

UCC III - Commercial Paper
Sample Exam Questions - multiple choice
Spring term, 2003

On August 1, 2002, Tom gave Marie a check payable to her order in the amount of \$300 in partial payment for work that she had done cataloging Tom's collection of music CDs. Tom's check was drawn on the Seventh National Bank of Dayton (SNB). Marie tucked Tom's check in a desk drawer and forgot about it. Marie owed Paul \$500 for a collection of Civil War memorabilia that she had purchased from him in 2002. In February, 2003, Paul demanded payment of the amount Marie owed him, and she remembered Tom's check. On February 22, 2003, she indorsed Tom's check to Paul's order and gave it to Paul, along with a \$200 check drawn by her on her own account at SNB.

Paul was leaving town that afternoon on an extended business trip, and he wanted to be sure that the checks were good before he left. In addition, he wanted to have some additional cash on hand for the trip. So on the morning of February 22, he took the checks to SNB. He indorsed both and gave them to the teller, saying that he wanted to cash Marie's check and that he wanted the bank to certify Tom's check. The teller responded that as a matter of policy the bank did not certify checks and it would therefore not certify Tom's check. As to Marie's check, the teller said, the bank charged an "over-the-counter-presentment fee" of one percent of the face amount (but at least one dollar and no more than ten dollars) for paying checks presented for payment over the counter. Thus, the bank would cash Marie's check, but only on payment by Paul of two dollars (which could, in the alternative, be deducted from the amount of the check). Enraged, Paul stormed out of the bank and caught his flight to Montreal that afternoon.

Paul returned to Dayton a month later, on March 22, 2002. On April 1, 2002, he sent Marie a letter saying that the two checks had been dishonored. Marie received the letter on April 3, and she immediately sent a copy of it to Tom, who received it on April 5.

Question 1

As to Tom's check,

SNB properly dishonored the check because it was stale.

SNB properly dishonored the check because Paul was not a holder of the check.

SNB wrongfully dishonored the check.

SNB did not dishonor the check.

Question 2

In an action by Paul against Tom on Tom's drawer's obligation,

- (a) Paul should prevail.
- (b) Tom should prevail because the check was not presented within thirty days after its date.
- (c) Tom should prevail because the check was not presented for payment.
- (d) Tom should prevail because Paul never gave him notice of dishonor.
- (e) Tom should prevail, even though he got notice of dishonor, because the notice was not timely.

Question 3

Assume for Question 3 only that Paul had attempted to cash Tom's check and that SNB had refused to cash it because Paul would not pay the "over-the-counter-presentment fee." In that event,

- (a) Marie would be liable to Paul on her indorser's obligation.
- (b) Marie would not be liable to Paul because the check was not presented for payment within thirty days of its date.
- (c) Marie would not be liable to Paul because the check was not presented for payment within thirty days of her indorsement.

Marie would not be liable to Paul because Paul did not give her notice of dishonor within thirty days following the day on which the check was dishonored.

Question 4

Assume for Question 4 only that SNB had certified Tom's check as Paul requested, and that SNB had subsequently been closed due to its insolvency before Paul could present the certified check for payment. In that event,

- (a) Tom would be discharged of his liability to Paul without regard to the closure of SNB.

Tom would be discharged of liability on his drawer's obligation only if there had

been sufficient funds in his SNB account to cover the check, and if he assigned to Paul his rights against SNB in the amount of the check.

- (c) Tom would be discharged of liability on his drawer's obligation because Paul had not presented the check for payment.
- (d) Tom would be liable to Paul on Tom's drawer's obligation.

Question 5

As to Marie's check, in an action by Paul against Marie,

Paul should prevail.

whether Marie should prevail depends on whether Paul was a holder in due course.

Marie should prevail because SNB's request for payment of the "over-the-counter-presentment fee" was not a dishonor.

Marie should prevail because Paul did not give timely notice of dishonor.

Question 6

As to Marie's check, if the deposit agreement between Marie and SNB did not authorize the bank to charge such fees,

SNB is liable to Marie in the full amount of the check for wrongful dishonor.

SNB is liable to Marie for losses she can prove she suffered for wrongful dishonor.

- (c) SNB is liable to Paul in the full amount of the check for wrongful dishonor.

SNB is liable to neither Paul nor Marie for wrongful dishonor.