

EHB 3011

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THE STATE SENATE
Thursday, March 30, 2006

ENGROSSED
House Bill No. 3011
As Amended

ENGROSSED HOUSE BILL NO. 3011 - By: MORGAN (Fred) of the House and
LASTER of the Senate.

[Uniform Commercial Code - negotiable instruments -
effective date]

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 12A O.S. 2001, Section 3-103, is
amended to read as follows:

Section 3-103.

DEFINITIONS

(a) In this article:

(1) "Acceptor" means a drawee who has accepted a draft;

(2) "Drawee" means a person ordered in a draft to make
payment;

(3) "Drawer" means a person who signs or is identified in
a draft as a person ordering payment;

(4) ~~"Good faith" means honesty in fact and the observance
of reasonable commercial standards of fair dealing~~
Reserved;

- 1 (5) "Maker" means a person who signs or is identified in a
2 note as a person undertaking to pay;
- 3 (6) "Order" means a written instruction to pay money
4 signed by the person giving the instruction. The
5 instruction may be addressed to any person, including
6 the person giving the instruction, or to one or more
7 persons jointly or in the alternative but not in
8 succession. An authorization to pay is not an order
9 unless the person authorized to pay is also instructed
10 to pay;
- 11 (7) "Ordinary care" in the case of a person engaged in
12 business means observance of reasonable commercial
13 standards, prevailing in the area in which the person
14 is located, with respect to the business in which the
15 person is engaged. In the case of a bank that takes
16 an instrument for processing for collection or payment
17 by automated means, reasonable commercial standards do
18 not require the bank to examine the instrument if the
19 failure to examine does not violate the bank's
20 prescribed procedures and the bank's procedures do not
21 vary unreasonably from general banking usage not
22 disapproved by this article or Article 4 of this
23 title;

- 1 (8) "Party" means a party to an instrument;
- 2 (9) "Principal obligor", with respect to an instrument,
3 means the accommodated party or any other party to the
4 instrument against whom a secondary obligor has
5 recourse under this article;
- 6 (10) "Promise" means a written undertaking to pay money
7 signed by the person undertaking to pay. An
8 acknowledgment of an obligation by the obligor is not
9 a promise unless the obligor also undertakes to pay
10 the obligation;
- 11 ~~(10)~~ (11) "Prove", with respect to a fact, means to meet the
12 burden of establishing the fact (subsection (8) of
13 Section 1-201 of this title); ~~and~~
- 14 ~~(11)~~ (12) Reserved;
- 15 (13) "Remitter" means a person who purchases an instrument
16 from its issuer if the instrument is payable to an
17 identified person other than the purchaser; and
- 18 (14) "Secondary obligor", with respect to an instrument,
19 means (i) an indorser or an accommodation party, (ii)
20 a drawer having the obligation described in subsection
21 (d) of Section 3-414 of this title, or (iii) any other
22 party to the instrument that has recourse against

1 another party to the instrument pursuant to subsection
2 (b) of Section 3-116 of this title.

3 (b) Other definitions applying to this article and the sections
4 in which they appear in this title are:

5	"Acceptance"	Section 3-409
6	"Accommodated party"	Section 3-419
7	"Accommodation party"	Section 3-419
8	<u>"Account"</u>	<u>Section 4-104</u>
9	"Alteration"	Section 3-407
10	"Anomalous indorsement"	Section 3-205
11	"Blank indorsement"	Section 3-205
12	"Cashier's check"	Section 3-104
13	"Certificate of deposit"	Section 3-104
14	"Certified check"	Section 3-409
15	"Check"	Section 3-104
16	"Consideration"	Section 3-303
17	"Draft"	Section 3-104
18	"Holder in due course"	Section 3-302
19	"Incomplete instrument"	Section 3-115
20	"Indorsement"	Section 3-204
21	"Indorser"	Section 3-204
22	"Instrument"	Section 3-104
23	"Issue"	Section 3-105

1	"Issuer"	Section 3-105
2	"Negotiable instrument"	Section 3-104
3	"Negotiation"	Section 3-201
4	"Note"	Section 3-104
5	"Payable at a definite time"	Section 3-108
6	"Payable on demand"	Section 3-108
7	"Payable to bearer"	Section 3-109
8	"Payable to order"	Section 3-109
9	"Payment"	Section 3-602
10	"Person entitled to enforce"	Section 3-301
11	"Presentment"	Section 3-501
12	"Reacquisition"	Section 3-207
13	"Special indorsement"	Section 3-205
14	"Teller's check"	Section 3-104
15	"Transfer of instrument"	Section 3-203
16	"Traveler's check"	Section 3-104
17	"Value"	Section 3-303

