§3-1605. Discharge of indorsers and accommodation parties

(1). In this section, the term "indorser" includes a drawer having the obligation described in section 3-1414, subsection (4).
[PL 1993, c. 293, Pt. A, §2 (NEW).]

(2). Discharge, under section 3-1604, of the obligation of a party to pay an instrument does not discharge the obligation of an indorser or accommodation party having a right of recourse against the discharged party.
[PL 1993, c. 293, Pt. A, §2 (NEW).]

(3). If a person entitled to enforce an instrument agrees, with or without consideration, to an extension of the due date of the obligation of a party to pay the instrument, the extension discharges an indorser or accommodation party having a right of recourse against the party whose obligation is extended to the extent the indorser or accommodation party proves that the extension caused loss to the indorser or accommodation party with respect to the right of recourse.
[PL 1993, c. 293, Pt. A, §2 (NEW).]

(4). If a person entitled to enforce an instrument agrees, with or without consideration, to a material modification of the obligation of a party other than an extension of the due date, the modification discharges the obligation of an indorser or accommodation party having a right of recourse against the person whose obligation is modified to the extent the modification causes loss to the indorser or accommodation party with respect to the right of recourse. The loss suffered by the indorser or accommodation party as a result of the modification is equal to the amount of the right of recourse unless the person enforcing the instrument proves that no loss was caused by the modification or that the loss caused by the modification was an amount less than the amount of the right of recourse.
[PL 1993, c. 293, Pt. A, §2 (NEW).]

(5). If the obligation of a party to pay an instrument is secured by an interest in collateral and a person entitled to enforce the instrument impairs the value of the interest in collateral, the obligation of an indorser or accommodation party having a right of recourse against the obligor is discharged to the extent of the impairment. The value of an interest in collateral is impaired to the extent:

(a). That the value of the interest is reduced to an amount less than the amount of the right of recourse of the party asserting discharge; or [PL 1993, c. 293, Pt. A, §2 (NEW).]

(b). That the reduction in value of the interest causes an increase in the amount by which the amount of the right of recourse exceeds the value of the interest. The burden of proving impairment is on the party asserting discharge. [PL 1993, c. 293, Pt. A, §2 (NEW).]
[PL 1993, c. 293, Pt. A, §2 (NEW).]

(6). If the obligation of a party is secured by an interest in collateral not provided by an accommodation party and a person entitled to enforce the instrument impairs the value of the interest in collateral, the obligation of any party who is jointly and severally liable with respect to the secured obligation is discharged to the extent that the impairment causes the party asserting discharge to pay more than that party would have been obliged to pay, taking into account rights of contribution, if impairment had not occurred. If the party asserting discharge is an accommodation party not entitled to discharge under subsection (5), the party is deemed to have a right to contribution based on joint and several liability rather than a right to reimbursement. The burden of proving impairment is on the party asserting discharge.
[PL 1993, c. 293, Pt. A, §2 (NEW).]

(7). Under subsection (5) or (6), impairing value of an interest in collateral includes:

(a). Failure to obtain or maintain perfection or recordation of the interest in collateral; [PL 1993, c. 293, Pt. A, §2 (NEW).]

(b). Release of collateral without substitution of collateral of equal value; [PL 1993, c. 293, Pt. A, §2 (NEW).]

(c). Failure to perform a duty to preserve the value of collateral owed, under Article 9-A or other law, to a debtor or surety or other person secondarily liable; or [RR 2025, c. 2, Pt. A, §76 (COR).]

(d). Failure to comply with applicable law in disposing of collateral. [PL 1993, c. 293, Pt. A, §2 (NEW).]

[RR 2025, c. 2, Pt. A, §76 (COR).]

(8). An accommodation party is not discharged under subsection (3), (4) or (5) unless the person entitled to enforce the instrument knows of the accommodation or has notice under section 3-1419, subsection (3) that the instrument was signed for accommodation.

[PL 1993, c. 293, Pt. A, §2 (NEW).]

(9). A party is not discharged under this section if:

(a). The party asserting discharge consents to the event or conduct that is the basis of the discharge; or [PL 1993, c. 293, Pt. A, §2 (NEW).]

(b). The instrument or a separate agreement of the party provides for waiver of discharge under this section either specifically or by general language indicating that parties waive defenses based on suretyship or impairment of collateral. [PL 1993, c. 293, Pt. A, §2 (NEW).]

[PL 1993, c. 293, Pt. A, §2 (NEW).]

SECTION HISTORY

PL 1993, c. 293, §A2 (NEW). RR 2025, c. 2, Pt. A, §76 (COR).

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