A BILL FOR AN ACT

To amend chapter 9 of title 33 of the Code of the Federated States of Micronesia, regarding secured transactions, by repealing subchapters I and II thereof, and by adding new subchapters I, II, III, IV, and V, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

Section 1. Subchapters I and II of chapter 9 of title 33 of the Code of the Federated States of Micronesia are hereby repealed in their entirety.


Section 3. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 901 of subchapter I to read as follows:

"Section 901. Short title. This chapter shall be known and may be cited as the 'Secured Transactions Code of 1991.'"

Section 4. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 902 of subchapter I to read as follows:

"Section 902. Policy and subject matter of chapter.

(1) Except as otherwise provided in section 904 on excluded transactions, this chapter applies:

(a) to any transaction (regardless of its form) which is intended to create a security interest in personal
property or fixtures including goods, documents,

instruments, general intangibles, chattel paper or

accounts; and also

(b) to any sale of accounts or chattel paper.

(2) This chapter applies to security interests

created by contract including pledge, assignment, chattel

mortgage, chattel trust, trust deed, factor's lien,

equipment trust, conditional sale, trust receipt, other

lien or title retention contract and lease or consignment

intended as security. This chapter does not apply to

statutory liens except as provided in section 930.

(3) The application of this chapter to a security

interest in a secured obligation is not affected by the

fact that the obligation is itself secured by a transaction

or interest to which this chapter does not apply.'

Section 5. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 904
of subchapter I to read as follows:

"Section 904. Transactions excluded from chapter. This
chapter does not apply:

(1) to a security interest subject to any statute of
the Federated States of Micronesia, to the extent that such
statute governs the rights of parties to and third parties
affected by transactions in particular types of property; or

(2) to a landlord's lien; or

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(3) to a lien given by statute or other rule of law for services or materials except as provided in section 930 on priority of such liens; or

(4) to a transfer of a claim for wages, salary or other compensation of an employee; or

(5) to a transfer by a government or governmental subdivision or agency; or

(6) to a sale of accounts or chattel paper as part of a sale of the business out of which they arose, or an assignment of accounts or chattel paper which is for the purpose of collection only, or a transfer of a right to payment under a contract to an assignee who is also to do the performance under the contract or a transfer of a single account to an assignee in whole or partial satisfaction of a preexisting indebtedness; or

(7) to a transfer of an interest in or claim in or under any policy of insurance, except as provided with respect to proceeds (section 926) and priorities in proceeds (section 932); or

(8) to a right represented by a judgment (other than a judgment taken on a right to payment which was collateral); or

(9) to any right of setoff; or

(10) except to the extent that provision is made for fixtures in section 933, to the creation or transfer of an
interest in or lien on real estate, including a lease or
rents thereunder; or

(11) to a transfer in whole or in part of any claim
arising out of tort; or

(12) to a transfer of an interest in any deposit
account (subsection (1) of section 905), except as
provided with respect to proceeds (section 926) and
priorities in proceeds (section 932)."

Section 6. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 905
of subchapter I to read as follows:

"Section 905. Definitions.

(1) In this chapter unless the context otherwise
requires:

(a) ‘Account’ means any right to payment for
goods sold or leased or for services rendered which is not
evidenced by an instrument or chattel paper, whether or
not it has been earned by performance;

(b) ‘Account debtor’ means the person who is
obligated on an account, chattel paper or general
intangible;

(c) ‘Chattel paper’ means a writing or writings
which evidence both a monetary obligation and a security
interest in or a lease of specific goods, but a charter or
other contract involving the use or hire of a vessel is not
chattel paper. When a transaction is evidenced both by
such a security agreement or a lease and by an instrument
or a series of instruments, the group of writings taken
together constitutes chattel paper;
(d) 'Collateral' means the property subject to a
security interest, and includes accounts and chattel paper
which have been sold;
(e) 'Debtor' means the person who owes payment
or other performance of the obligation secured, whether or
not the person owns or has rights in the collateral, and
includes the seller of accounts or chattel paper. Where
the debtor and the owner of the collateral are not the same
person, the term 'debtor' means the owner of the collateral
in any provision of this chapter dealing with the
collateral, the obligor in any provision dealing with the
obligation, and may include both where the context so
requires;
(f) 'Deposit account' means a demand, time,
savings, passbook or like account maintained with a bank,
savings and loan association, credit union or like
organization, other than an account evidenced by a
certificate of deposit;
(g) 'Document' means document of title and
includes bill of lading, dock warrant, dock receipt,
warehouse receipt or order for the delivery of goods, and
also any other document which in the regular course of
business or financing is treated as adequately evidencing
that the person in possession of it is entitled to receive,
hold and dispose of the document and the goods it covers;
to be a document of title a document must purport to be
issued by or addressed to a bailee and purport to cover
goods in the bailee's possession which are either
identified or are fungible portions of an identified mass;

(h) 'Encumbrance' includes real estate mortgages
and other liens on real estate and all other rights in real
estate that are not ownership interests;

(i) 'General intangibles' means any personal
property (including things in action) other than goods,
accounts, chattel paper, documents, instruments, and
money. All rights to payment earned or unearned under a
charter or other contract involving the use or hire of a
vessel and all rights incident to the charter or contract
are accounts;

(j) 'Goods' includes all things which are
movable at the time the security interest attaches or which
are fixtures (section 933), but does not include money,
documents, instruments, accounts, chattel paper, general
intangibles, or minerals or the like (including oil and
gas) before extraction. 'Goods' also includes standing
timber which is to be cut and removed under a conveyance or
contract for sale, the unborn young of animals, and growing
crops;

(k) 'Instrument' means a negotiable instrument, or a certificated security or any other writing which evidences a right to the payment of money and is not itself a security agreement or lease and is of a type which is in ordinary course of business transferred by delivery with any necessary indorsement or assignment;

(l) 'Mortgage' means a consensual interest created by a real estate mortgage, a trust deed on real estate, or the like;

(m) A security interest is a 'purchase money security interest' to the extent that it is:

(i) taken or retained by the seller of the collateral to secure all or part of its price; or

(ii) taken by a person who by making advances or incurring an obligation gives value to enable the debtor to acquire rights in or the use of collateral if such value is in fact so used;

(n) An advance is made 'pursuant to commitment' if the secured party has bound himself or herself to make it, whether or not a subsequent event of default or other event not within the party's control has relieved or may relieve such party from his or her obligation;

(o) 'Security agreement' means an agreement
which creates or provides for a security interest;

(p) 'Secured party' means a lender, seller or
other person in whose favor there is a security interest,
including a person to whom accounts or chattel paper have
been sold. When the holders of obligations issued under an
indenture of trust, equipment trust agreement or the like
are represented by a trustee or other person, the
representative is the secured party;

(q) 'Transmitting utility' means any person
primarily engaged in the electric or electronics
communications transmission business, or the transmission
or the production and transmission of electricity, steam,
gas or water, or the provision of sewer service."

Section 7. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 906 of
subchapter I to read as follows:

"Section 906. When after-acquired collateral is not
security for antecedent debt. When a secured party makes
an advance, incurs an obligation, releases a perfected
security interest, or otherwise gives new value which is to
be secured in whole or in part by after-acquired property
such party's security interest in the after-acquired
collateral shall be deemed to be taken for new value and
not as security for an antecedent debt if the debtor
acquires rights in such collateral either in the ordinary
course of business or under a contract of purchase made
pursuant to the security agreement within a reasonable time
after new value is given."

Section 8. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 907
of subchapter I to read as follows:

"Section 907. Classification of goods: 'consumer goods';
'equipment'; 'farm products'; 'inventory'. Goods are:

(1) 'consumer goods' if they are used or bought for
use primarily for personal, family or household purposes;

(2) 'equipment' if they are used or bought for use
primarily in business (including farming or a profession)
or by a debtor who is a non-profit organization or a
governmental subdivision or agency or if the goods are not
included in the definitions of inventory, farm products or
consumer goods;

(3) 'farm products' if they are crops or livestock or
supplies used or produced in farming operations or if they
are products of crops or livestock in their unmanufactured
states (such as ginned cotton, wool-clip, maple syrup, milk
and eggs), and if they are in the possession of a debtor
engaged in raising, fattening, grazing or other farming
operations. If goods are farm products they are neither
equipment nor inventory;

(4) 'inventory' if they are held by a person who
holds them for sale or lease or to be furnished under
contracts of service or if they have been so furnished, or
if they are raw materials, work in process or materials
used or consumed in a business. Inventory of a person is
not to be classified as that person's equipment."