18 (c) The following definitions in other articles of this title
 19 apply to this article:

20	"Bank"	Section 4-105
21	"Banking day"	Section 4-104
22	"Clearing house"	Section 4-104
23	"Collecting bank"	Section 4-105

1	"Depository bank"	Section 4-105
2	"Documentary draft"	Section 4-104
3	"Intermediary bank"	Section 4-105
4	"Item"	Section 4-104
5	"Payor bank"	Section 4-105
6	"Suspends payments"	Section 4-104

7 (d) In addition, Article 1 of the Uniform Commercial Code, this
8 title, contains general definitions and principles of construction
9 and interpretation applicable throughout this article.

10 SECTION 2. AMENDATORY 12A O.S. 2001, Section 3-106, is
11 amended to read as follows:

12 Section 3-106.

13 UNCONDITIONAL PROMISE OR ORDER

14 (a) Except as provided in this section, for the purposes of
15 subsection (a) of Section 3-104 of this title, a promise or order is
16 unconditional unless it states (i) an express condition to payment,
17 (ii) that the promise or order is subject to or governed by another
18 ~~writing~~ record, or (iii) that rights or obligations with respect to
19 the promise or order are stated in another ~~writing~~ record. A
20 reference to another ~~writing~~ record does not of itself make the
21 promise or order conditional.

22 (b) A promise or order is not made conditional (i) by a
23 reference to another ~~writing~~ record for a statement of rights with

1 respect to collateral, prepayment, or acceleration, or (ii) because
2 payment is limited to resort to a particular fund or source.

3 (c) If a promise or order requires, as a condition to payment,
4 a countersignature by a person whose specimen signature appears on
5 the promise or order, the condition does not make the promise or
6 order conditional for the purposes of subsection (a) of Section 3-
7 104 of this title. If the person whose specimen signature appears
8 on an instrument fails to countersign the instrument, the failure to
9 countersign is a defense to the obligation of the issuer, but the
10 failure does not prevent a transferee of the instrument from
11 becoming a holder of the instrument.

12 (d) If a promise or order at the time it is issued or first
13 comes into possession of a holder contains a statement, required by
14 applicable statutory or administrative law, to the effect that the
15 rights of a holder or transferee are subject to claims or defenses
16 that the issuer could assert against the original payee, the promise
17 or order is not thereby made conditional for the purposes of
18 subsection (a) of Section 3-104 of this title; but if the promise or
19 order is an instrument, there cannot be a holder in due course of
20 the instrument.

21 SECTION 3. AMENDATORY 12A O.S. 2001, Section 3-116, is
22 amended to read as follows:

23 Section 3-116.

1 JOINT AND SEVERAL LIABILITY; CONTRIBUTION

2 (a) Except as otherwise provided in the instrument, two or more
3 persons who have the same liability on an instrument as makers,
4 drawers, acceptors, indorsers who indorse as joint payees, or
5 anomalous indorsers are jointly and severally liable in the capacity
6 in which they sign.

7 (b) Except as provided in subsection ~~(e)~~ (f) of Section 3-419
8 of this title or by agreement of the affected parties, a party
9 having joint and several liability who pays the instrument is
10 entitled to receive from any party having the same joint and several
11 liability contribution in accordance with applicable law.

12 ~~(c) Discharge of one party having joint and several liability~~
13 ~~by a person entitled to enforce the instrument does not affect the~~
14 ~~right under subsection (b) of this section of a party having the~~
15 ~~same joint and several liability to receive contribution from the~~
16 ~~party discharged.~~

17 SECTION 4. AMENDATORY 12A O.S. 2001, Section 3-119, is
18 amended to read as follows:

19 Section 3-119.

20 NOTICE OF RIGHT TO DEFEND ACTION

21 In an action for breach of an obligation for which a third
22 person is answerable over pursuant to this article or Article 4 of
23 this title, the defendant may give the third person ~~written~~ notice

1 of the litigation in a record, and the person notified may then give
2 similar notice to any other person who is answerable over. If the
3 notice states (i) that the person notified may come in and defend
4 and (ii) that failure to do so will bind the person notified in an
5 action later brought by the person giving the notice as to any
6 determination of fact common to the two litigations, the person
7 notified is so bound unless after reasonable receipt of the notice
8 the person notified does come in and defend.

