Understanding Security Interests by Tony

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Security interests refer to property interests that are created in order to secure an obligation. To put that in plain English, these refer to properties that have been used as collateral against a loan. The property becomes the security interest, and gives the lender the legal rights to seize and sell the property in order to get back the remainder of the money they are owed. In other words this is the property in a 'secured loan'.

From your perspective, taking out a secured loan is a smart move in that it can help you to reduce the cost of your loan. Here, because the bank has some kind of guarantee that they are going to get the money back, this enables them to charge less interest on the initial loan. Thus you can theoretically make a big saving on the cost of the loan.

Of course the downside of taking out a secured loan is that it can put your property at risk should you find yourself unable to pay the loan back. If you find yourself getting into worse and worse debt, then suddenly you can risk losing everything and this is of course a very serious situation to be put in. Thus it is highly important to carefully consider the loan before you decide to take out this kind of security on it.

Loans are not the only place in which a security interest might be involved. For instance a security interest can be used where someone is taking out a joint venture â€“ for instance share holders might opt to secure their shares in order to prevent them from selling off their shares.

Of course there are fortunately things in place in order to protect individuals in the case that they should end up defaulting on a secured loan. In the US, article 9 of the uniform commercial code deals with the rights of the debtor and the lender in this situation. Property laws also affect this matter. In Canada meanwhile this is dealt with by the PPS Act AKA the Personal Properties Securities Act and this is being introduced to Australia. Here the PPS Act defines precisely what can be used to secure a loan and what cannot. Complications may arise here for instance in situations where the individual has not paid off their mortgage yet, or where they have joint ownership of the property. The details of the nature of the security will often be outlined in a prior contract and this can help to define what the security entails.

At the same time it is important for a lender to go about collecting on their encumbered property in the correct way. Secured interests are not enforceable immediately upon execution of the contract â€“ instead they need to be first 'perfected' which means that notice must be first given that the collateral is now encumbered.

This can be achieved with various particular forms that need to be sent in order to give notice in the correct manner. It is very important for the lender and for the borrower to fully understand securities and the details of the PPS Act if they are to continue with the loan.

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The a Personal Properties Securities Act exists in order to protect lenders and borrowers of secured loans and to define the transactions. Follow the links for more on the a PPS Act.

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