Section 9. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 908
of subchapter I to read as follows:

"Section 908. Sufficiency of description. For the
purposes of this chapter any description of personal
property or real estate is sufficient whether or not it is
specific if it reasonably identifies what is described."

Section 10. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 909
of subchapter I to read as follows:

"Section 909. Where collateral is not owned by debtor.

Unless otherwise agreed, when a secured party knows that
collateral is owned by a person who is not the debtor, the
owner of the collateral is entitled to receive from the
secured party any surplus under section 952(2) or under
section 954(1), and is not liable for the debt or for any
deficiency after resale, and has the same right as the
debtor:

(1) to receive statements under section 918;
(2) to receive notice of and to object to a secured
party's proposal to retain the collateral in satisfaction
of the indebtedness under section 955;
(3) to redeem the collateral under section 956;
(4) to obtain injunctive or other relief under
section 957(1); and
(5) to recover losses caused to the secured party
under section 918(2)."
Section 11. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 910
of subchapter I to read as follows:
"Section 910. Consignment.
(1) A person who delivers goods under a consignment
which is not a security interest and who files under this
chapter has priority over a secured party who is or becomes
a creditor of the consignee and who would have a perfected
security interest in the goods if they were the property of
the consignee, and also has priority with respect to
identifiable cash proceeds received on or before delivery
of the goods to a buyer, if:
(a) the consignor gives notification in writing
to the holder of the security interest if the holder has
filed a financing statement covering the same types of
goods before the date of the filing made by the consignor;
and
(b) the holder of the security interest receives
the notification within five years before the consignee
receives possession of the goods; and

(c) the notification states that the consignor
expects to deliver goods on consignment to the consignee,
describing the goods by item or type.

(2) In the case of a consignment which is not a
security interest and in which the requirements of the
preceding subsection have not been met, a person who
delivers goods to another is subordinate to a person who
would have a perfected security interest in the goods if
they were the property of the debtor."

Section 12. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 911
of subchapter II to read as follows:

"Section 911. General validity of security agreement.

Except as otherwise provided by this act a security
agreement is effective according to its terms between the
parties, against purchasers of the collateral and against
creditors. Nothing in this chapter validates any charge or
practice illegal under any statute or regulation thereunder
governing usury, small loans, retail installment sales, or
the like, or extends the application of any such statute or
regulation to any transaction not otherwise subject
thereto."

Section 13. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 912 of subchapter II to read as follows:

"Section 912. Title to collateral immaterial. Each provision of this chapter with regard to rights, obligations and remedies applies whether title to collateral is in the secured party or in the debtor."

Section 14. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 913 of subchapter II to read as follows:

"Section 913. Attachment and enforceability of security interest; Proceeds; Formal requisites.

(1) A security interest is not enforceable against the debtor or third parties with respect to the collateral and does not attach unless:

(a) the collateral is in the possession of the secured party pursuant to agreement, or the debtor has signed a security agreement which contains a description of the collateral and in addition, when the security interest covers crops growing or to be grown or timber to be cut, a description of the land concerned;

(b) value has been given; and

(c) the debtor has rights in the collateral.

(2) A security interest attaches when it becomes enforceable against the debtor with respect to the collateral. Attachment occurs as soon as all of the events
specified in subsection (1) have taken place unless explicit agreement postpones the time of attaching.

(3) Unless otherwise agreed a security agreement gives the secured party the rights to proceeds provided by section 926."

Section 15. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 914 of subchapter II to read as follows:

"Section 914. After-acquired property; Future advances.

(1) Except as provided in subsection (2), a security agreement may provide that any or all obligations covered by the security agreement are to be secured by after-acquired collateral.

(2) No security interest attaches under an after-acquired property clause to consumer goods other than accessions (section 934) when given as additional security unless the debtor acquires rights in them within 10 days after the secured party gives value.

(3) Obligations covered by a security agreement may include future advances or other value whether or not the advances or value are given pursuant to commitment (subsection (1) of section 905)."

Section 16. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 915 of subchapter II to read as follows:
"Section 915. Use or disposition of collateral without accounting permissible. A security interest is not invalid or fraudulent against creditors by reason of liberty in the debtor to use, commingle or dispose of all or part of the collateral (including returned or repossessed goods) or to collect or compromise accounts or chattel paper, or to accept the return of goods or make repossessions, or to use, commingle or dispose of proceeds, or by reason of the failure of the secured party to require the debtor to account for proceeds or replace collateral. This section does not relax the requirements of possession where perfection of a security interest depends upon possession of the collateral by the secured party or by a bailee."

Section 17. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 916 of subchapter II to read as follows:

"Section 916. Agreement not to assert defenses against assignee. Subject to any statute or decision which establishes a different rule for buyers or lessees of consumer goods, an agreement by a buyer or lessee that he or she will not assert against an assignee any claim or defense which he or she may have against the seller or lessor is enforceable by an assignee who takes assignment for value, in good faith and without notice of a claim or defense, except as to defenses of a type which may be
asserted against a holder in due course of a negotiable
instrument under common law principles or applicable law.
A buyer who as part of one transaction signs both a
negotiable instrument and a security agreement makes such
an agreement."

Section 18. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 917
of subchapter II to read as follows:

"Section 917. Rights and duties when collateral is in
secured party's possession.

(1) A secured party must use reasonable care in the
custody and preservation of collateral in that party's
possession. In the case of an instrument or chattel paper
reasonable care includes taking necessary steps to preserve
rights against prior parties unless otherwise agreed.

(2) Unless otherwise agreed, when collateral is in
the secured party's possession:

(a) reasonable expenses (including the cost of
any insurance and payment of taxes or other charges)
incurred in the custody, preservation, use or operation of
the collateral are chargeable to the debtor and are secured
by the collateral;

(b) the risk of accidental loss or damage is on
the debtor to the extent of any deficiency in any effective
insurance coverage;"
(c) the secured party may hold as additional security any increase or profits (except money) received from the collateral, but money so received, unless remitted to the debtor, shall be applied in reduction of the secured obligation;

(d) the secured party must keep the collateral identifiable but fungible collateral may be commingled;

(e) the secured party may repledge the collateral upon terms which do not impair the debtor's right to redeem it.

(3) A secured party is liable for any loss caused by that party's failure to meet any obligation imposed by the preceding subsections but does not lose his or her security interest.

(4) A secured party may use or operate the collateral for the purpose of preserving the collateral or its value or pursuant to the order of a court of appropriate jurisdiction or, except in the case of consumer goods, in the manner and to the extent provided in the security agreement."

Section 19. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 918 of subchapter II to read as follows:

"Section 918. Request for statement of account or list of collateral."
(1) A debtor may sign a statement indicating what the
debtor believes to be the aggregate amount of unpaid
indebtedness as of a specified date and may send it to the
secured party with a request that the statement be approved
or corrected and returned to the debtor. When the security
agreement or any other record kept by the secured party
identifies the collateral a debtor may similarly request
the secured party to approve or correct a list of the
collateral.

(2) The secured party must comply with such a request
within two weeks after receipt by sending a written
correction or approval. If the secured party claims a
security interest in all of a particular type of collateral
owned by the debtor the secured party may indicate that
fact in his or her reply and need not approve or correct an
itemized list of such collateral. If the secured party
without reasonable excuse fails to comply such party is
liable for any loss caused to the debtor thereby; and if
the debtor has properly included in the request a good
faith statement of the obligation or a list of the
collateral or both the secured party may claim a security
interest only as shown in the statement against
persons misled by a failure to comply. If the secured
party no longer has an interest in the obligation or
collateral at the time the request is received the secured
party must disclose the name and address of any successor
in interest known to him or her and is liable for any loss
caused to the debtor as a result of failure to disclose. A
successor in interest is not subject to this section until
a request is received by him or her.

(3) A debtor is entitled to such a statement once
every 6 months without charge. The secured party may
require payment of a charge not exceeding $10 for each
additional statement furnished."

Section 20. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 921
of subchapter III to read as follows:

"Section 921. Persons who take priority over unperfected
security interests; Rights of 'lien creditor'.