9 SECTION 5. AMENDATORY 12A O.S. 2001, Section 3-305, is
10 amended to read as follows:

11 Section 3-305.

12 DEFENSES AND CLAIMS IN RECOUPMENT

13 (a) Except as ~~stated in subsection (b) of~~ otherwise provided in
14 this section, the right to enforce the obligation of a party to pay
15 an instrument is subject to the following:

16 (1) a defense of the obligor based on (i) infancy of the
17 obligor to the extent it is a defense to a simple
18 contract, (ii) duress, lack of legal capacity, or
19 illegality of the transaction which, under other law,
20 nullifies the obligation of the obligor, (iii) fraud
21 that induced the obligor to sign the instrument with
22 neither knowledge nor reasonable opportunity to learn

1 of its character or its essential terms, or (iv)
2 discharge of the obligor in insolvency proceedings;
3 (2) a defense of the obligor stated in another section of
4 this article or a defense of the obligor that would be
5 available if the person entitled to enforce the
6 instrument were enforcing a right to payment under a
7 simple contract; and
8 (3) a claim in recoupment of the obligor against the
9 original payee of the instrument if the claim arose
10 from the transaction that gave rise to the instrument;
11 but the claim of the obligor may be asserted against a
12 transferee of the instrument only to reduce the amount
13 owing on the instrument at the time the action is
14 brought.

15 (b) The right of a holder in due course to enforce the
16 obligation of a party to pay the instrument is subject to defenses
17 of the obligor stated in paragraph (1) of subsection (a) of this
18 section, but is not subject to defenses of the obligor stated in
19 paragraph (2) of subsection (a) of this section or claims in
20 recoupment stated in paragraph (3) of subsection (a) of this section
21 against a person other than the holder.

22 (c) Except as stated in subsection (d) of this section, in an
23 action to enforce the obligation of a party to pay the instrument,

1 the obligor may not assert against the person entitled to enforce
2 the instrument a defense, claim in recoupment, or claim to the
3 instrument (Section 3-306 of this title) of another person, but the
4 other person's claim to the instrument may be asserted by the
5 obligor if the other person is joined in the action and personally
6 asserts the claim against the person entitled to enforce the
7 instrument. An obligor is not obliged to pay the instrument if the
8 person seeking enforcement of the instrument does not have rights of
9 a holder in due course and the obligor proves that the instrument is
10 a lost or stolen instrument.

11 (d) In an action to enforce the obligation of an accommodation
12 party to pay an instrument, the accommodation party may assert
13 against the person entitled to enforce the instrument any defense or
14 claim in recoupment under subsection (a) of this section that the
15 accommodated party could assert against the person entitled to
16 enforce the instrument, except the defenses of discharge in
17 insolvency proceedings, infancy, and lack of legal capacity.

18 (e) This section is subject to law other than this article that
19 establishes a different rule for consumer transactions.

20 SECTION 6. AMENDATORY 12A O.S. 2001, Section 3-309, is
21 amended to read as follows:

22 Section 3-309.

23 ENFORCEMENT OF LOST, DESTROYED, OR STOLEN INSTRUMENT

1 (a) A person not in possession of an instrument is entitled to
2 enforce the instrument if ~~(i)~~:

3 (1) the person ~~was in possession of~~ seeking to enforce the
4 instrument ~~and~~:

5 (A) was entitled to enforce ~~it~~ the instrument when
6 loss of possession occurred, ~~(ii)~~; or

7 (B) has directly or indirectly acquired ownership of
8 the instrument from a person who was entitled to
9 enforce the instrument when loss of possession
10 occurred;

11 (2) the loss of possession was not the result of a
12 transfer by the person or a lawful seizure, ~~i~~; and ~~(iii)~~

13 (3) the person cannot reasonably obtain possession of the
14 instrument because the instrument was destroyed, its
15 whereabouts cannot be determined, or it is in the
16 wrongful possession of an unknown person or a person
17 that cannot be found or is not amenable to service of
18 process.

19 (b) A person seeking enforcement of an instrument under
20 subsection (a) of this section must prove the terms of the
21 instrument and the person's right to enforce the instrument. If
22 that proof is made, Section ~~59~~ 3-308 of this ~~act~~ title applies to
23 the case as if the person seeking enforcement had produced the

1 instrument. The court may not enter judgment in favor of the person
2 seeking enforcement unless it finds that the person required to pay
3 the instrument is adequately protected against loss that might occur
4 by reason of a claim by another person to enforce the instrument.
5 Adequate protection may be provided by any reasonable means.

