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Question 1(35 points )

In 1974, Jim Anderson's bursitis became so severe that he had to give up his career as an insurance salesman. He eventually was confined to his bed, and his wife, Margaret, took over all of the financial affairs of the Anderson family. For several years, Margaret, on behalf of Jim, handled all of the Anderson's banking with the Father's Bank and Trust Company. Margaret would make all of the deposits and withdrawals from Jim's savings account, and she became well known to the bank's employees. All of the deposit and withdrawal slips presented to the bank by Margaret had been signed by Jim, and the largest amount of any withdrawal during that period was 1,000.00.

On March 17, 1997, a person not known by the teller said that she was Jim Anderson's sister and had come to the bank because Margaret was unable to go to the bank herself. This stranger then presented a withdrawal slip which contained a clumsy and awkward forgery of Jim Anderson's signature. The withdrawal slip presented by the stranger was for \$9,000.00. The teller, at the stranger's request, then prepared a check in the amount of \$9,000.00 payable to the order of Margaret Anderson. The check was drawn on a Father's Bank and Trust Company account with Welby National Bank. The stranger then opened an account under the name Margaret Anderson at Big City Bank by indorsing the name Margaret Anderson on the check and depositing it in the new account. Big City Bank presented the check to Welby National Bank which paid the item. On April 26, 1981, Jim and Margaret ascertained that the savings account had an unexplained \$9,000.00 withdrawal and demanded that Father's Bank replace that amount, plus interest in the savings account. Father's Bank immediately

transferred the funds into Jim's savings account and then requested that Welby National reinstate First Bank's checking account in the amount of \$9,000.00.

By this time, there was only \$50.00 remaining in the account opened by the stranger in Big City Bank. Welby National Bank asks your advice regarding this transaction stating that it would like to accommodate its customer, Father's Bank, by reinstating the checking account if it can do so without suffering any loss, Discuss Welby's rights, liabilities and options in this situation.

#### Question 2 (35 points)

On October 1, Nancy indorsed and deposited a \$60,000 check into her checking account at the Summers Bank. Nancy had drawn this \$60,000 check on her account with Portia National Bank and made it payable to her own order. Summers Bank gave Nancy an immediate credit of \$60,000 to her account and forwarded the check on for collection from Portia National Bank. On October 3, the \$60,000 check was returned to Summers Bank dishonored for insufficient funds. In the meantime, however, Summers Bank had paid several checks drawn by Nancy on her account leaving a balance of \$2,000. On the morning of October 4, Summers Bank charged \$60,000 to Nancy's account resulting in an overdraft of \$58,000. Summers Bank also notified Nancy that she would have to cover the overdraft by the close of business on October 4. Nancy informed the bank that everything was under control and that the money would be there. Nancy immediately went to Gym City Savings & Loan and said that she wanted to open a savings account in the amount of \$5,000. Nancy opened the account by indorsing and delivering a check to Gym City in the amount of \$70,000. This check was drawn on Nancy's account in the Portia National Bank. The Gym City teller, formerly employed by the Ohio State Treasurer, accepted the \$70,000 check, opened the savings account, and delivered to Nancy a \$65,000

draft drawn on Gym City's account with Summers Bank and payable to the order of Nancy. At 2:00 PM on October 4, Nancy indorsed and delivered this bank draft to Summers Bank, depositing it to cover the overdraft. An officer of Gym City checked the new teller's work and became suspicious of Nancy's savings account transaction, so he called Summers Bank at 4:00 p.m and ordered Summers Bank to stop payment on the \$65,000 draft. When the stop payment call was received, however, Summers Bank had already credited \$65,000 to Nancy's checking account. On the next day, October 5, Summers Bank charged the \$65,000 draft to Gym City's account, stamped the bank draft "paid" and notified Gym City that the draft had been paid. On December 9, Nancy's \$70,000 check drawn on Portia National Bank was received by Gym City and dishonored for insufficient funds. Discuss Gym City's rights, liabilities, and options in this matter.

