

# [Interpret the law of secured transactions](https://assignbuster.com/interpret-the-law-of-secured-transactions-essay-samples/)

[Law](https://assignbuster.com/essay-subjects/law/)

Law of Secured Transactions Law of Secured Transactions Transactions are agreements that are carried out between a consumer and a vendor to trade a product for payment (Cheeseman, 2009). Transactions are to be carried out legally, because; there are laws that are liable for secured transactions to take effect. In this paper, there is a scenario where the CEO of Money Games Inc. (MGI) borrowed $50, 000 from First Savings Bank that was to be used in buying ads for a video game. MGI offered its accounts receivable as collateral and did not file a financing statement after completion of the transaction. This paper will interpret the law of secured transactions from the scenario presented.
According to common jurisdictions, the lender in this case who is the First Savings Bank can accept intangibles as security for loans borrowed. This mostly applies where the accounts receivable are traded to the creditor just like in the case of Money Games Incorporation. According to the scenario, the accounts receivable acts as collateral whether the financial statement is filed or not (Miller, 2011). A security interest arises in exchange of the loan whereby the debtor agrees that the secured party may take collateral owned by the debtor if he or she defaults in the payment of the loan (Miller, 2011). Security agreements are contracts according to the law of business (Legal Information Institute, 2000). The collateral interest of the bank vests upon the signing of the guarantee contract.
In this case, the bank security is attached. However, it has not perfected its collateral interest. In most situations, perfection can be easily achieved through filing of a financial statement. This document should include the signature of the debtor, a brief description of the collateral item and addresses of both the creditor and the debtor (Cheeseman, 2009). In normal circumstances, when the debtor delivers the note and executes the security agreement, the bank swiftly authorizes for liberation of the funds that are being borrowed. When the money is released to the debtor, then the bank’s security is attached since, it has executed a security agreement that describes the collateral and has also offered valuable security that applies to the loan.
The bank is required to perfect its security interest and its claim against the accounts receivable which subordinates to the claims against the accounts receivable. This is because the bank’s security interest attaches from the agreement that secures the payment of the debt. For instance, the beneficiary of the security interest has certain rights in disposition of the secured assets. On the contrary, this may make the bank lose its priority to other creditors who are considered perfect (Cheeseman, 2009). According to article 9 of the UCC, most types of security agreements are provided in the form of personal property (Legal Information Institute, 2000). In the perfection of a security agreement, the filing of the public note is highly recommended. This article also has a section that is liable for the resolution of conflicts that arise in case of multiple security interests. This aspect deals with the procedures that are supposed to be followed when the debtor defaults in the payment of his or her loan (Legal Information Institute, 2000).
In conclusion, the remedies available to the secured credit include possession of the collateral as stated in the agreement between the two parties involved. Moreover, one should be careful to avoid proceeds that may involve damage to the collateral, interference and defects that are associated with the collateral (Miller, 2011). These factors present the supreme nature of the UCC in matters regarding the sale of accounts receivable and loans. This vastly enhances the credit and risk factors that are associated with secured transactions (Miller, 2011).
References
Cheeseman, H. (2009). Business law (7th ed.). New York: Prentice Hall Publishers.
Legal Information Institute (2000). Secured transactions. Retrieved from http://www. law. cornell. edu/wex/secured\_transactions
Miller, R. (2011). Business law text & exercises (6th ed.). Southern-Western: Cengage Press.