6 SECTION 7. AMENDATORY 12A O.S. 2001, Section 3-312, is
7 amended to read as follows:

8 Section 3-312.

9 LOST, DESTROYED, OR STOLEN CASHIER'S CHECK,
10 TELLER'S CHECK, OR CERTIFIED CHECK

11 (a) In this section:

12 (1) "Check" means a cashier's check, teller's check, or
13 certified check;

14 (2) "Claimant" means a person who claims the right to
15 receive the amount of a cashier's check, teller's
16 check, or certified check that was lost, destroyed, or
17 stolen;

18 (3) "Declaration of loss" means a ~~written~~ statement, made
19 in a record under penalty of perjury, to the effect
20 that (i) the declarer lost possession of a check, (ii)
21 the declarer is the drawer or payee of the check, in
22 the case of a certified check, or the remitter or
23 payee of the check, in the case of a cashier's or

1 teller's check, (iii) the loss of possession was not
2 the result of a transfer by the declarer or a lawful
3 seizure, and (iv) the declarer cannot reasonably
4 obtain possession of the check because the check was
5 destroyed, its whereabouts cannot be determined, or it
6 is in the wrongful possession of an unknown person or
7 a person that cannot be found or is not amenable to
8 service of process; and

9 (4) "Obligated bank" means the issuer of a cashier's check
10 or a teller's check or the acceptor of a certified
11 check.

12 (b) A claimant may assert a claim to the amount of a check by a
13 communication to the obligated bank describing the check with
14 reasonable certainty and requesting payment of the amount of the
15 check, if (i) the claimant is the drawer or payee of a certified
16 check or the remitter or payee of a cashier's check or teller's
17 check, (ii) the communication contains or is accompanied by a
18 declaration of loss of the claimant with respect to the check, (iii)
19 the communication is received at a time and in a manner affording
20 the bank reasonable time to act on it before the check is paid, and
21 (iv) the claimant provides reasonable identification if requested by
22 the obligated bank. Delivery of a declaration of loss is a warranty
23 of the truth of the statements made in the declaration. If a claim

1 is asserted in compliance with this subsection, the following rules
2 apply:

- 3 (1) The claim becomes enforceable at the later of (i) the
4 time the claim is asserted, or (ii) the ninetieth
5 (90th) day following the date of the check, in the
6 case of a cashier's check or teller's check, or the
7 ninetieth (90th) day following the date of the
8 acceptance, in the case of a certified check;
- 9 (2) Until the claim becomes enforceable, it has no legal
10 effect and the obligated bank may pay the check or, in
11 the case of a teller's check, may permit the drawee to
12 pay the check. Payment to a person entitled to
13 enforce the check discharges all liability of the
14 obligated bank with respect to the check;
- 15 (3) If the claim becomes enforceable before the check is
16 presented for payment, the obligated bank is not
17 obliged to pay the check; and
- 18 (4) When the claim becomes enforceable, the obligated bank
19 becomes obliged to pay the amount of the check to the
20 claimant if payment of the check has not been made to
21 a person entitled to enforce the check. Subject to
22 paragraph (1) of subsection (a) of Section ~~122~~ 4-302
23 of this ~~act~~ title, payment to the claimant discharges

1 all liability of the obligated bank with respect to
2 the check.

3 (c) If the obligated bank pays the amount of a check to a
4 claimant under paragraph (4) of subsection (b) of this section and
5 the check is presented for payment by a person having rights of a
6 holder in due course, the claimant is obliged to (i) refund the
7 payment to the obligated bank if the check is paid, or (ii) pay the
8 amount of the check to the person having rights of a holder in due
9 course if the check is dishonored.

10 (d) If a claimant has the right to assert a claim under
11 subsection (b) of this section and is also a person entitled to
12 enforce a cashier's check, teller's check, or certified check which
13 is lost, destroyed, or stolen, the claimant may assert rights with
14 respect to the check either under this section or Section ~~60~~ 3-309
15 of this ~~act~~ title.

16 SECTION 8. AMENDATORY 12A O.S. 2001, Section 3-419, is
17 amended to read as follows:

18 Section 3-419.

19 INSTRUMENTS SIGNED FOR ACCOMMODATION

20 (a) If an instrument is issued for value given for the benefit
21 of a party to the instrument ("accommodated party") and another
22 party to the instrument ("accommodation party") signs the instrument
23 for the purpose of incurring liability on the instrument without

1 being a direct beneficiary of the value given for the instrument,
2 the instrument is signed by the accommodation party "for
3 accommodation".

