thereby requiring that the full first name of an individual be used to identify a debtor who is an individual.

Section 12. Amends s. 679.519, F.S., regarding UCC filings.

Present Situation: Section 679.519(1), F.S., regarding the filing of UCC records in a filing office, provides that any such filing must be "in accordance with such other laws applicable to the recording of instruments by a filing office described in s. 679.5011(1)(a)". The reference to s. 679.5011(1)(a), F.S., is unnecessary.

Effect of Proposed Changes: This bill amends s. 679.519(1), F.S., to remove the unnecessary reference.

Section 13. Amends s. 679.527, F.S., regarding the Florida Secured Transaction Registry.

Present Situation: The Florida Secured Transaction Registry is the place for filing of financing statements at the state level. The process for filing financing statements with the state was privatized effective October 1, 2001. The vendor is Image API, Inc. All filings, photocopy and certification requests, forms, and database availability for searches, is the responsibility of Image API, Inc.² Section 679.527, F.S., provides the minimum terms and conditions of the privatization contract. Section 679.527(2), F.S., provides that the contract may not be assignable or otherwise transferable without the express written consent of the Department of State. Section 679.527(4), F.S., provides that the Department of State maintains ownership of all of the financing statements and other records related to financing statements filed with the Florida Secured Transaction Registry, and that the department may immediately reclaim and take possession and control of such records upon the occurrence of any number of conditions, one of which is if the private contractor "consents to an insolvency proceeding."

Section 679.4061, F.S., provides general restrictions upon the discharge of an account debtor; notification of assignment of contracts; identification and proof of assignment; restrictions on assignment of accounts, chattel paper, payment intangibles, and promissory notes. Section 679.4081, F.S., provides general restrictions on the assignment of promissory notes, health-care-insurance receivables, and certain general intangibles. In part, these two statutes place some restrictions on the right of parties to contracts to prohibit assignment or transfer of contract rights.

Effect of Proposed Changes: This bill provides that ss. 679.4061 and .4081, F.S., are not applicable as to provision in s. 627.527(2), F.S. (which prohibits assignment or transfer of the

² http://ccfcorp.dos.state.fl.us/corpweb/inquiry/ucc_info.html

contract between the Department of State and the vendor selected to operate the Florida Secured Transaction Registry). Additionally, this bill changes one of the conditions upon which the Department of State may immediately reclaim and take possession and control of the financing statements and other records from if the private contractor “consents to an insolvency proceeding” to if the private contractor “is adjudicated a debtor in an insolvency proceeding.”

Section 14. Amends s. 679.625, F.S., regarding remedies for failure to comply with ch. 679, F.S.

Present Situation: Section 679.625(2), F.S., provides that, subject to certain limitations, a person is liable for damages in the amount of any loss caused by a failure to comply with ch. 679, F.S., including damages suffered by the debtor resulting from the debtor's inability to obtain, or increased costs of, alternative financing, but not including consequential, special, or penal damages, unless the conduct giving rise to the failure constitutes an independent claim under Florida law other than ch. 679, F.S., and then only to the extent otherwise recoverable under that other law. Section 679.625(5)(f), F.S., provides that, in lieu of damages recoverable under subsection (2), the debtor, consumer obligor, or person named as a debtor in a filed record, as applicable, may recover \$500 from a secured party who fails to comply with the requirement at s. 679.616(2)(b), F.S., that the secured party, within 14 days of a demand from the consumer and where applicable, state in writing that the secured party will not seek a deficiency as a result of a repossession of collateral.

Effect of Proposed Changes: This bill amends s. 679.625(5)(f), F.S., to delete all of the language other than that which states: “Fails to comply with s. 679.616(2)(b).” The deleted language, which referred to transactions other than consumer transactions, was unnecessary because s. 679.616(2), F.S., can only apply to a consumer debtor’s request for an explanation of the calculation of a surplus or deficiency.

Section 15. Provides an effective date of “upon becoming law.”

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

On page 1, line 4, the reference to "676.519" should be deleted and replaced with "679.519."

VII. Related Issues:

None.

VIII. Amendments:

#1 by Banking and Insurance:

Corrects a reference in the title, deleting "676.519" and replacing it with "679.519."

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