(1) Except as otherwise provided in subsection (2),
an unperfected security interest is subordinate to the
rights of:

(a) persons entitled to priority under section
932;

(b) a person who becomes a lien creditor before
the security interest is perfected;

(c) in the case of goods, instruments,
documents, and chattel paper, a person who is not a secured
party and who is a transferee in bulk or other buyer not in
ordinary course of business or is a buyer of farm products
in ordinary course of business, to the extent that such
person gives value and receives delivery of the collateral
without knowledge of the security interest and before it is
perfected;

(d) in the case of accounts and general
intangibles, a person who is not a secured party and who is
a transferee to the extent that such person gives value
without knowledge of the security interest and before it is
perfected.

(2) If the secured party files with respect to a
purchase money security interest before or within ten days
after the debtor receives possession of the collateral, the
secured party takes priority over the rights of a transferee
in bulk or of a lien creditor which arise between the time
the security interest attaches and the time of filing.

(3) A 'lien creditor' means a creditor who has
acquired a lien on the property involved by attachment,
levy or the like and includes an assignee for benefit of
creditors from the time of assignment, and a trustee in
bankruptcy from the date of the filing of the petition or a
receiver in equity from the time of appointment.

(4) A person who becomes a lien creditor while a
security interest is perfected takes subject to the
security interest only to the extent that it secures
advances made before becoming a lien creditor or within

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45 days thereafter, or made without knowledge of the lien or
pursuant to a commitment entered into without knowledge of
the lien."

Section 21. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 922
of subchapter III to read as follows:

"Section 922. When filing is required to perfect security
interest; Security interests to which filing provisions of
this chapter do not apply.

(1) A financing statement must be filed to perfect
all security interests except the following:

(a) a security interest in collateral in
possession of the secured party under section 925;

(b) a security interest temporarily perfected in
instruments or documents without delivery under section
924 or in proceeds for a 10-day period under section 926;

(c) a security interest created by an assignment
of a beneficial interest in a trust or a decedent's estate;

(d) a purchase money security interest in
consumer goods; but filing is required for a motor vehicle
required to be registered; and fixture filing is required
for priority over conflicting interests in fixtures to the
extent provided in section 933;

(e) an assignment of accounts which does not
alone or in conjunction with other assignments to the same
assignee transfer a significant part of the outstanding
accounts of the assignor; and

(f) an assignment for the benefit of all the
creditors of the transferor, and subsequent transfers by
the assignee thereunder.

(2) If a secured party assigns a perfected security
interest, no filing under this chapter is required in order
to continue the perfected status of the security interest
against creditors of and transferees from the original
deberor."

Section 22. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 923
of subchapter III to read as follows:

"Section 923. When security interest is perfected;
Continuity of perfection.

(1) A security interest is perfected when it has
attached and when all of the applicable steps required for
perfection have been taken. Such steps are specified in
sections 922, 924, 925 and 926 of this chapter. If
such steps are taken before the security interest attaches,
it is perfected at the time when it attaches.

(2) If a security interest is originally perfected in
any way permitted under this chapter and is subsequently
perfected in some other way under this chapter, without an
intermediate period when it was unperfected, the
security interest shall be deemed to be perfected 
continuously for the purposes of this 
chapter."

Section 23. Chapter 9 of title 33 of the Code of the 
Federated States of Micronesia is hereby amended by adding a new 
section 924 of subchapter III to read as follows:

"Section 924. Perfection of security interest in 
instruments, documents, and goods covered by 
documents; Perfection by permissive filing; Temporary 
perfection without filing or transfer of possession. 

(1) A security interest in chattel paper or 
negotiable documents may be perfected by filing. A 
security interest in money or instruments (other than 
certificated securities or instruments which 
constitute part of chattel paper) can be perfected 
only by the secured party's taking possession, except 
as provided in subsections (4) and (5) of this section 
and subsections (2) and (3) of section 926 on proceeds 

(2) During the period that goods are in the 
possession of the issuer of a negotiable document 
therefor, a security interest in the goods is 
perfected by perfecting a security interest in the 
document, and any security interest in the 
goods otherwise perfected during such period is 
subject thereto.
(3) A security interest in goods in the possession of a bailee other than one who has issued a negotiable document therefor is perfected by issuance of a document in the name of the secured party or by the bailee’s receipt of notification of the secured party’s interest or by filing as to the goods.

(4) A security interest in instruments (other than certificated securities) or negotiable documents is perfected without filing or the taking of possession for a period of 21 days from the time it attaches to the extent that it arises for new value given under a written security agreement.

(5) A security interest remains perfected for a period of 21 days without filing where a secured party having a perfected security interest in an instrument (other than a certificated security), a negotiable document or goods in possession of a bailee other than one who has issued a negotiable document therefor:

(a) makes available to the debtor the goods or documents representing the goods for the purpose of ultimate sale or exchange or for the purpose of loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with them in a manner preliminary to their sale or exchange, but priority between conflicting security interests in the goods is subject to subsection
(3) of section 932; or

(b) delivers the instrument to the debtor for
the purpose of ultimate sale or exchange or of
presentation, collection, renewal or registration of
transfer.

(6) After the 21-day period in subsections (4) and
(5) perfection depends upon compliance with applicable
provisions of this chapter."

Section 24. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 925
of subchapter III to read as follows:

"Section 925. When possession by secured party perfects
security interest without filing. A security interest in
letters of credit and advices of credit, goods, instruments
(other than certificated securities), money, negotiable
documents, or chattel paper may be perfected by the secured
party's taking possession of the collateral. If such
collateral other than goods covered by a negotiable
document is held by a bailee, the secured party is deemed
to have possession from the time the bailee receives
notification of the secured party's interest. A security
interest is perfected by possession from the time
possession is taken without a relation back and continues
only so long as possession is retained, unless otherwise
specified in this chapter. The security interest may be
otherwise perfected as provided in this chapter before or
after the period of possession by the secured party."

Section 25. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 926
of subchapter III to read as follows:

"Section 926. 'Proceeds'; Secured party's rights on
disposition of collateral.

(1) 'Proceeds' includes whatever is received upon the
sale, exchange, collection or other disposition of
collateral or proceeds. Insurance payable by reason of
loss or damage to the collateral is proceeds, except to the
extent that it is payable to a person other than a party to
the security agreement. Money, checks, deposit accounts
and the like are 'cash proceeds.' All other proceeds are
'non-cash proceeds.'

(2) Except where this chapter otherwise provides, a
security interest continues in collateral notwithstanding
sale, exchange or other disposition thereof unless the
disposition was authorized by the secured party in the
security agreement or otherwise, and also continues in any
identifiable proceeds including collections received by
the debtor.

(3) The security interest in proceeds is a
continuously perfected security interest if the interest in
the original collateral was perfected but it ceases to be a
perfected security interest and becomes unperfected 10
days after receipt of the proceeds by the debtor unless:

(a) a filed financing statement covers the
original collateral and the proceeds are collateral in
which a security interest may be perfected by filing in the
office or offices where the financing statement has been
filed and, if the proceeds are acquired with cash proceeds,
the description of collateral in the financing statement
indicates the types of property constituting the proceeds;
or

(b) a filed financing statement covers the
original collateral and the proceeds are identifiable cash
proceeds; or

(c) the security interest in the proceeds is
perfected before the expiration of the 10-day period.

Except as provided in this section, a security interest in
proceeds can be perfected only by the methods or under the
circumstances permitted in this chapter for original
collateral of the same type.

(4) In the event of insolvency proceedings instituted
by or against a debtor, a secured party with a perfected
security interest in proceeds has a perfected security
interest only in the following proceeds:

(a) in identifiable non-cash proceeds and in
separate deposit accounts containing only proceeds;
(b) in identifiable cash proceeds in the form of money which is neither commingled with other money nor deposited in a deposit account prior to the insolvency proceedings;

(c) in identifiable cash proceeds in the form of checks and the like which are not deposited in a deposit account prior to the insolvency proceedings; and

(d) in all cash and deposit accounts of the debtor in which proceeds have been commingled with other funds, but the perfected security interest under this paragraph (d) is:

(i) subject to any right to setoff; and

(ii) limited to an amount not greater than the amount of any cash proceeds received by the debtor within 10 days before the institution of the insolvency proceedings less the sum of:

a) the payments to the secured party on account of cash proceeds received by the debtor during such period and

b) the cash proceeds received by the debtor during such period to which the secured party is entitled under paragraphs (a) through (c) of this subsection (4).

