20 True or False

Decide, then check the answer and reason below each statement.

Question 1

A sanction letter is an offer, not a binding contract until loan documents are executed.

TRUE

The contract is formed only when the borrower accepts terms in writing and signs the documents.

Question 2

A demand promissory note by itself creates a legal charge over hypothecated goods.

FALSE

A promissory note evidences debt; only a hypothecation agreement creates the charge over the asset.

Question 3

In hypothecation, the borrower retains possession of the goods while the bank holds a charge.

TRUE

Hypothecated goods stay with the borrower, unlike pledged goods.

Question 4

In a pledge, the borrower retains possession of the goods while the bank holds only a charge.

FALSE

A pledge requires the goods to be physically or constructively transferred to the bank.

Question 5

A letter of continuity is used for revolving facilities like cash credit or overdraft.

TRUE

It keeps documentation valid across fluctuating drawings in a revolving account.

Question 6

A guarantee deed is part of the borrower's own loan agreement rather than a separate document.

FALSE

A guarantee deed is a separate, independent contract executed by the guarantor.

Question 7

An equitable mortgage is created by deposit of title deeds with intent to create security.

TRUE

This is the defining feature of an equitable mortgage, without a registered deed.

Question 8

The Indian Stamp Act has no bearing on whether a loan document is admissible as evidence in court.

FALSE

Inadequately stamped documents can be impounded and ruled inadmissible.

Question 9

The Transfer of Property Act governs mortgages of immovable property.

TRUE

This Act sets the legal framework for mortgage creation on immovable assets.

Question 10

Registration under the Registration Act is never required for any mortgage deed.

FALSE

Registration is mandatory for certain mortgage deeds above prescribed value thresholds.

Question 11

RBI's Fair Practices Code requires banks to give borrowers a copy of every executed loan document.

TRUE

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

Question 12

Most loan documents never need renewal once signed and remain valid indefinitely.

FALSE

Loan documents are subject to a limitation period and need periodic revalidation.

Question 13

Loan documents are typically revalidated around every three years to keep the debt legally enforceable.

TRUE

This periodic renewal keeps the debt legally alive against the borrower.

Question 14

Priority-sector small-value loans always require the full separate document stack used for large secured term loans.

FALSE

Such loans may instead use a single composite loan-cum-security document.

Question 15

A demand promissory note is common across term loans, cash credit, and guarantee-backed loans.

TRUE

It is obtained across all these facility types as evidence of the debt.

Question 16

A loan agreement is typically obtained for cash credit facilities in place of a letter of continuity.

FALSE

Cash credit facilities use a letter of continuity instead of a loan agreement.

Question 17

The debtor-creditor relationship between bank and borrower begins on document execution, not on sanction.

TRUE

Sanction is only an offer; execution of documents creates the legal relationship.

Question 18

Hypothecation and pledge are interchangeable terms with identical possession requirements.

FALSE

They differ in possession: hypothecated goods stay with the borrower, pledged goods do not.

Question 19

A defective or unstamped guarantee document can weaken a bank's position in SARFAESI or DRT recovery action.

TRUE

Documentation defects at origination can derail recovery proceedings later.

Question 20

Board resolutions and signatory authorisation letters are examples of ancillary documentation for corporate borrowers.

TRUE

These ancillary papers are required alongside the core loan documents for corporate accounts.