Change-of-Location Hypothetical

The Problem

On February 1, 2008, Trahan, owner of several fine turtleneck shirts, grants Costinis a security interest in them. Costonis perfects his security interest by filing a proper UCC-1 financing statement with his favorite Louisiana clerk of court.


On April 1, 2008, Trahan grants Bush a (second) security interest in his turtlenecks. Bush perfects his security interest by filing a proper UCC-1 financing statement with the Texas Secretary of State. Costonis still does nothing.

On May 1, 2008, the Sheriff of Houston, acting pursuant to a court order obtained by Weiss, levies on (i.e., seizes) Trahan’s turtlenecks. Costonis still does nothing.

July 1, 2008 comes and goes. Costonis still does nothing.

It is now August 1, 2008.

Does Costonis still have a perfected security interest in Trahan’s turtlenecks? Why or why not?

The Solution

The answer is “it depends”, specifically, it varies depending on which “third person” is the subject of the inquiry. As to some third persons, Costonis is still perfected; but as to others, he is not.

The applicable law is found in §9-316(a)(2) and (b). According to the former, a security interest perfected in one jurisdiction “remains perfected until . . . the expiration of four months after a change of the debtor’s location to another jurisdiction; according to the latter, if the secured party does not by that date re-perfect his security interest in the jurisdiction to which the debtor has relocated, then his security interest “becomes unperfected” and, not only that, but also “is deemed never to have been perfected as against a purchaser of the collateral for value.”

The dividing line between the two is a function of two variables. The first variable is temporal: when did the third person acquire his rights in the turtlenecks, specifically, did he acquire it before or after four months from the date of debtor’s relocation? The second variable is categorical: is the third person a “purchaser for value” or not?