4 (b) An accommodation party may sign the instrument as maker,
5 drawer, acceptor, or indorser and, subject to subsection (d) of this
6 section, is obliged to pay the instrument in the capacity in which
7 the accommodation party signs. The obligation of an accommodation
8 party may be enforced notwithstanding any statute of frauds and
9 whether or not the accommodation party receives consideration for
10 the accommodation.

11 (c) A person signing an instrument is presumed to be an
12 accommodation party and there is notice that the instrument is
13 signed for accommodation if the signature is an anomalous
14 indorsement or is accompanied by words indicating that the signer is
15 acting as surety or guarantor with respect to the obligation of
16 another party to the instrument. Except as provided in Section 3-
17 605 of this title, the obligation of an accommodation party to pay
18 the instrument is not affected by the fact that the person enforcing
19 the obligation had notice when the instrument was taken by that
20 person that the accommodation party signed the instrument for
21 accommodation.

22 (d) If the signature of a party to an instrument is accompanied
23 by words indicating unambiguously that the party is guaranteeing

1 collection rather than payment of the obligation of another party to
2 the instrument, the signer is obliged to pay the amount due on the
3 instrument to a person entitled to enforce the instrument only if
4 (i) execution of judgment against the other party has been returned
5 unsatisfied, (ii) the other party is insolvent or in an insolvency
6 proceeding, (iii) the other party cannot be served with process, or
7 (iv) it is otherwise apparent that payment cannot be obtained from
8 the other party.

9 (e) If the signature of a party to an instrument is accompanied
10 by words indicating that the party guarantees payment or the signer
11 signs the instrument as an accommodation party in some other manner
12 that does not unambiguously indicate an intention to guarantee
13 collection rather than payment, the signer is obliged to pay the
14 amount due on the instrument to a person entitled to enforce the
15 instrument in the same circumstances as the accommodated party would
16 be obliged, without prior resort to the accommodated party by the
17 person entitled to enforce the instrument.

18 (f) An accommodation party ~~who~~ that pays the instrument is
19 entitled to reimbursement from the accommodated party and is
20 entitled to enforce the instrument against the accommodated party.
21 In proper circumstances, an accommodation party may obtain relief
22 that requires the accommodated party to perform its obligations on
23 the instrument. An accommodated party ~~who~~ that pays the instrument

1 has no right of recourse against, and is not entitled to
2 contribution from, an accommodation party.

3 SECTION 9. AMENDATORY 12A O.S. 2001, Section 3-602, is
4 amended to read as follows:

5 Section 3-602.

6 PAYMENT

7 (a) Subject to subsection ~~(b)~~ (e) of this section, an
8 instrument is paid to the extent payment is made ~~(i)~~ by or on behalf
9 of a party obliged to pay the instrument, and ~~(ii)~~ to a person
10 entitled to enforce the instrument. To the extent of the payment,
11 the obligation of the party obliged to pay the instrument is
12 discharged even though payment is made with knowledge of a claim to
13 the instrument under Section 3-306 of this title by another person.

14 (b) Subject to subsection (e) of this section, a note is paid
15 to the extent payment is made by or on behalf of a party obliged to
16 pay the note to a person that formerly was entitled to enforce the
17 note only if at the time of the payment the party obliged to pay has
18 not received adequate notification that the note has been
19 transferred and that payment is to be made to the transferee. A
20 notification is adequate only if it is signed by the transferor or
21 the transferee, reasonably identifies the transferred note, and
22 provides an address at which payments subsequently are to be made.
23 Upon request, a transferee shall seasonably furnish reasonable proof

1 that the note has been transferred. Unless the transferee complies
2 with the request, a payment to the person that formerly was entitled
3 to enforce the note is effective for purposes of subsection (c) of
4 this section even if the party obliged to pay the note has received
5 a notification under this subsection.

6 (c) Subject to subsection (e) of this section, to the extent of
7 a payment under subsections (a) and (b) of this section, the
8 obligation of the party obliged to pay the instrument is discharged
9 even though payment is made with knowledge of a claim to the
10 instrument under Section 3-306 of this title by another person.

11 (d) Subject to subsection (e) of this section, a transferee, or
12 any party that has acquired rights in the instrument directly or
13 indirectly from a transferee, including any such party that has
14 rights as a holder in due course, is deemed to have notice of any
15 payment that is made under subsection (b) of this section after the
16 date that the note is transferred to the transferee but before the
17 party obliged to pay the note receives adequate notification of the
18 transfer.

