

# Legal

Law



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Wachovia Securities, LLC v. BancoParricano, Inc 674 F. 3d 743 (7th Cir. In this case the corporation leveraged a loan from a bank by interposing related creditors and providing them with priority over the bank. This insulated them from recovery of the loan by the bank.

#### Issue

The issue in this case is whether Greenblatt, Jaheka, and Nichols, the shareholders, can be held personally liable by piercing the corporate veil.

#### Rule

A corporation which is legally incorporated is considered a legal person. A corporation is, therefore, considered separate and distinct from its shareholders. This recognition means that a corporation can enter into contracts and incur liabilities in its capacity. The liabilities of the corporation belong to the corporation and cannot be extended to its shareholders. Courts respect the separate personality of corporations and do not hold shareholders liable for the corporations liabilities. However, the courts occasionally disregard the separate personality of corporations in a process called piercing the corporate veil. The corporate veil can only be pierced if the corporation was incorporated fraudulently or fails to observe corporate formalities (Ireland, 2008).

#### Application

In this case, the corporation failed to observe corporate formalities. The corporation also used a web of interrelated entities to provide a false appearance that it was financially sound.

#### Conclusion

The court pierced the corporate veil and found the shareholders personally liable for the liabilities incurred by the corporation.

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Work cited

Ireland, Paddy. " Limited liability, shareholder rights and the problem of corporate irresponsibility." Cambridge Journal of Economics 34. 5 (2010): 837-856.