



## HOUSE COMMITTEE ON APPROPRIATIONS

# FISCAL NOTE

HOUSE BILL NO. 24

PRINTERS NO. 117

PRIME SPONSOR: Grell

### COST / (SAVINGS)

FUND	FY 2012/13	FY 2013/14
Corporation Bureau Restricted Account	\$0	See "Fiscal Impact"
General Fund	\$0	\$0

**SUMMARY:** Amends Title 13 (Commercial Code) in order to update the provisions in the Commercial Code relating to secured transactions. This legislation would take effect on July 1, 2013.

**ANALYSIS:** This legislation makes revisions to Pennsylvania's Commercial Code, Division 9 (relating to secured transactions). This legislation also amends Titles 30 (Fish and Boat Code) and 75 (Vehicle Code) to comport with the changes made in Title 13.

**Control of electronic chattel paper:** This legislation adds language to reflect the circumstances in which control of chattel paper is evidenced. A party with a security interest in property has control of electronic chattel paper if the system employed for evidencing transfer of interests in the chattel paper reliably establishes the creditor as the person to whom the chattel paper was assigned.

**Effect of change in location of debtor:** This legislation provides that if a debtor moves to another jurisdiction, the following is in effect for the four-month period after which the debtor moves to another jurisdiction:

- A financing statement (a public record that indicates that a security interest is present in a transaction) filed before the change of location is effective to perfect a security interest provided the statement was filed correctly in the former jurisdiction.
- A financing statement that is not perfected in the former jurisdiction is deemed never to have been perfected.

If there is a new debtor, the following applies:

- If a financing statement naming an original debtor is filed and a new debtor is found in another jurisdiction, the financial statement is effective to perfect a security interest in the new debtor for a four-month period within which the new debtor becomes bound, if the financing statement was filed correctly against the original debtor.

**Contents of financing statement and name of debtor:** This legislation provides that a mortgage is effective as a financing statement with respect to a debtor who is an individual if it provides the individual name of the debtor or the surname and first personal name of the debtor. If the debtor is an organization, the financing statement is effective if it states the registered organization's name on the public record of the jurisdiction of the organization.

If collateral is being administered by a personal representative of a person who has died (decedent), the financing statement is effective if the financing statement includes the name of the decedent as the debtor and, in a separate part of the financing statement, indicates that the collateral is being administered by a personal representative.

If collateral is being held in trust that is not a registered organization, the financing statement is effective, with respect to the name of the debtor if:

- (1) the name of the debtor is that which is named on the organic record setting forth the name of the trust and it is indicated that the collateral is held in trust; or
- (2) the name of the settlor (person who creates the trust) or testator (person who wrote the will) is on the financing statement, in the case of an organic record which does not specify a name of the trust, and there is information sufficient to distinguish that the trust is different from other trusts established by the same settlor or testator.

If the debtor is an individual who holds a valid driver's license or an identification card issued by PennDOT, the financing statement is effective with respect to the name of the debtor if the financing statement provides the name on the driver's license or identification card. In the case of a debtor who is an individual who does not hold a valid driver's license or an identification card, the security interest is effective as to the name of the debtor if the financing statement provides the individual name of the debtor or the surname and first personal name of the debtor.

If the debtor does not have a name, the financing statement is effective as to the name of the debtor if the financing statement provides the organizational name of the debtor

and the financing statement also provides the names of the partners, members, associates or other persons comprising the debtor.

**Change in the debtor's name:** This legislation provides that if the name of the debtor becomes insufficient so that the financing statement becomes seriously misleading, the financing statement is effective to perfect a security interest in collateral acquired by the debtor before or within four months after the financing statement becomes seriously misleading. In addition, the financing statement is not sufficient to perfect a security interest in collateral acquired by the debtor more than four months after the financing statement becomes seriously misleading unless an amendment to the financing statement is filed which cures the deficiency.

**FISCAL IMPACT:** According to the Department of State, this legislation could result in some new expenses to the Bureau of Corporations and Charitable Organizations. The Bureau receives and processes approximately 350 Uniform Commercial Code filings per day, with approximately 33% of UCC filings submitted online. Changes to the web-based XML online submission process as well as the system for bulk processing of paper forms would be required to reflect changes to the UCC forms (such as eliminating the organizational identification number field). This would require a change order with the outside vendor who maintains the online system. Depending on the timing of enactment of this legislation, the expected costs to the Bureau are estimated to be between \$55,000 and \$150,000. Those costs could be absorbed within available operating funds.

The Department's current UCC indexing system accepts the same characters and field sizes as used by PennDOT for the name on a driver's license. If the Department would need to make alterations to its UCC database to accommodate future changes in characters or field length, this may require a change order with the vendor and deployment with a cost to the Bureau of approximately \$30,000 for each occurrence of a change.

According to PennDOT, there will be no adverse fiscal impact to their operational budget. If PennDOT were to agree, in its discretion, to change its database at the request of the Department of State, the Department of State would bear all PennDOT costs associated with this change.

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**DATE:** March 18, 2013

*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*