19 (e) The obligation of a party to pay the instrument is not
20 discharged under ~~subsection~~ subsections (a) through (d) of this
21 section if:

22 (1) A claim to the instrument under Section 3-306 of this
23 title is enforceable against the party receiving

1 payment and (i) payment is made with knowledge by the
2 payor that payment is prohibited by injunction or
3 similar process of a court of competent jurisdiction,
4 or (ii) in the case of an instrument other than a
5 cashier's check, teller's check, or certified check,
6 the party making payment accepted, from the person
7 having a claim to the instrument, indemnity against
8 loss resulting from refusal to pay the person entitled
9 to enforce the instrument; or

10 (2) The person making payment knows that the instrument is
11 a stolen instrument and pays a person it knows is in
12 wrongful possession of the instrument.

13 (f) As used in this section, "signed", with respect to a record
14 that is not a writing, includes the attachment to or logical
15 association with the record of an electronic symbol, sound, or
16 process with the present intent to adopt or accept the record.

17 SECTION 10. AMENDATORY 12A O.S. 2001, Section 3-604, is
18 amended to read as follows:

19 Section 3-604.

20 DISCHARGE BY CANCELLATION OR RENUNCIATION

21 (a) A person entitled to enforce an instrument, with or without
22 consideration, may discharge the obligation of a party to pay the
23 instrument (i) by an intentional voluntary act, such as surrender of

1 the instrument to the party, destruction, mutilation, or
2 cancellation of the instrument, cancellation or striking out of the
3 party's signature, or the addition of words to the instrument
4 indicating discharge, or (ii) by agreeing not to sue or otherwise
5 renouncing rights against the party by a signed ~~writing~~ record.

6 (b) Cancellation or striking out of an indorsement pursuant to
7 subsection (a) of this section does not affect the status and rights
8 of a party derived from the indorsement.

9 (c) As used in this section, "signed", with respect to a record
10 that is not a writing, includes the attachment to or logical
11 association with the record of an electronic symbol, sound, or
12 process with the present intent to adopt or accept the record.

13 SECTION 11. AMENDATORY 12A O.S. 2001, Section 3-605, is
14 amended to read as follows:

15 Section 3-605.

16 DISCHARGE OF ~~INDORSERS, ACCOMMODATION, AND OTHER PARTIES~~ SECONDARY
17 OBLIGORS

18 ~~(a) In this section, the term "indorser" includes a drawer~~
19 ~~having the obligation described in subsection (d) of Section 3-414~~
20 ~~of this title.~~

21 ~~(b) Discharge, under Section 3-604 of this title, of the~~
22 ~~obligation of a party to pay an instrument does not discharge the~~

1 ~~obligation of an indorser or accommodation party having a right of~~
2 ~~recourse against the discharged party.~~

3 ~~(c) If a person entitled to enforce an instrument agrees, with~~
4 ~~or without consideration, to an extension of the due date of the~~
5 ~~obligation of a party to pay the instrument, the extension~~
6 ~~discharges an indorser or accommodation party having a right of~~
7 ~~recourse against the party whose obligation is extended to the~~
8 ~~extent the indorser or accommodation party proves that the extension~~
9 ~~caused loss to the indorser or accommodation party with respect to~~
10 ~~the right of recourse.~~

11 (d) If a person entitled to enforce an instrument releases the
12 obligation of a principal obligor in whole or in part, and another
13 party to the instrument is a secondary obligor with respect to the
14 obligation of that principal obligor, the following rules apply:

15 (1) Any obligations of the principal obligor to the
16 secondary obligor with respect to any previous payment
17 by the secondary obligor are not affected. Unless the
18 terms of the release preserve the secondary obligor's
19 recourse, the principal obligor is discharged, to the
20 extent of the release, from any other duties to the
21 secondary obligor under this article.

22 (2) Unless the terms of the release provide that the
23 person entitled to enforce the instrument retains the

1 right to enforce the instrument against the secondary
2 obligor, the secondary obligor is discharged to the
3 same extent as the principal obligor from any
4 unperformed portion of its obligation on the
5 instrument. If the instrument is a check and the
6 obligation of the secondary obligor is based on an
7 indorsement of the check, the secondary obligor is
8 discharged without regard to the language or
9 circumstances of the discharge or other release.

10 (3) If the secondary obligor is not discharged under
11 paragraph (2) of this subsection, the secondary
12 obligor is discharged to the extent of the value of
13 the consideration for the release, and to the extent
14 that the release would otherwise cause the secondary
15 obligor a loss.

