Practice: Protected holder status

Bill of Exchange Act, Sec. 11-20, Sec. 69

Discussion questions and case problems

1. Issue a promissory note (1,- Euro) a endorse it to your neighbor. Us all types of endorsements. Explain the effects of endorsements.
2. Who is the protected holder? Why might this status be so important to a transferee? What are requirements to become a protected holder?
3. Although a payee is a holder, a payee will seldom qualify as a protected holder? Why?
4. Will taking of promissory note or bill of exchange at a discount prevent a holder from becoming a protected holder?
5. Does the knowledge that the promissory note was used as a security for consumer credit bar someone from becoming a protected holder?
6. To remedy the unfair practice, the US Federal Trade Commission issued a rule which effectively abolished the protection of every holder of negotiable instruments as applied to consumer credit contracts. The Rule requires sellers to include a specific contract provision in the text of certain consumer credit contracts, rendering the contract ineligible for treatment as a negotiable instrument under state contract law. The notice which must appear in boldface 10-point type states: "*Any holder of this consumer credit contract is subject to all claims and defenses which the debtor could assert against the seller of goods or services obtained pursuant hereto or with the proceeds hereof. Recovery hereunder by the debtor shall not exceed amounts paid by the debtor hereunder*." Why did FTC consider the rule necessary?
7. How would the FTC´s rule affect the negotiable instruments in Europe (see Sec. 17)?
8. Tom issued a note payable to Jim for § 100. Jim endorsed the note with the wording "pay to Bob Barney only". How would the endorsement on this check be classified? Explain.
9. Bob borrowed 2000 euro from Fortis Bank. The debt was evidenced by a negotiable note payable to Fortis Bank payable due November 1, 2008. Bob paid the note on August 10, 2008 and the bank gave it to him. The note bore no indication that it had been paid or cancelled. On his way home, Bob lost the note. Laura found it, counterfeited the text (writing-up a null, adulteration of bank endorsement) and promptly sold it via endorsement to Ralph for 15 000 euro. Assuming Ralph meets the criteria of good faith, does he have a right to the full 20 000 euro? Will Ralph prevail as to the entire amount of the note? Explain.
10. Sam fraudulently induced Christine to make a negotiable instrument payable to her order in exchange for goods he never intended to deliver. Tom negotiated the note to Gill, who took it with notice of the fraud. Gill, in turn, negotiated it to Winston, a protected holder. Winston presented it to Christine, but she refused to honor it. Winston contacted Gill, who agreed to reacquire the instrument by negotiation from Winston. Can Gill assert the rights of his prior transferee, Winston, as a result of the repurchase?