20 True or False

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

Question 1

The banker's right of set-off allows a bank to adjust a customer's credit balance against that same customer's overdue debt.

TRUE

This is the core definition of the right of set-off, also called the right of combination of accounts.

Question 2

The right of set-off is automatic and can be exercised by a bank without satisfying any conditions.

FALSE

The right of set-off is conditional; four conditions, including a lawful, due, and certain debt, must be satisfied first.

Question 3

A debt must be legally recoverable, meaning not time-barred, before a bank can set it off.

TRUE

A time-barred or disputed debt fails the lawful-debt condition and cannot be set off.

Question 4

A bank can set off loan installments that have not yet fallen due against a customer's savings balance.

FALSE

Only debts that are already due and payable can be set off; future or contingent installments cannot.

Question 5

The right of set-off is also known as the right of combination of accounts.

TRUE

Both terms describe the bank's ability to combine a customer's accounts to recover an overdue debt.

Question 6

Money held by a person as a trustee can be freely combined with that same person's individual account for set-off.

FALSE

Accounts held in different capacities, such as trustee versus individual, cannot be combined for set-off.

Question 7

The right of appropriation is governed by Sections 59 to 61 of the Indian Contract Act, 1872.

TRUE

These sections lay down the three-step priority for deciding which debt a payment is applied against.

Question 8

Under Section 59 of the Indian Contract Act, the debtor has the first right to direct how a payment should be appropriated.

TRUE

If the customer specifies a loan, the bank must apply the payment to that loan under Section 59.

Question 9

Under Section 60, if the debtor gives no instruction on a payment, the debt is automatically written off.

FALSE

Under Section 60, the bank as creditor simply gets to choose which lawful debt the payment is applied to.

Question 10

Under Section 61, when neither party specifies how a payment should be applied, it is adjusted against the oldest outstanding debt first.

TRUE

This is the FIFO, or First In First Out, rule set out in Section 61.

Question 11

A bank never needs to give the customer any notice before exercising the right of set-off, under any circumstances.

FALSE

As fair banking practice, the bank should normally give notice, except in specific urgent situations like insolvency or fraud.

Question 12

No prior notice for set-off is generally required when a customer has been declared insolvent.

TRUE

Insolvency changes the customer's legal status, so the bank must protect its claim without delay.

Question 13

No prior notice for set-off is generally required on the death of a borrower.

TRUE

Accounts are frozen on death, so mutuality between the bank and customer must be settled immediately.

Question 14

A garnishee or attachment order means the bank must wait for a full notice period before it can act on the funds.

FALSE

A garnishee order is one of the situations where the bank can act without prior notice, since a court has already directed action.

Question 15

Money in a joint account can normally be used to set off the individual loan of just one of the joint accountholders.

FALSE

Joint account funds are held in a different capacity from an individual borrower's debt, so they cannot be combined.

Question 16

Partners in a firm have limited liability, so their personal savings can never be used to recover the firm's debt.

FALSE

Partners actually carry unlimited liability, which allows their personal balances to be set off against the firm's outstanding debt.

Question 17

Because partners carry unlimited liability, their individual account balances can be set off against the firm's outstanding debt.

TRUE

The direction of recovery flows from the partners' personal accounts to the firm's debt under unlimited liability.

Question 18

A bank can set off a guarantor's account balance even before formally invoking the guarantee.

FALSE

The guarantor's liability becomes enforceable only after the bank issues a demand notice and invokes the guarantee.

Question 19

A guarantor's liability under a guarantee becomes enforceable only after the bank formally invokes it.

TRUE

Setting off a guarantor's account before invocation is premature and can be legally challenged.

Question 20

The amount a bank sets off must be a certain, ascertained sum rather than an estimated figure.

TRUE

An uncertain or merely estimated amount fails the certainty condition required for a valid set-off.