16 (b) If a person entitled to enforce an instrument grants a
17 principal obligor an extension of the time at which one or more
18 payments are due on the instrument and another party to the
19 instrument is a secondary obligor with respect to the obligation of
20 that principal obligor, the following rules apply:

21 (1) Any obligations of the principal obligor to the
22 secondary obligor with respect to any previous payment
23 by the secondary obligor are not affected. Unless the

1 terms of the extension preserve the secondary
2 obligor's recourse, the extension correspondingly
3 extends the time for performance of any other duties
4 owed to the secondary obligor by the principal obligor
5 under this article.

6 (2) The secondary obligor is discharged to the extent that
7 the extension would otherwise cause the secondary
8 obligor a loss.

9 (3) To the extent that the secondary obligor is not
10 discharged under paragraph (2) of this subsection, the
11 secondary obligor may perform its obligations to a
12 person entitled to enforce the instrument as if the
13 time for payment had not been extended or, unless the
14 terms of the extension provide that the person
15 entitled to enforce the instrument retains the right
16 to enforce the instrument against the secondary
17 obligor as if the time for payment had not been
18 extended, treat the time for performance of its
19 obligations as having been extended correspondingly.

20 (c) If a person entitled to enforce an instrument agrees, with
21 or without consideration, to a ~~material~~ modification of the
22 obligation of a ~~party~~ principal obligor other than a complete or a
23 partial release or an extension of the due date, ~~the modification~~

1 ~~discharges the obligation of an indorser or accommodation party~~
2 ~~having a right of recourse against the person whose obligation is~~
3 ~~modified to the extent the modification causes loss to the indorser~~
4 ~~or accommodation party with respect to the right of recourse. The~~
5 ~~loss suffered by the indorser or accommodation party as a result of~~
6 ~~the modification is equal to the amount of the right of recourse~~
7 ~~unless the person enforcing the instrument proves that no loss was~~
8 ~~caused by the modification or that the loss caused by the~~
9 ~~modification was an amount less than the amount of the right of~~
10 ~~recourse and another party to the instrument is a secondary obligor~~
11 ~~with respect to the obligation of that principal obligor, the~~
12 following rules apply:

13 (1) Any obligations of the principal obligor to the
14 secondary obligor with respect to any previous payment
15 by the secondary obligor are not affected. The
16 modification correspondingly modifies any other duties
17 owed to the secondary obligor by the principal obligor
18 under this article.

19 (2) The secondary obligor is discharged from any
20 unperformed portion of its obligation to the extent
21 that the modification would otherwise cause the
22 secondary obligor a loss.

1 (3) To the extent that the secondary obligor is not
2 discharged under paragraph (2) of this subsection, the
3 secondary obligor may satisfy its obligation on the
4 instrument as if the modification had not occurred, or
5 treat its obligation on the instrument as having been
6 modified correspondingly.

7 ~~(e) (d)~~ If the obligation of a ~~party to pay an instrument~~
8 principal obligor is secured by an interest in collateral, another
9 party to the instrument is a secondary obligor with respect to that
10 obligation, and a person entitled to enforce the instrument impairs
11 the value of the interest in collateral, the obligation of ~~an~~
12 ~~indorser or accommodation party having a right of recourse against~~
13 the secondary obligor is discharged to the extent of the impairment.
14 The value of an interest in collateral is impaired to the extent ~~(i)~~
15 the value of the interest is reduced to an amount less than the
16 amount of the ~~right of recourse of the party asserting discharge~~
17 secondary obligor, or ~~(ii)~~ the reduction in value of the interest
18 causes an increase in the amount by which the amount of the ~~right of~~
19 recourse exceeds the value of the interest. ~~The burden of proving~~
20 ~~impairment is on the party asserting discharge.~~

21 ~~(f) If the obligation of a party is secured by an interest in~~
22 ~~collateral not provided by an accommodation party and a person~~
23 ~~entitled to enforce the instrument impairs the value of the interest~~

1 ~~in collateral, the obligation of any party who is jointly and~~
2 ~~severally liable with respect to the secured obligation is~~
3 ~~discharged to the extent the impairment causes the party asserting~~
4 ~~discharge to pay more than that party would have been obliged to~~
5 ~~pay, taking into account rights of contribution, if impairment had~~
6 ~~not occurred. If the party asserting discharge is an accommodation~~
7 ~~party not entitled to discharge under subsection (c) of this~~
8 ~~section, the party is deemed to have a right to contribution based~~
9 ~~on joint and several liability rather than a right to reimbursement.~~
10 ~~The burden of proving impairment is on the party asserting~~
11 ~~discharge.~~

