

Hypothetical scenario



In this case, Kora acquired a loan using the corporation as the collateral for the loan. This meant that if he defaults on payment of the loan, which he did, the bank would turn to the corporation to recover the money. The problem where is not acquiring the loan. The problem is acquiring the loan for personal purposes using the corporation facilities, which he is the president and a shareholder and not a full owner. In addition, for the loan to be acquired using the corporation, he needs to get approval from all the other corporation shareholders.

The reason is that the corporate ownership rules and regulations recognize all the shareholders as having equal interest in the corporation. This eliminates the possibilities of one of the shareholders using the corporation for personal interests. In addition, the corporate shareholders powers are the ones that make one of them to become the president of the corporation through election. However, this does not mean that the one elected as the president should make decisions such as using the corporate facilities as collateral for acquiring private loans. (Hartman, L. & Desjardins, J., 2008)

In this case, it means that since Kora has defaulted on payment of the loan, the bank will sue the corporation and require it to service the loan. This is against the corporation's wish, as it had nothing to do with the loan. However, the court will have to determine whether the corporation or rather the shareholders were aware of this loan. If they were aware of the loan, then the corporation will have to service the loan.

In case the shareholders were not aware of the loan, the corporation is then supposed to sue Kora for misconduct and expect him to pay for the loan on his own. The corporation can therefore prove to the bank that it did not have

knowledge of its use as collateral and that Kora used it fraudulently. It is also possible to prosecute Kora in a criminal court for fraud. The bank may also seek to recover the loan using any other asset that Kora may be having. (Hartman, L. & Desjardins, J., 2008)

References

Hartman, L. & Desjardins, J. (2008). *Business Ethics*. Irwin: McGraw Hill Publishers.