

**QUESTION 11 THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK  
IV OR IN SOFTEST ANSWER SCREEN 11**

JJ opened a small business selling T-shirts in the beach town where she lived near Lake Michigan. The T-shirts were made by her brother. Sales were slow at first, mainly because all purchases had to be made with cash.

To increase sales, on April 1, 2016, JJ purchased a sophisticated credit card processing machine from Small Biz Supplies (SBS) that enabled her to accept and process debit and credit card purchases. The machine cost \$3,000. SBS extended JJ credit to buy the machine with JJ's monthly payments being \$150. SBS took a security interest in the machine. The purchase agreement was committed to a writing describing the machine, and the contract was signed by both parties. SBS filed no financing statement with any governmental agency. JJ took possession of the machine and immediately began using it. Her sales increased immediately.

By July 1, 2016, JJ's business was booming. Her brother could not keep pace with the increased demand and quit. Consequently, JJ quickly sought a loan from Business Finance (BF) for \$20,000 to purchase T-shirts manufactured elsewhere. JJ offered to repay BF the loan at \$300 per month and offered as collateral the new T-shirts she would be buying. BF agreed and a contract reciting these terms was committed to writing and signed by both parties. BF immediately filed a financing statement with the appropriate government agency.

On October 1, 2016, as a result of a court case unrelated to JJ's business, a creditor of JJ obtained a judgment lien against her and a sheriff levied against JJ's property, including the credit card machine and the unsold T-shirts in JJ's store. SBS and BF claimed superior interests in the credit card machine and T-shirts, respectively. The judgment lien creditor countered saying: (1) SBS did not have a superior interest in the machine because it did not file a financing statement; and (2) BF could not have a security interest in property JJ did not have at the time of the loan.

**Applying Michigan law, answer the following questions posed by this controversy:**

**\*\*\*\*\*THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK IV\*\*\*\*\*  
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1. What kind of security interest does SBS have in the credit card machine? Explain.

2. Did BF obtain a security interest in goods JJ did not possess at the time of the loan? Why or why not?

3. Who has the superior claim to the credit card machine and the T-shirts for sale in *JJ's* store? Why?

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