



Protect Your Purchase Money Security Interest in Goods

Purchase Money Security Interest aka PMSI

What is a Purchase Money Security Interest (PMSI)?

Section 9-103 of the UCC defines a PMSI as a security interest in goods that are collateral for an obligation that arises in connection with the sale of the goods.

When the required steps are met, a PMSI can give a creditor a first or priority security interest in the goods, even if other secured parties hold prior perfected security interests in the same collateral.

Securing collateral that is defined as inventory 9-102(48) -- "Inventory" means goods, other than farm products, which:

- (A) are leased by a person as lessor;
- (B) are held by a person for sale or lease or to be furnished under a contract of service;
- (C) are furnished by a person under a contract of service; or
- (D) consist of raw materials, work in process, or materials used or consumed in a business.

Who would file a PMSI in Inventory?

Creditors who supply goods to a debtor for the purpose of the goods being resold;

Panasonic sells car stereos to Best Buy who in turn sells them to their customers.

How do I comply with PMSI requirements?

Article 9-324 (b) outlines the requirements for a secured party to obtain a PMSI in inventory:

the Purchase Money Security Interest is perfected when the debtor receives possession of the inventory;

the Purchase Money secured party sends an authenticated notification to the holder of the conflicting security interest;

the notification states that the person sending the notification has or expects to acquire a Purchase Money Security Interest in inventory of the debtor and describes the inventory; and

the holder of the conflicting security interest receives the notification within five years before the debtor receives possession of the inventory.

- Legal Information Institute, <https://www.law.cornell.edu/ucc/9/9-324>

To achieve priority in the inventory, the UCC-1 Financing Statement must be recorded and authenticated notification letters must be sent before the debtor receives possession of the collateral.

Ask the PMSI Pros! Contact NCS Credit today!



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