

Secured Transactions: Learning the Lingo

Friendly Furniture sells bedroom furniture, and Connie Consumer would like to purchase some. Connie doesn't have the money to pay the entire purchase price, though. So FF offers to sell her the furniture on an installment plan—in other words, to “finance” her purchase. Of course, there's a possibility that Connie will take the furniture but not finish paying for it. If that happened, FF could certainly sue Connie for breach of contract. But there's a good chance that Connie might turn out to be “judgment-proof,” and even if she isn't, it would involve a lot of effort and expense on FF's part to collect. An alternative, which helps FF feel more secure, and thus more interested in selling to low-income customers, is for FF and Connie to enter into another contract saying that if Connie misses a payment, FF can repossess the furniture. FF doesn't even have to come to court, unless its effort to retrieve the furniture might cause a breach of the peace.

As you know, a business deal is often referred to as a transaction, and this special type of two-contracts-in-one is called a _____. To create a secured transaction, the debtor must sign a written, dated _____ that describes the property involved specifically enough so that it may be identified. The parties to this agreement are Connie, the *debtor*, and FF, the _____. The property that secures the transaction is called _____.

Rather than saying that FF and Connie entered into a security agreement in which FF obtained the right to repossess the collateral if Connie doesn't pay, it's easier to simply say that FF took a _____ in the property. The legal term for Connie's failure to pay, which triggers FF's right to repossess, is _____.

The rules about what FF does after repossessing the property are complex. If FF sells the property, it is required to conduct the sale in a _____ manner. Any amount still owing after the sale is called a _____, and FF's lawsuit seeking that amount is an *action on the deficiency*.

Word Bank

commercially reasonable

SECURITY AGREEMENT

COLLATERAL

DEFICIENCY

Security interest

default

Secured party

SECURED TRANSACTION