(5) If a sale of goods results in an account or chattel paper which is transferred by the seller to a secured party, and if the goods are returned to or are repossessed by the seller or the secured party, the
following rules determine priorities:

(a) If the goods were collateral at the time of
sale, for an indebtedness of the seller which is still
unpaid, the original security interest attaches again to
the goods and continues as a perfected security interest if
it was perfected at the time when the goods were sold. If
the security interest was originally perfected by a filing
which is still effective, nothing further is required to
continue the perfected status; in any other case, the
secured party must take possession of the returned or
repossessed goods or must file.

(b) An unpaid transferee of the chattel paper
has a security interest in the goods against the
transferor. Such security interest is prior to a security
interest asserted under paragraph (a) to the extent that
the transferee of the chattel paper was entitled to
priority under section 928.

(c) An unpaid transferee of the account has a
security interest in the goods against the transferor.
Such security interest is subordinate to a security
interest asserted under paragraph (a).

(d) A security interest of an unpaid transferee
asserted under paragraph (b) or (c) must be perfected for
protection against creditors of the transferor and
purchasers of the returned or reposessed goods."
Section 26. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 927 of subchapter III to read as follows:

"Section 927. Protection of buyers of goods.

(1) A buyer in the ordinary course of business other than a person buying farm products from a person engaged in farming operations takes free of a security interest created by the seller even though the security interest is perfected and even though the buyer knows of its existence.

(2) In the case of consumer goods, a buyer takes free of a security interest even though perfected if he or she buys without knowledge of the security interest, for value and for the buyer's own personal, family or household purposes unless prior to the purchase the secured party has filed a financing statement covering such goods.

(3) A buyer other than a buyer in ordinary course of business (subsection (1) of this section) takes free of a security interest to the extent that it secures future advances made after the secured party acquires knowledge of the purchase, or more than 45 days after the purchase, whichever first occurs, unless made pursuant to a commitment entered into without knowledge of the purchase and before the expiration of the 45-day period."

Section 27. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 928
of subchapter III to read as follows:

"Section 928. Purchase of chattel paper and instruments. A purchaser of chattel paper or an instrument who gives new value and takes possession of it in the ordinary course of business has priority over a security interest in the chattel paper or instrument:

(a) which is perfected under section 924 (permissive filing and temporary perfection) or under section 926 (perfection as to proceeds) if the purchaser acts without knowledge that the specific paper or instrument is subject to a security interest; or

(b) which is claimed merely as proceeds of inventory subject to a security interest (section 926) even though the purchaser knows that the specific paper or instrument is subject to the security interest."

Section 28. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 929 of subchapter III to read as follows:

"Section 929. Protection of purchasers of instruments, documents, and securities. Nothing in this chapter limits the rights of a holder in due course of a negotiable instrument or a holder to whom a negotiable document of title has been duly negotiated or a bona fide purchaser of a security and the holders or purchasers take priority over an earlier security interest even though perfected. Filing
under this chapter does not constitute notice of the
security interest to such holders or purchasers."

Section 29. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 930
of subchapter III to read as follows:

"Section 930. Priority of certain liens arising by
operation of law. When a person in the ordinary course of
business furnishes services or materials with respect
to goods subject to a security interest, a lien upon goods
in the possession of such person given by statute or rule
of law for such materials or services takes priority over a
perfected security interest unless the lien is statutory
and the statute expressly provides otherwise."

Section 30. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 931
of subchapter III to read as follows:

"Section 931. Alienability of debtor's rights; Judicial
process. The debtor's rights in collateral may be
voluntarily or involuntarily transferred (by way of sale,
creation of a security interest, attachment, levy,
garnishment or other judicial process) notwithstanding a
provision in the security agreement prohibiting any
transfer or making the transfer constitute a default."

Section 31. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 932
of subchapter III to read as follows:

"Section 932. Priorities among conflicting security
interests in the same collateral.

(1) The rules of priority stated in other sections of
this subchapter and in section 909 shall govern when
applicable.

(2) A perfected security interest in crops for new
value given to enable the debtor to produce the crops
during the production season and given not more than 3
months before the crops become growing crops by planting or
otherwise takes priority over an earlier perfected security
interest to the extent that such earlier interest secures
obligations due more than 6 months before the crops
become growing crops by planting or otherwise, even though
the person giving new value had knowledge of the earlier
security interest.

(3) A perfected purchase money security interest in
inventory has priority over a conflicting security interest
in the same inventory and also has priority in identifiable
cash proceeds received on or before the delivery of the
inventory to a buyer if:

(a) the purchase money security interest is
perfected at the time the debtor receives possession of the
inventory; and

(b) the purchase money secured party gives
notification in writing to the holder of the conflicting
security interest if the holder had filed a financing
statement covering the same types of inventory;

(i) before the date of the filing made by
the purchase money secured party, or:

(ii) before the beginning of the 21-day
period where the purchase money security interest is
temporarily perfected without filing or possession
(subsection (5) of section 924); and

(c) the holder of the conflicting security
interest receives the notification within 5 years before
the debtor receives possession of the inventory; and

(d) the notification states that the person
giving the notice has or expects to acquire a purchase
money security interest in inventory of the debtor,
describing such inventory by items or type.

(4) A purchase money security interest in collateral
other than inventory has priority over a conflicting
security interest in the same collateral or its proceeds if
the purchase money security interest is perfected at the
time the debtor receives possession of the collateral or
within 10 days thereafter.

(5) In all cases not governed by other rules stated
in this section (including cases of purchase money security
interests which do not qualify for the special priorities
set forth in subsections (3) and (4) of this section),

priority between conflicting security interests in the same
collateral shall be determined according to the following
rules:

(a) Conflicting security interests rank
according to priority in time of filing or perfection.
Priority dates from the time a filing is first made
covering the collateral or the time the security interest
is first perfected, whichever is earlier, provided that
there is no period thereafter when there is neither filing
nor perfection.

(b) So long as conflicting security interests
are unperfected, the first to attach has priority.

(6) For the purposes of subsection (5) a date of
filing or perfection as to collateral is also a date of
filing or perfection as to proceeds.

(7) If future advances are made while a security
interest is perfected by filing or the taking of
possession, the security interest has the same priority for
the purposes of subsection (5) with respect to the future
advances as it does with respect to the first advance. If
a commitment is made before or while the security interest
is so perfected, the security interest has the same
priority with respect to advances made pursuant thereto.

In other cases a perfected security interest has priority
from the date the advance is made."

Section 32. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 933
of subchapter III to read as follows:

"Section 933. Priority of security interests in fixtures.

(1) In this section and in the provisions of
subchapter IV of this chapter referring to fixture filing,
unless the context otherwise requires:

(a) goods are 'fixtures' when they become so
related to particular real estate that an interest in them
arises under real estate law;

(b) a 'fixture filing' is the filing in the
office where a mortgage on the real estate would be filed
or recorded of a financing statement covering goods which
are or are to become fixtures and conforming to the
requirements of subsection (5) of section 942;

(c) a mortgage is a 'construction mortgage' to
the extent that it secures an obligation incurred for the
construction of an improvement on land including the
acquisition cost of the land, if the recorded writing so
indicates.

(2) A security interest under this chapter may be
created in goods which are fixtures or may continue in
goods which become fixtures, but no security interest
exists under this chapter in ordinary building materials
incorporated into an improvement on land.

(3) This chapter does not prevent creation of an encumbrance upon fixtures pursuant to real estate law.

(4) A perfected security interest in fixtures has priority over the conflicting interest of an encumbrancer or owner of the real estate where:

(a) the security interest is a purchase money security interest, the interest of the encumbrancer or owner arises before the goods become fixtures, the security interest is perfected by a fixture filing before the goods become fixtures or within 10 days thereafter, and the debtor has an interest of record in the real estate or is in possession of the real estate; or

(b) the security interest is perfected by a fixture filing before the interest of the encumbrancer or owner is of record, the security interest has priority over any conflicting interest of a predecessor in title of the encumbrancer or owner, and the debtor has an interest of record in the real estate or is in possession of the real estate; or

(c) the fixtures are readily removable factory or office machines or readily removable replacements of domestic appliances which are consumer goods, and before the goods become fixtures the security interest is perfected by any method permitted by this chapter; or

(d) the conflicting interest is a lien on the real
incorporated into an improvement on land.

(3) This chapter does not prevent creation of an encumbrance upon fixtures pursuant to real estate law.