12 ~~(g) Under subsection (e) or (f) of this section, impairing~~
13 ~~value of an interest in collateral includes (i) failure to obtain or~~
14 ~~maintain perfection or recordation of the interest in collateral,~~
15 ~~(ii) release of collateral without substitution of collateral of~~
16 ~~equal value, (iii) failure to perform a duty to preserve the value~~
17 ~~of collateral owed, under Article 9 of this title or other law, to a~~
18 ~~debtor or surety or other person secondarily liable, or (iv) failure~~
19 ~~to comply with applicable law in disposing of collateral.~~

20 ~~(h) An accommodation party is not discharged under subsection~~
21 ~~(c), (d), or (e) of this section unless the person entitled to~~
22 ~~enforce the instrument knows of the accommodation or has notice~~

1 ~~under subsection (c) of Section 3-419 of this title that the~~
2 ~~instrument was signed for accommodation.~~

3 ~~(i) A party is not discharged under this section if (i) the~~
4 ~~party asserting discharge consents to the event or conduct that is~~
5 ~~the basis of the discharge, or (ii) the instrument or a separate~~
6 ~~agreement of the party provides for waiver of discharge under this~~
7 ~~section either specifically or by general language indicating that~~
8 ~~parties waive defenses based on suretyship or impairment of~~
9 ~~collateral. For purposes of this subsection, impairing the value of~~
10 ~~an interest in collateral includes failure to obtain or maintain~~
11 ~~perfection or recordation of the interest in collateral, release of~~
12 ~~collateral without substitution of collateral of equal value or~~
13 ~~equivalent reduction of the underlying obligation, failure to~~
14 ~~perform a duty to preserve the value of collateral owed, under~~
15 ~~Article 9 of the Uniform Commercial Code or other law, to a debtor~~
16 ~~or other person secondarily liable, and failure to comply with~~
17 ~~applicable law in disposing of or otherwise enforcing the interest~~
18 ~~in collateral.~~

19 ~~(e) A secondary obligor is not discharged under paragraph (3)~~
20 ~~of subsection (a) of this section or subsections (b), (c), or (d) of~~
21 ~~this section unless the person entitled to enforce the instrument~~
22 ~~knows that the person is a secondary obligor or has notice under~~

1 subsection (c) of Section 3-419 of this title that the instrument
2 was signed for accommodation.

3 (f) A secondary obligor is not discharged under this section if
4 the secondary obligor consents to the event or conduct that is the
5 basis of the discharge, or the instrument or a separate agreement of
6 the party provides for waiver of discharge under this section
7 specifically or by general language indicating that parties waive
8 defenses based on suretyship or impairment of collateral. Unless
9 the circumstances indicate otherwise, consent by the principal
10 obligor to an act that would lead to a discharge under this section
11 constitutes consent to that act by the secondary obligor if the
12 secondary obligor controls the principal obligor or deals with the
13 person entitled to enforce the instrument on behalf of the principal
14 obligor.

15 (g) A release or extension preserves a secondary obligor's
16 recourse if the terms of the release or extension provide that:

17 (1) the person entitled to enforce the instrument retains
18 the right to enforce the instrument against the
19 secondary obligor; and

20 (2) the recourse of the secondary obligor continues as if
21 the release or extension had not been granted.

22 (h) Except as otherwise provided in subsection (i) of this
23 section, a secondary obligor asserting discharge under this section

1 has the burden of persuasion both with respect to the occurrence of
2 the acts alleged to harm the secondary obligor and loss or prejudice
3 caused by those acts.

4 (i) If the secondary obligor demonstrates prejudice caused by
5 an impairment of its recourse, and the circumstances of the case
6 indicate that the amount of loss is not reasonably susceptible of
7 calculation or requires proof of facts that are not ascertainable,
8 it is presumed that the act impairing recourse caused a loss or
9 impairment equal to the liability of the secondary obligor on the
10 instrument. In that event, the burden of persuasion as to any
11 lesser amount of the loss is on the person entitled to enforce the
12 instrument.

13 SECTION 12. This act shall become effective November 1, 2006.

14 COMMITTEE REPORT BY: COMMITTEE ON JUDICIARY, dated 3-28-06 - DO
15 PASS, As Amended.