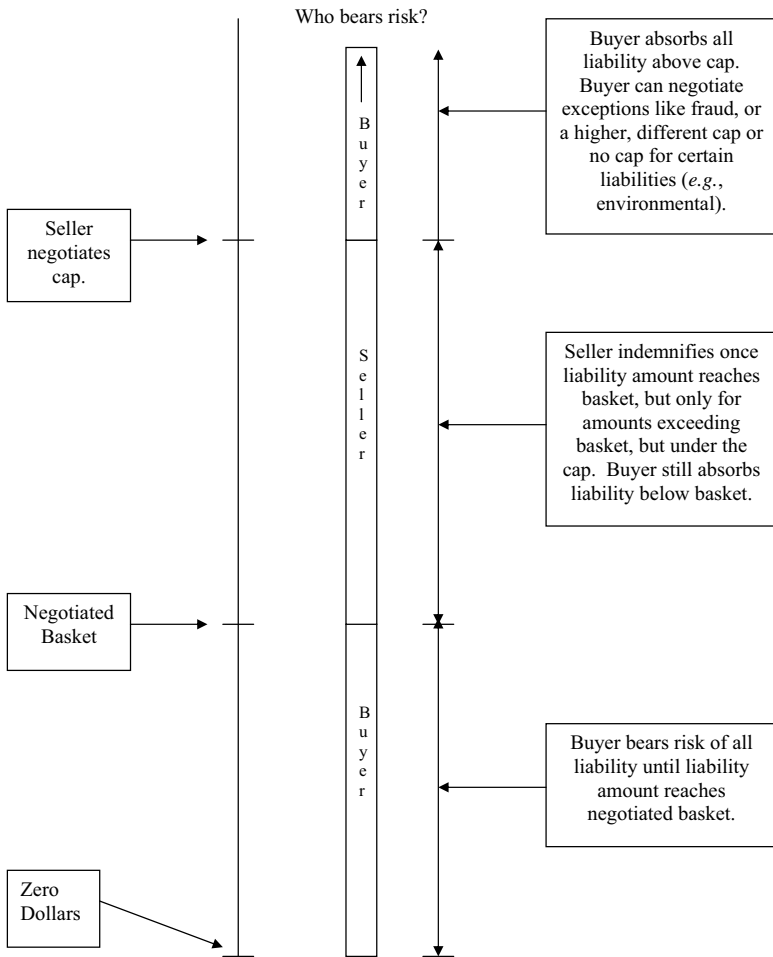


Aggressive sellers will negotiate a **double basket**, which doesn't count claims below a specified amount towards meeting the basket. Buyers prefer a **threshold**, in which the seller indemnifies for the entire amount of the claims from the first penny, once the claims reach the specified threshold. Buyers might also negotiate to have certain types of liabilities (*e.g.*, environmental) covered immediately, and not be subject to any deductible.

**Basket with Cap**



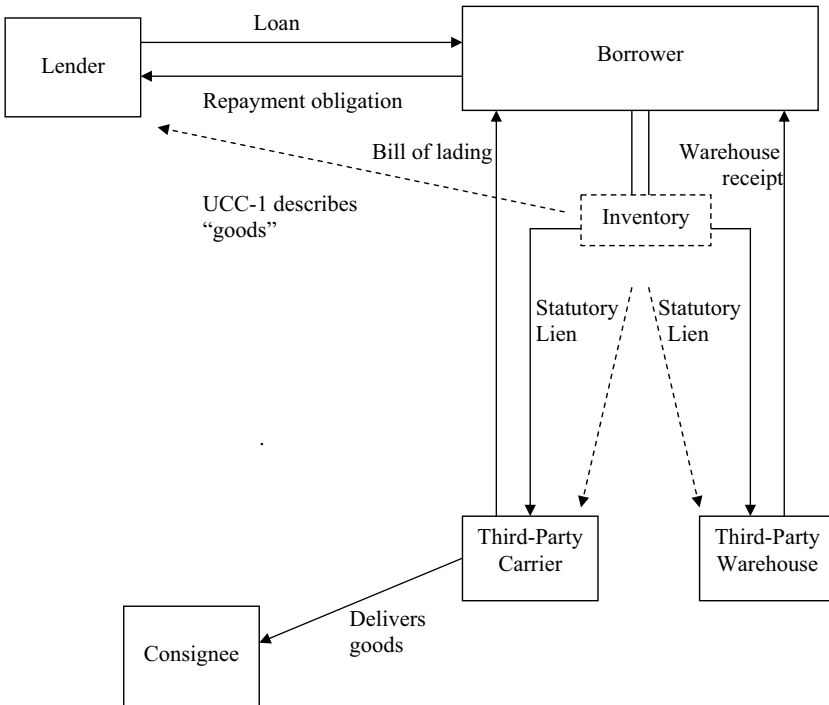
separately grant a security interest in the documents to a third party (not to the Lender, not to the bailee, but to another lender providing credit). The Lender cannot take for granted that its floating lien will prevail over the third party's security interest in the documents (taken as original collateral) covering the same inventory, especially if the other secured party has physical possession of a document of title.

Therefore, it's best for the Lender to cover all its bases by filing a UCC-1 financing statement describing the floating lien in the goods *and* the warehouse receipt, and to obtain physical possession of the warehouse receipt or bill of lading (made out to its name) to facilitate seizure of the goods in the event of default.

### 16.14.1. Transaction Highlights

#### 16.14.1.1. UCC Article 7 Statutory Lien of Bailee

In the schematic below, the Lender perfects its security interest in the Borrower's existing and after-acquired inventory, including inventory entrusted to bailees for storage and transportation, by filing a UCC-1 financing statement in the appropriate jurisdictions. The carrier issues a **bill of lading** and the **warehouseman** issues a warehouse receipt to the Borrower to evidence the bailment.



**16.12.1.2. Chattel Paper—Evidencing Lease**

In the schematic below, the Lessor leases goods to its Lessee. The Lessee signs the Lessor’s standard form of lease contract, which constitutes chattel paper because it sets forth the terms and conditions of the lease of the goods, including the Lessee’s monetary obligation to make lease payments. It doesn’t matter if the underlying transaction is a lease intended as security or a true lease (for the difference, see §16.11.1, **Article 9 Security Interest versus True Lease**); either type of lease agreement is chattel paper if the other requirements are satisfied. In a separate transaction, the Lessor borrows money from its Lender, and the Lender secures the Lessor’s repayment obligation by taking a security interest in multiple categories of collateral (including the lease agreement chattel paper).

Most of the above discussion (see §16.12.1.1, **Chattel Paper—Evidencing Security Interest (Installment Sales Contract)**) applies with equal force