Question 3 (35 points)

Hoffman, a recent law school graduate, decided to celebrate his first court victory by purchasing a new mahogany desk, some matching chairs, and a Klaus Oldenberg marble statue entitled "Client." Hoffman intended to use all of these items in his office and purchased them from Cranman Office Products at a total cost of \$22,000.00. Hoffman paid \$2,000.00 down and signed a promissory note dated November 1, 1979, payable to the order of Cranman in the amount of \$20,000.00 with interest thereon at a rate of 10% per annum. The note was payable in a lump sum one year from the date of the instrument. Cranman, in desperate need of cash, discounted the note to Boomer (a wealthy local lawyer and the holder of approximately 20% of all notes payable to the order of Cranman) on November 3, 1979 for \$11,500. Cranman indorsed the note, "Pay to Boomer, Cranman Office Products."

Shortly thereafter, Boomer tallied his books for 1979 and figured that Masee, Boomer's right-hand man, should get a substantial Christmas bonus for a job well done. Boomer then signed his name below that of Cranman and handed the note to Masee on December 24, 1979. Needless to say, Masee was ecstatic about Boomer's generosity. Nevertheless, in February of 1980, Masee's accountant, Fenceter, told Masee that he owed an additional \$16,000.00 in federal income taxes for 1979. Masee sold the I note to Fenceter on April 14, 1980, for \$17,500.00.

Fenceter held onto the note until February 3, 1981, when he sold the note to Beebee, a bubbling bookkeeper, for \$18,500.00, delivering it to Beebee in return for the cash. Beebee put the note away for safekeeping and didn't think about it again until August 5, 1981. On that date, Beebee was watching the Phil Donahue Show and decided to respond to a request for donations for a very worthy cause discussed on the program. As a result, on August 5, 1981, Beebee indorsed the "Hoffman" promissory note by signing it, and sent it to the UDSL Morris Commercial Law Wing Building Fund, a non-profit organization with a post office box in Piqua, Ohio.

On September 1, 1981, the trustee of the Building Fund demanded that Hoffman pay the note. Hoffman refused to pay saying, "Get your money somewhere else, pal. The desk and chairs were brown cardboard and the statue was papier-mache. I've been trying to get my money back from that bum Cranman since December 1, 1979, but the crook filed for bankruptcy on December 24, 1979. All I know is, I ain't paying."

1) Identify and discuss the Building Fund's rights against all other parties.

2) Identify and discuss Masee's rights against all of the other parties.

Question 4 (15 points)

Tom and Dick were brothers, and they shared an apartment in Fairborn. Dick had an account with Fairborn Banking International ("FBI"). Dick heard about FBI's new automatic teller system called "G-Man," and he knew that electronic banking was here to stay. So, Dick applied for and received a G-Man debit card and a personal identification number, "0007." Dick raved to Tom about the convenience of automatic banking, and in the context of the conversation Dick let it slip out that their mother was directly depositing funds monthly into Dick's account. Tom exclaimed, "Mom's not sending me any money. Mom always liked you best." Tom and Dick then sang a song, and Dick forgot about the entire conversation.

The next week, after Dick was asleep, Tom searched Dick's room and found the G-Man debit card and Dick's personal identification number, "0007." Tom went to the nearest G-Man location and withdrew \$100 from Dick's account. Tom then replaced the G-Man card and the piece of paper with "0007" written on it before Dick woke up. One week later, Tom purloined Dick's G-Man card and withdrew \$1,500 from Dick's account. Again, while Dick was asleep, Tom replaced the card exactly as he found it. Two weeks after Tom's second withdrawal, Dick tried to withdraw \$50 from his account, and the G-Man machine "ate" Dick's card. The following message immediately flashed across the G-Man screen:

"Okay, wise guy, unless you want a belly full of lead, you'll quit overdrawing your account. You can pick up your G-Man card tomorrow inside the Bank at 11:00 a.m. Be there."

The next morning Dick went to the bank and was told that \$1600 recently had been withdrawn from his account. Dick denied making the withdrawals, and the bank officer then produced a roll of photographs of persons using the G-Man machine on the dates in

question. Matching the time of the photographs as stamped on the back of the picture with the time of the G-Man withdrawals, they determined that Tom had made the withdrawals in question. Dick demands that all of the money be put back in his account and the bank refuses to do so. To what extent, if any, is Bank liable to Dick?