20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **A sanction letter is an offer, not a binding contract; the loan documents form the actual contract.**
   The bank's terms become contractual only once the borrower executes the prescribed documents.

2. **The debtor-creditor relationship begins only when the borrower executes the loan documents, not on sanction.**
   Execution of documents, not the sanction letter, creates the legal bank-borrower relationship.

3. **A demand promissory note evidences the debt but does not by itself create a charge over security.**
   A separate hypothecation, pledge, or mortgage document is needed to secure an asset.

4. **A hypothecation agreement, not a promissory note, creates the legal charge over hypothecated goods.**
   The charge over the specific asset arises from the hypothecation document.

5. **In hypothecation, the goods remain in the borrower's possession while the bank holds only a charge.**
   Possession stays with the borrower even though the bank has a security interest.

6 **In a pledge, the goods must be physically or constructively transferred to the bank's possession.**
Unlike hypothecation, a pledge requires transfer of possession to the lender.

7 **A letter of continuity is obtained for cash credit or overdraft facilities because they are revolving, not one-time.**
It keeps the security and documentation alive across fluctuating drawings.

8 **A guarantee deed is a separate, independent document executed by the guarantor, distinct from the borrower's own documents.**
The guarantor's liability is co-extensive but contractually separate from the borrower's.

9 **An equitable mortgage is created by deposit of title deeds with intent to create security, without a registered deed.**
This distinguishes it from a legal mortgage, which uses a registered mortgage deed.

10 **A registered mortgage deed is used for a legal mortgage and affects both stamp duty and SARFAESI enforcement.**
The choice between equitable and legal mortgage impacts enforcement ease under SARFAESI.

11 **The Indian Contract Act governs the basic validity of a loan agreement, covering free consent and lawful consideration.**

These are foundational contract-law requirements for any enforceable agreement.

12 **The Transfer of Property Act governs mortgages of immovable property.**

This Act sets the legal framework for creating mortgages on land and buildings.

13 **The Indian Stamp Act, read with state amendments, fixes the stamp duty payable on loan documents.**

Stamp duty rates and rules vary by state under this Act.

14 **An inadequately stamped loan document can be impounded and may be inadmissible as evidence in a recovery suit.**

Proper stamping is essential for a document's legal enforceability.

15 **Registration under the Registration Act is mandatory for certain mortgage deeds above prescribed value thresholds.**

Some mortgage deeds must be registered depending on the value involved.

16 **RBI's Fair Practices Code circulars require banks to furnish borrowers a copy of every executed loan document.**

This transparency requirement is part of RBI's lending guidelines.

17 **Most loan documents carry a limitation period and commonly need revalidation, typically around every three years.**

Periodic revalidation keeps the debt legally alive and enforceable.

18 **Priority-sector and financial-inclusion loans may use a single composite loan-cum-security document to speed onboarding.**

This simplification helps fast-track small-value, first-time borrower loans.

19 **A term loan typically requires a loan agreement, a demand promissory note, and a hypothecation or mortgage deed if secured.**

These form the core documentation stack for a secured term loan.

20 **A defective mortgage or an unstamped guarantee can derail a SARFAESI action or DRT suit even years after disbursement.**

Documentation quality at origination directly affects later recovery proceedings.

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