(4) A perfected security interest in fixtures has priority over the conflicting interest of an encumbrancer or owner of the real estate where:

(a) the security interest is a purchase money security interest, the interest of the encumbrancer or owner arises before the goods become fixtures, the security interest is perfected by a fixture filing before the goods become fixtures or within 10 days thereafter, and the debtor has an interest of record in the real estate or is in possession of the real estate; or

(b) the security interest is perfected by a fixture filing before the interest of the encumbrancer or owner is of record, the security interest has priority over any conflicting interest of a predecessor in title of the encumbrancer or owner, and the debtor has an interest of record in the real estate or is in possession of the real estate; or

(c) the fixtures are readily removable factory or office machines or readily removable replacements of domestic appliances which are consumer goods, and before the goods become fixtures the security interest is perfected by any method permitted by this chapter; or

(d) the conflicting interest is a lien on the real
estate obtained by legal or equitable proceedings after the
security interest was perfected by any method permitted by
this chapter.

(5) A security interest in fixtures, whether or not
perfected, has priority over the conflicting interest of an
encumbrancer or owner of the real estate where:

(a) the encumbrancer or owner has consented in
writing to the security interest or has disclaimed an
interest in the goods as fixtures; or

(b) the debtor has a right to remove the goods
as against the encumbrancer or owner. If the debtor's
right terminates, the priority of the security interest
continues for a reasonable time.

(6) Notwithstanding paragraph (a) of subsection (4),
but otherwise subject to subsections (4) and (5), a
security interest in fixtures is subordinate to a
construction mortgage recorded before the goods become
fixtures if the goods become fixtures before the completion
of the construction. To the extent that it is given to
refinance a construction mortgage, a mortgage has this
priority to the same extent as the construction mortgage.

(7) In cases not within the preceding subsections, a
security interest in fixtures is subordinate to the
conflicting interest of an encumbrancer or owner of the
related real estate who is not the debtor.
When the secured party has priority over all owners and encumbrancers of the real estate, he or she may, on default, subject to the provisions of subchapter V, remove his or her collateral from the real estate but the secured party must reimburse any encumbrancer or owner of the real estate who is not the debtor and who has not otherwise agreed for the cost of repair of any physical injury, but not for any diminution in value of the real estate caused by the absence of the goods removed or by any necessity of replacing them. A person entitled to reimbursement may refuse permission to remove until the secured party gives adequate security for the performance of this obligation."

Section 33. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 934 of subchapter III to read as follows:

"Section 934. Accessions.

(1) A security interest in goods which attaches before they are installed in or affixed to other goods takes priority as to the goods installed or affixed (called in this section 'accessions') over the claims of all persons to the whole except as stated in subsection (3) and subject to section 935(1).

(2) A security interest which attaches to goods after they become part of a whole is valid against all persons
subsequently acquiring interests in the whole except as stated in subsection (3) but is invalid against any person with an interest in the whole at the time the security interest attaches to the goods who has not in writing consented to the security interest or disclaimed an interest in the goods as part of the whole.

(3) The security interests described in subsections (1) and (2) do not take priority over:

(a) a subsequent purchaser for value of any interest in the whole; or

(b) a creditor with a lien on the whole subsequently obtained by judicial proceedings; or

(c) a creditor with a prior perfected security interest in the whole to the extent that the creditor makes subsequent advances;

if the subsequent purchase is made, the lien by judicial proceedings obtained or the subsequent advance under the prior perfected security interest is made or contracted for without knowledge of the security interest and before it is perfected. A purchaser of the whole at a foreclosure sale other than the holder of a perfected security interest purchasing at the holder's own foreclosure sale is a subsequent purchaser within this section.

(4) When under subsections (1) or (2) and (3) a secured party has an interest in accessions which has
priority over the claims of all persons who have interests
in the whole, such party may on default subject to the
provisions of subchapter V remove his or her collateral
from the whole but the secured party must reimburse any
encumbrancer or owner of the whole who is not the debtor
and who has not otherwise agreed for the cost of repair of
any physical injury but not for any diminution in value of
the whole caused by the absence of the goods removed or by
any necessity for replacing them. A person entitled to
reimbursement may refuse permission to remove until the
secured party gives adequate security for the performance
of this obligation."

Section 34. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 935
of subchapter III to read as follows:

"Section 935. Priority when goods are commingled or
processed.

(1) If a security interest in goods was perfected and
subsequently the goods or a part thereof have become part
of a product or mass, the security interest continues in
the product or mass if:

(a) the goods are so manufactured, processed,
assembled or commingled that their identity is lost in the
product or mass; or

(b) a financing statement covering the original
goods also covers the product into which the goods have
been manufactured, processed or assembled.

In a case to which paragraph (b) applies, no separate
security interest in that part of the original goods which
has been manufactured, processed or assembled into the
product may be claimed under section 934.

(2) When under subsection (1) more than one security
interest attaches to the product or mass, they rank equally
according to the ratio that the cost of the goods to which
each interest originally attached bears to the cost of the
total product or mass."

Section 35. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 936
of subchapter III to read as follows:

"Section 936. Priority subject to subordination. Nothing
in this chapter prevents subordination by agreement by any
person entitled to priority."

Section 36. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 937
of subchapter III to read as follows:

"Section 937. Secured party not obligated on contract of
debtor. The mere existence of a security interest or
authority given to the debtor to dispose of or use
collateral does not impose contract or tort liability upon
the secured party for the debtor's acts or omissions."
Section 37. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 938
of subchapter III to read as follows:

"Section 938. Defenses against assignee; Modification of
contract after notification of assignment; Term prohibiting
assignment ineffective; Identification and proof of assignment.

(1) Unless an account debtor has made an enforceable
agreement not to assert defenses or claims arising out of a
sale as provided in section 916 the rights of an assignee
are subject to:

(a) all the terms of the contract between the
account debtor and assignor and any defense or claim
arising therefrom; and

(b) any other defense or claim of the account
debtor against the assignor which accrues before the
account debtor receives notification of the assignment.

(2) So far as the right to payment or a part thereof
under an assigned contract has not been fully earned by
performance, and notwithstanding notification of the
assignment, any modification of or substitution for the
contract made in good faith and in accordance with reasonable
commercial standards is effective against an assignee unless
the account debtor has otherwise agreed but the assignee
acquires corresponding rights under the modified or
substituted contract. The assignment may provide that such
modification or substitution is a breach by the assignor.

(3) The account debtor is authorized to pay the assignor until the account debtor receives notification that the amount due or to become due has been assigned and that payment is to be made to the assignee. A notification which does not reasonably identify the rights assigned is ineffective. If requested by the account debtor, the assignee must reasonably furnish reasonable proof that the assignment has been made and unless the assignee does so the account debtor may pay the assignor.

(4) A term in any contract between an account debtor and an assignor is ineffective if it prohibits assignment of an account or prohibits creation of a security interest in a general intangible for money due or to become due or requires the account debtor's consent to such assignment or security interest."

Section 38. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 941 of subchapter IV to read as follows:

"Section 941. Place of filing; Erroneous filing; Removal of collateral.

(1) The proper place to file in order to perfect a security interest is as follows:

(a) when the collateral is timber to be cut or is minerals or the like (including oil and gas), or when
the financing statement is filed as a fixture filing
(section 933) and the collateral is goods which are or
are to become fixtures, then in the office where a mortgage
on the real estate would be filed or recorded;
(b) in all other cases, in the office of the
Registrar of Corporations in the Department of Resources
and Development.
(2) A filing which is made in good faith in an
improper place or not in all of the places required by this
section is nevertheless effective with regard to any
collateral as to which the filing complied with the
requirements of this chapter and is also effective with
regard to collateral covered by the financing statement
against any person who has knowledge of the contents of
such financing statement.
(3) A filing which is made in the proper place continues
effective even though the debtor's residence or place of
business or the location of the collateral or its use, whichever
controlled the original filing, is thereafter changed.
(4) Notwithstanding the preceding subsections, and
subject to subsection (3) of section 922, the proper place
to file in order to perfect a security interest in
collateral, including fixtures, of a transmitting utility
is the office of the Registrar of Corporations in the
Department of Resources and Development. This filing
constitutes a fixture filing (section 933) as to the
collateral described therein which is or is to become
fixtures."

