M E M O R A N D U M

To: North American Equipment Dealers Association and Affiliated Associations

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Date: January 11, 2007

Subject: Disclaimer of Security Interest Form

A special NAEDA UCC Task Force has developed a new form entitled "Disclaimer of Security Interest," which should be a useful to many dealers throughout the United States. In fact, it is a form all dealerships should have available when they make a trade involving used equipment.

This form addresses the blanket security interest issue faced by equipment dealers when they take in on trade any piece of used equipment. Often, equipment dealer customers have operating loans with banks, which usually take a blanket security interest in all equipment that the customer has or will acquire while the loan is outstanding. This blanket lien should appear in UCC search results performed by the dealer at the time of the trade.

When a bank signs this form, this form releases the security interest of the bank in the specifically described equipment that is being traded in for new equipment. If the bank does not release its security interest by signing this form, and later the customer goes bankrupt, the bank will usually go after the equipment dealer to recoup the value of the trade-in equipment. This has and can result in a dealer losing many thousands of dollars.

Your customer should give this form to the bank for signature. The bank should sign this form for several reasons.

- First, from a security interest perspective, the bank will retain its blanket lien on the new equipment that is being purchased by their customer and thus the bank's equity is preserved.
- Second, it is a commercially reasonable request for your customer to make and the bank should be willing to accommodate its customer to retain its ongoing business.
- Third, the form is short and simple to understand and releases the security interest of the bank in only one specific piece of equipment and does not release its security interest in any of the assets owned by the customer.

There is no need to record this disclaimer with any governmental body. Rather, the bank, the customer and the dealer should keep a copy for their records. I strongly recommend that all dealerships 1) understand the trade-in blanket security interest problem, and 2) use this form to fix the problem at the time they take in on trade any piece of used equipment that has a blanket security interest against it.