

355.3-302 Holder in due course.

- (1) Subject to subsection (3) of this section and KRS 355.3-106(4), "holder in due course" means the holder of an instrument if:
 - (a) The instrument when issued or negotiated to the holder does not bear such apparent evidence of forgery or alteration or is not otherwise so irregular or incomplete as to call into question its authenticity; and
 - (b) The holder took the instrument:
 1. For value;
 2. In good faith;
 3. Without notice that the instrument is overdue or has been dishonored or that there is an uncured default with respect to payment of another instrument issued as part of the same series;
 4. Without notice that the instrument contains an unauthorized signature or has been altered;
 5. Without notice of any claim to the instrument described in KRS 355.3-306; and
 6. Without notice that any party has a defense or claim in recoupment described in KRS 355.3-305(1).
- (2) Notice of discharge of a party, other than discharge in an insolvency proceeding, is not notice of a defense under subsection (1) of this section, but discharge is effective against a person who became a holder in due course with notice of the discharge. Public filing or recording of a document does not of itself constitute notice of a defense, claim in recoupment, or claim to the instrument.
- (3) Except to the extent a transferor or predecessor in interest has rights as a holder in due course, a person does not acquire rights of a holder in due course of an instrument taken:
 - (a) By legal process or by purchase in an execution, bankruptcy, or creditor's sale or similar proceeding;
 - (b) By purchase as part of a bulk transaction not in ordinary course of business of the transferor; or
 - (c) As the successor in interest to an estate or other organization.
- (4) If, under KRS 355.3-303(1)(a), the promise of performance that is the consideration for an instrument has been partially performed, the holder may assert rights as a holder in due course of the instrument only to the fraction of the amount payable under the instrument equal to the value of the partial performance divided by the value of the promised performance.
- (5) If:
 - (a) The person entitled to enforce an instrument has only a security interest in the instrument; and

- (b) The person obliged to pay the instrument has a defense, claim in recoupment, or claim to the instrument that may be asserted against the person who granted the security interest,

the person entitled to enforce the instrument may assert rights as a holder in due course only to an amount payable under the instrument which, at the time of enforcement of the instrument, does not exceed the amount of the unpaid obligation secured.

- (6) To be effective, notice must be received at a time and in a manner that gives a reasonable opportunity to act on it.
- (7) This section is subject to any law limiting status as a holder in due course in particular classes of transactions.

Effective: January 1, 1997

History: Repealed and reenacted 1996 Ky. Acts ch. 130, sec. 28, effective January 1, 1997. -- Created 1958 Ky. Acts ch. 77, sec. 3-302, effective July 1, 1960.