Section 39. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 942
of subchapter IV to read as follows:

"Section 942. Formal requisites of financing statement;
Amendments; Mortgage as financing statement.

(1) A financing statement is sufficient if it gives
the names of the debtor and the secured party, is signed by
the debtor, gives an address of the secured party from
which information concerning the security interest may be
obtained, gives a mailing address of the debtor and
contains a statement indicating the types, or describing
the items, of collateral. A financing statement may be
filed before a security agreement is made or a security
interest otherwise attaches. When the financing statement
covers crops growing or to be grown, the statement must
also contain a description of the real estate concerned.
When the financing statement covers timber to be cut or
covers minerals or the like (including oil and gas), or
when the financing statement is filed as a fixture filing
(section 933) and the collateral is goods which are or are
to become fixtures, the statement must also comply with
subsection (5). A copy of the security agreement is
sufficient as a financing statement if it contains the 
above information and is signed by the debtor. A carbon, 
photographic or other reproduction of a security agreement 
or a financing statement is sufficient as a financing 
statement if the security agreement so provides or if the 
original has been filed in the Federated States of 
Micronesia.

(2) A financing statement which otherwise complies 
with subsection (1) is sufficient when it is signed by the 
secured party instead of the debtor if it is filed to 
perfect a security interest in:

(a) collateral already subject to a security 
interest in another jurisdiction when it is brought into 
the Federated States of Micronesia, or when the debtor's 
location is changed to the Federated States of Micronesia. 
Such a financing statement must state that the collateral 
was brought into the Federated States of Micronesia or that 
the debtor's location was changed to the Federated states 
of Micronesia under such circumstances; or 

(b) proceeds under section 926 if the security 
interest in the original collateral was perfected. Such a 
financing statement must describe the original collateral; or 

(c) collateral as to which the filing has lapsed; 
or 

(d) collateral acquired after a change of name.
Identity or corporate structure of the debtor (subsection (7)).

(3) A form substantially as follows is sufficient to comply with subsection (1):
Name of debtor (or assignor): ..............................................
Address: ...........................................................................
Name of secured party (or assignee): .................................
Address: ...........................................................................

1. This financing statement covers the following types (or items) of property: (Describe) .................................

2. (If collateral is crops) The above described crops are growing or are to be grown on: (Describe Real Estate) ....

3. (If applicable) The above goods are to become fixtures on: (Describe Real Estate) .... and this financing statement is to be filed in the real estate records. (If the debtor does not have an interest of record) The name of a record owner is: ..............

4. (If products of collateral are claimed) Products of the collateral are also covered.

(use  ..............................................................................
whichever Signature of Debtor (or Assignor)
is ..............................................................................
apPLICABLE) Signature of Secured Party (or Assignee)

(4) A financing statement may be amended by filing a writing signed by both the debtor and the secured party. An
amendment does not extend the period of effectiveness of a
financing statement. If any amendment adds collateral, it
is effective as to the added collateral only from the
filing date of the amendment. In this chapter, unless the
context otherwise requires, the term 'financing statement'
means the original financing statement and any amendments.

(5) A financing statement covering timber to be cut
or covering minerals or the like (including oil and gas),
or a financing statement filed as a fixture filing (section
933) where the debtor is not a transmitting utility, must
show that it covers this type of collateral, must recite
that it is to be filed in the real estate records, and the
financing statement must contain a description of the real
estate sufficient if it were contained in a mortgage of the
real estate to give constructive notice of the mortgage
under the laws of the State in which the real estate is
located. If the debtor does not have an interest of record
in the real estate, the financing statement must show the
name of a record owner.

(6) A mortgage is effective as a financing statement
filed as a fixture filing from the date of its recording if:

(a) the goods are described in the mortgage by
item or type; and

(b) the goods are or are to become fixtures
related to the real estate described in the mortgage; and
(c) the mortgage complies with the requirements
for a financing statement in this section other than a
recital that it is to be filed in the real estate records;
and

(d) the mortgage is duly recorded.

(7) A financing statement sufficiently shows the name
of the debtor if it gives the individual, partnership or
corporate name of the debtor, whether or not it adds other
trade names or names of partners. Where the debtor so
changes his or her name or in the case of an organization
its name, identity or corporate structure that a filed
financing statement becomes seriously misleading, the
filing is not effective to perfect a security interest in
collateral acquired by the debtor more than 4 months
after the change, unless a new appropriate financing
statement is filed before the expiration of that time. A
filed financing statement remains effective with respect to
collateral transferred by the debtor even though the
secured party knows of or consents to the transfer.

(8) A financing statement substantially complying
with the requirements of this section is effective even
though it contains minor errors which are not seriously
misleading."

Section 40. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 943
of subchapter IV to read as follows:

"Section 943. What constitutes filing; Duration of
filing; Effect of lapsed filing; Duties of filing
officer.

(1) Presentation for filing of a financing
statement and tender of the filing fee or acceptance of
the statement by the filing officer constitutes filing
under this chapter.

(2) Except as provided in subsection (6) a filed
financing statement is effective for a period of 5 years
from the date of filing. The effectiveness of a filed
financing statement lapses on the expiration of the 5-
year period unless a continuation statement is filed
prior to the lapse. If a security interest perfected by
filing exists at the time insolvency proceedings are
commenced by or against the debtor, the security
interest remains perfected until termination of the
insolvency proceedings and thereafter for a period of 60
days or until expiration of the 5-year period, whichever
occurs later. Upon lapse the security interest becomes
unperfected, unless it is perfected without filing. If
the security interest becomes unperfected upon lapse, it
is deemed to have been unperfected as against a person
who became a purchaser or lien creditor before lapse.

(3) A continuation statement may be filed by the
secured party within 6 months prior to the expiration of
the 5-year period specified in subsection (2). Any such
continuation statement must be signed by the secured party,
identify the original statement by file number and state
that the original statement is still effective. A
continuation statement signed by a person other than the
secured party of record must be accompanied by a separate
written statement of assignment signed by the secured party
of record and complying with subsection (2) of section
945, including payment of the required fee. Upon timely
filing of the continuation statement, the effectiveness of
the original statement is continued for 5 years after
the last date to which the filing was effective whereupon
it lapses in the same manner as provided in subsection (2)
unless another continuation statement is filed prior to
such lapse. Succeeding continuation statements may be
filed in the same manner to continue the effectiveness of
the original statement. Unless a statute on disposition of
public records provides otherwise, the filing officer may
remove a lapsed statement from the files and destroy it
immediately if the filing officer has retained a microfilm or
other photographic record, or in other cases after 1 year after
the lapse. The filing officer shall so arrange matters by
physical annexation of financing statements to continuation
statements or other related filings, or by other means.
that if the officer physically destroys the financing
statements of a period more than 5 years past, those
which have been continued by a continuation statement or
which are still effective under subsection (6) shall be
retained.

(4) Except as provided in subsection (7) a filing
officer shall mark each statement with a file number and
with the date and hour of filing and shall hold the
statement or a microfilm or other photographic copy thereof
for public inspection. In addition the filing officer
shall index the statement according to the name of the
debtor and shall note in the index the file number and the
address of the debtor given in the statement.

(5) The uniform fee for filing and indexing and for
stamping a copy furnished by the secured party to show the
date and place of filing for an original financing
statement or for a continuation statement shall be $25 if
the statement is in the standard form prescribed by the
Secretary of Resources and Development and otherwise shall
be $50, plus in each case, if the financing statement is
subject to subsection (5) of section 942, §50. The
uniform fee for each name more than one required to be
indexed shall be $10. The secured party may at his or her
option show a trade name for any person and an extra uniform
indexing fee of $10 shall be paid with respect thereto.
(6) If the debtor is a transmitting utility
(subsection (5) of section 941) and a filed financing
statement so states, it is effective until a termination
statement is filed. A real estate mortgage which is
effective as a fixture filing under subsection (6) of
section 942 remains effective as a fixture filing until
the mortgage is released or satisfied of record or its
effectiveness otherwise terminates as to the real estate.

(7) When a financing statement covers timber to be
cut or covers minerals or the like (including oil and gas),
or is filed as a fixture filing, it shall be filed for record
and the filing officer shall index it under the names of
the debtor and any owner of record shown on the financing
statement in the same fashion as if they were the
mortgagors in a mortgage of the real estate described, and,
to the extent that the law of the State in which the real
estate is located provides for indexing of mortgages under
the name of the mortgagee, under the name of the secured
party as if such party were the mortgagee thereunder, or where
indexing is by description in the same fashion as if the
financing statement were a mortgage of the real estate
described."

Section 41. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 944
of subchapter IV to read as follows:
"Section 944. Termination statement.

(1) If a financing statement covering consumer goods
is filed on or after the effective date of this chapter,
then within 1 month or within 10 days following written
demand by the debtor after there is no outstanding secured
obligation and no commitment to make advances, incur
obligations or otherwise give value, the secured party must
file with each filing officer with whom the financing
statement was filed, a termination statement to the effect
that the secured party no longer claims a security interest under
the financing statement, which shall be identified by file
number. In other cases whenever there is no outstanding
secured obligation and no commitment to make advances,
incurred obligations or otherwise give value, the secured
party must on written demand by the debtor send the debtor,
for each filing officer with whom the financing statement
was filed, a termination statement to the effect that the
secured party no longer claims a security interest under the
financing statement, which shall be identified by file number.

A termination statement signed by a person other than the
secured party of record must be accompanied by a separate
written statement of assignment signed by the secured party
of record complying with subsection (2) of section 945,
including payment of the required fee. If the affected
secured party fails to file such a termination statement as
required by this subsection, or to send such a termination
statement within 10 days after proper demand therefore,
the secured party shall be liable to the debtor for $100, and
in addition for any loss caused to the debtor by such failure.

(2) On presentation to the filing officer of such a
termination statement the filing officer must note it in the index.
If the filing officer has received the termination statement in
duplicate, he or she shall return one copy of the termination
statement to the secured party stamped to show the time of receipt
thereof. If the filing officer has a microfilm or other photographic
record of the financing statement, and of any related continuation
statement, statement of assignment and statement of release, the
filing officer may remove the originals from the files at any time
after receipt of the termination statement, or if there is no such
record, the filing officer may remove them from the files at any time
after 1 year after receipt of the termination statement.

(3) If the termination is in the standard form
prescribed by the Secretary of Resources and Development,
the uniform fee for filing and indexing the termination
statement shall be $25, and otherwise shall be $50, plus in
each case an additional fee of $10 for each name more than
one against which the termination statement is required to
be indexed.”

Section 42. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 945
of subchapter IV to read as follows:

"Section 945. Assignment of security interest; Duties of filing officer; Fees.

(1) A financing statement may disclose an assignment of a security interest in the collateral described in the financing statement by indication in the financing statement of the name and address of the assignee or by an assignment itself or a copy thereof on the face or back of the statement. On presentation to the filing officer of such a financing statement the filing officer shall mark the same as provided in section 943(4). The uniform fee for filing, indexing and furnishing filing data for a financing statement so indicating an assignment shall be $10 if the statement is in the standard form prescribed by the Secretary of Resources and Development and otherwise shall be $25, plus in each case an additional fee of $10 for each name more than one against which the financing statement is required to be indexed.

(2) A secured party may assign of record all or part of his or her rights under a financing statement by the filing in the place where the original financing statement was filed of a separate written statement of assignment signed by the secured party of record and setting forth the name of the secured party of record and the debtor, the file number and the date of filing of the financing
statement and the name and address of the assignee and
containing a description of the collateral assigned. A
copy of the assignment is sufficient as a separate
statement if it complies with the preceding sentence. On
presentation to the filing officer of such a separate
statement, the filing officer shall mark such separate
statement with the date and hour of the filing. The filing
officer shall note the assignment on the index of the
financing statement, or in the case of a fixture filing, or
a filing covering timber to be cut, or covering minerals
or the like (including oil and gas), the filing officer
shall index the assignment under the name of the assignor
as grantor and, to the extent that the law of the State in
which the related real estate is located provides for
indexing the assignment of a mortgage under the name of the
assignee, the filing officer shall index the assignment of
the financing statement under the name of the assignee.
The uniform fee for rilling, indexing and furnishing filing
data about such a separate statement of assignment shall be
$10 if the statement is in the standard form prescribed by
the Secretary of Resources and Development and otherwise
shall be $25, plus in each case an additional fee of $10
for each name more than one against which the statement of
assignment is required to be indexed. Notwithstanding the
provisions of this subsection, an assignment of record of
a security interest in a fixture contained in a mortgage
effective as a fixture filing (subsection (6) of section
942) may be made only by an assignment of the mortgage in
the manner provided by the law of the State in which the
related real estate is located other than as provided in
this act.

(3) After the disclosure or filing of an assignment
under this section, the assignee is the secured party of
record."

Section 43. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 946
of subchapter IV to read as follows:

"Section 946. Release of collateral; Duties of filing
officer; Fees. A secured party of record may by signed
statement release all or a part of any collateral described
in a filed financing statement. The statement of release
is sufficient if it contains a description of the
collateral being released, the name and address of the
debtor, the name and address of the secured party, and the
file number of the financing statement. A statement of
release signed by a person other than the secured party of
record must be accompanied by a separate written statement
of assignment signed by the secured party of record and
complying with subsection (2) of section 945, including
payment of the required fee. Upon presentation of such a
statement of release to the filing officer the filing officer shall mark the statement with the hour and date of filing and shall note the same upon the margin of the index of the filing of the financing statement. The uniform fee for filing and noting such a statement of release shall be $10 if the statement is in the standard form prescribed by the Secretary of Resources and Development and otherwise shall be $25, plus in each case an additional fee of $10 for each name more than one against which the statement of release is required to be indexed."

Section 44. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 948 of subchapter IV to read as follows:

"Section 948. Financing statements covering consigned or leased goods. A consignor or lessor of goods may file a financing statement using the terms 'consignor,' 'consignee,' 'lessee,' 'lessee' or the like instead of the terms specified in section 942. The provisions of this subchapter shall apply as appropriate to such a financing statement but its filing shall not of itself be a factor in determining whether or not the consignment or lease is intended as security. However, if it is determined for other reasons that the consignment or lease is so intended, a security interest of the consignor or lessor which attaches to the consigned or leased goods is perfected by such filing."
Section 45. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 951
of subchapter V to read as follows:

"Section 951. Default; Procedure when security agreement
covers both real and personal property.

(1) When a debtor is in default under a security agreement,
a secured party has the rights and remedies provided in this
subchapter and except as limited by subsection (3) those provided in
the security agreement. The debtor may reduce his or her claim to
judgment, foreclose or otherwise enforce the security interest
by any available judicial procedure. If the collateral is
documented the secured party may proceed either as to the
documents or as to the goods covered thereby. A secured party
in possession has the rights, remedies and duties provided in
section 927. The rights and remedies referred to in this
subsection are cumulative.

(2) After default, the debtor has the rights and
remedies provided in this subchapter, those provided in the
security agreement and those provided in section 917.

(3) To the extent that they give rights to the debtor
and impose duties on the secured party, the rules stated in
the subsections referred to below may not be waived or
varied except as provided with respect to compulsory
disposition of collateral (subsection (3) of section 954
and section 955) and with respect to redemption of
collateral (section 956) but the parties may by agreement
determine the standards by which the fulfillment of these
rights and duties is to be measured if such standards are
not manifestly unreasonable:

(a) subsection (2) of section 952 and
subsection (2) of section 954 insofar as they require
accounting for surplus proceeds of collateral;

(b) subsection (3) of section 954 and
subsection (1) of section 955 which deal with disposition
of collateral;

(c) subsection (2) of section 955 which deals
with acceptance of collateral as discharge of obligation;

(d) section 956 which deals with redemption of
collateral; and

(e) subsection (1) of section 957 which deals
with the secured party's liability for failure to comply
with this subchapter.

(4) If the security agreement covers both real and
personal property, the secured party may proceed under this
subchapter as to the personal property or the secured party
may proceed as to both the real and the personal property
in accordance with his or her rights and remedies in
respect of the real property in which case the provisions
of this subchapter do not apply.

(5) When a secured party has reduced his or her claim to
judgment the lien of any levy which may be made upon the
secured party’s collateral by virtue of any execution based
upon the judgment shall relate back to the date of the
perfection of the security interest in such collateral. A
judicial sale, pursuant to such execution, is a foreclosure of
the security interest by judicial procedure within the meaning
of this section, and the secured party may purchase at the
sale and thereafter hold the collateral free of any other
requirements of this chapter.”

Section 46. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 952
of subchapter V to read as follows:

"Section 952. Collection rights of secured party.

(1) When as agreed and in any event on default the
secured party is entitled to notify an account debtor or
the obligor on an instrument to make payment to the secured
party whether or not the assignor was theretofore making
collections on the collateral, and also to take control of any
proceeds to which the secured party is entitled under section 926.

(2) A secured party who by agreement is entitled to
charge back uncollected collateral or otherwise to full or
limited recourse against the debtor and who undertakes to
collect from the account debtors or obligors must proceed
in a commercially reasonable manner and may deduct
reasonable expenses of realization from the collections.
If the security agreement secures an indebtedness, the
secured party must account to the debtor for any surplus,
and unless otherwise agreed, the debtor is liable for any
deficiency. But, if the underlying transaction was a sale
of accounts or chattel paper, the debtor is entitled to any
surplus or is liable for any deficiency only if the
security agreement so provides."

Section 47. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 953
of subchapter V to read as follows:

"Section 953. Secured party's right to take possession
after default. Unless otherwise agreed a secured party has
on default the right to take possession of the collateral.

In taking possession a secured party may proceed without
judicial process if this can be done without breach of the
peace or may proceed by action. If the security agreement
so provides the secured party may require the debtor to
assemble the collateral and make it available to the
secured party at a place to be designated by the secured
party which is reasonably convenient to both parties.

Without removal a secured party may render equipment
unusable, and may dispose of collateral on the debtor's
premises under section 954."

Section 48. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 954
of subchapter V to read as follows:

"Section 954. Secured party's right to dispose of

collateral after default; Effect of disposition.

(1) A secured party after default may sell, lease or

otherwise dispose of any or all of the collateral in its

then condition or following any commercially reasonable

preparation or processing. The proceeds of disposition

shall be applied in the order following to:

(a) the reasonable expenses of retaking,

holding, preparing for sale or lease, selling, leasing and

the like and, to the extent provided for in the agreement

and not prohibited by law, the reasonable attorneys' fees

and legal expenses incurred by the secured party;

(b) the satisfaction of indebtedness secured by

the security interest under which the disposition is made;

(c) the satisfaction of indebtedness secured by

any subordinate security interest in the collateral if

written notification of demand therefor is received before

distribution of the proceeds is completed. If requested by

the secured party, the holder of a subordinate security

interest must seasonably furnish reasonable proof of the

holder's interest, and unless the holder does so, the

secured party need not comply with the holder's demand.

(2) If the security interest secures an indebtedness,

the secured party must account to the debtor for any
surplus, and, unless otherwise agreed, the debtor is liable
for any deficiency. But if the underlying transaction was
a sale of accounts or chattel paper, the debtor is entitled
to any surplus or is liable for any deficiency only if the
security agreement so provides.

(3) Disposition of the collateral may be by public or
private proceedings and may be made by way of one or more
contracts. Sale or other disposition may be as a unit or
in parcels and at any time and place and on any terms but
every aspect of the disposition including the method,
manner, time, place and terms must be commercially
reasonable. Unless collateral is perishable or threatens
to decline speedily in value or is of a type customarily
sold on a recognized market, reasonable notification of the
time and place of any public sale or reasonable
notification of the time after which any private sale or
other intended disposition is to be made shall be sent by
the secured party to the debtor, if the debtor has not signed
after default a statement renouncing or modifying his or
her right to notification of sale. In the case of consumer
goods no other notification need be sent. In other cases
notification shall be sent to any other secured party from
whom the secured party has received (before sending his
or her notification to the debtor or before the debtor's
renunciation of his rights) written notice of a claim of an
interest in the collateral. The secured party may buy at
any public sale and if the collateral is of a type
customarily sold in a recognized market or is of a type
which is the subject of widely distributed standard price
quotations the secured party may buy at private sale.

(4) When collateral is disposed of by a secured party
after default, the disposition transfers to a purchaser for
value all of the debtor’s rights therein, discharges the
security interest under which it is made and any security
interest or lien subordinate thereto. The purchaser takes
free of all such rights and interests even though the
secured party fails to comply with the requirements of this
subchapter or of any judicial proceedings:

(a) in the case of a public sale, if the
purchaser has no knowledge of any defects in the sale and
does not buy in collusion with the secured party,
other bidders or the person conducting the sale; or

(b) in any other case, if the purchaser acts in
good faith.

(5) A person who is liable to a secured party under a
guaranty, endorsement, repurchase agreement or the like and
who receives a transfer of collateral from the secured party
or is subrogated to his or her rights has thereafter the
rights and duties of the secured party. Such a transfer of
collateral is not a sale or disposition of the collateral

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under this chapter."

Section 49. Chapter 9 of title 33 of the Code of the Federated States of Micronesia is hereby amended by adding a new section 955 of subchapter V to read as follows:

"Section 955. Compulsory disposition of collateral;
Acceptance of the collateral as discharge of obligation.

(1) If the debtor has paid 60 percent of the cash price in the case of a purchase money security interest in consumer goods or 60 percent of the loan in the case of another security interest in consumer goods, and has not signed after default a statement renouncing or modifying his or her rights under this subchapter a secured party who has taken possession of collateral must dispose of it under section 954 and if such party fails to do so within 90 days after taking possession the debtor, at the debtor’s option, may recover in conversion or under section 957(1) on secured party’s liability.

(2) In any other case involving consumer goods or any other collateral a secured party in possession may, after default, propose to retain the collateral in satisfaction of the obligation. Written notice of such proposal shall be sent to the debtor if the debtor has not signed after default a statement renouncing or modifying his or her rights under this subsection. In the case of consumer goods no other notice need be given. In other cases notice shall be sent to any
other secured party from whom the secured party has
received (before sending notice to the debtor or before
the debtor's renunciation of rights) written notice of
a claim of an interest in the collateral. If the secured
party receives objection in writing from a person entitled
to receive notification within 21 days after the
notice was sent, the secured party must dispose of the
collateral under section 954. In the absence of such
written objection the secured party may retain the
collateral in satisfaction of the debtor's obligation."

Section 50. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 956
of subchapter V to read as follows:

"Section 956. Debtor's right to redeem collateral. At
any time before the secured party has disposed of
collateral or entered into a contract for its disposition
under section 954 or before the obligation has been
discharged under section 955(2), the debtor or any other
secured party may unless otherwise agreed in writing after
default redeem the collateral by tendering fulfillment of
all obligations secured by the collateral as well as the
expenses reasonably incurred by the secured party in
retaking, holding and preparing the collateral for
disposition, in arranging for the sale, and to the extent
provided in the agreement and not prohibited by law,
reasonable attorneys' fees and legal expenses."
Section 51. Chapter 9 of title 33 of the Code of the Federated
States of Micronesia is hereby amended by adding a new section 957
of subchapter V to read as follows:
"Section 957. Secured party's liability for failure to
comply with this subchapter.
(1) If it is established that the secured party is
not proceeding in accordance with the provisions of this
subchapter disposition may be ordered or restrained on
appropriate terms and conditions. If the disposition has
occurred the debtor or any person entitled to notification
or whose security interest has been made known to the
secured party prior to the disposition has a right to
recover from the secured party any loss caused by a failure
to comply with the provisions of this subchapter. If the
collateral is consumer goods, the debtor has a right to
recover in any event an amount not less than the credit
service charge plus 10 percent of the principal amount of
the debt or the time price differential plus 10 percent of
the cash price.
(2) The fact that a better price could have been
obtained by a sale at a different time or in a different
method from that selected by the secured party is not of
itself sufficient to establish that the sale was not made
in a commercially reasonable manner. If the secured party
either sells the collateral in the usual manner in any
recognized market therefore or if the secured party
sells at the price current in such market at the time
of sale or if he or she has otherwise sold in conformity with
reasonable commercial practices among dealers in the type of
property sold he or she has sold in a commercially reasonable
manner. The principles stated in this subsection with respect
to sales also apply as may be appropriate to other types of
disposition. A disposition which has been approved in any
judicial proceeding or by any bona fide creditors' committee
or representative of creditors shall conclusively be deemed
to be commercially reasonable, but this sentence does not
indicate that any such approval must be obtained in any
case nor does it indicate that any disposition not so
approved is not commercially reasonable."

Section 52. This act shall become law upon approval by the
President of the Federated States of Micronesia or upon its becoming
law without such approval.

Date: Nov. 4, 1993

Introduced by: Nishima Yleigh