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20 One-Liners | DRA Free Notes 2026: Legal Aspects of Loan Recovery (SARFAESI, Lok Ada

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20 One-Liners to Remember

Quick-fire facts for last-minute revision.

- 1 The SARFAESI Act, 2002 lets banks seize and sell secured assets without going to court.**
It empowers banks and financial institutions to enforce security interest directly once a loan turns into an NPA.
- 2 SARFAESI's full name is the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.**
It covers both movable and immovable property pledged as security for a loan.
- 3 A bank can invoke SARFAESI only after the loan account is classified as a Non-Performing Asset.**
Classification as an NPA under RBI's IRAC norms is one of the mandatory conditions for enforcement.
- 4 Agricultural land is exempt and cannot be sold by a bank under the SARFAESI Act.**
This exemption protects farmers and is one of the four conditions that must be met before SARFAESI can be used.
- 5 Under SARFAESI, a bank's rights over a secured asset include the power to lease, assign, or sell it.**
These powers let the bank realise its dues without first obtaining a court decree.

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6 Before SARFAESI, 2002, banks had to rely on slow civil litigation to enforce security over immovable property.

Court cases could take years to yield a decree, which delayed recovery and prompted the new law.

7 A Lok Adalat is an alternative, informal forum where borrower and lender settle a dispute by mutual agreement.

It avoids prolonged litigation and works well for smaller, amicable recovery cases.

8 An award passed by a Lok Adalat is final and binding on all parties, with no right of appeal.

This finality is what makes the Lok Adalat route fast for settling recovery disputes.

9 A Lok Adalat has the same powers as a civil court under the Code of Civil Procedure while deciding a matter.

It can summon witnesses, examine them on oath, and call for documents or public records.

10 The Debt Recovery Tribunal (DRT) is a specialised forum set up to handle recovery suits filed by banks and financial institutions.

It allows faster adjudication of larger recovery cases than ordinary civil courts.

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11 Appeals against a Debt Recovery Tribunal order go to the Debt Recovery Appellate Tribunal (DRAT).

DRAT is the appellate body that reviews DRT decisions in bank recovery suits.

12 A Debt Recovery Agent must recover dues lawfully and ethically, without harassment or threats to the borrower.

The DRA code expects respectful conduct that upholds the borrower's dignity throughout recovery.

13 Sound credit discipline at the lending stage, such as proper pre-sanction appraisal, helps prevent defaults later.

Assessing a project as neither over-financed nor under-financed reduces the risk of the loan turning bad.

14 After disbursing a loan, banks must verify that funds were actually used for the financed activity.

This end-use verification is part of post-sanction follow-up that supports timely recovery.

15 Banks should consider rescheduling a loan rather than rushing to recovery when a natural calamity hits the borrower.

Compassionate handling during genuine hardship keeps the account viable while protecting recovery prospects.

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- 16** **Obtaining an acknowledgement of debt, or revival letter, keeps a loan legally alive within the limitation period.**

Without periodic acknowledgement, a bank's right to recover the debt through legal action can lapse.

- 17** **Weak loan recovery directly inflates a bank's Non-Performing Assets under RBI's Income Recognition and Asset Classification norms.**

Poor recovery blocks funds that could otherwise be recycled into fresh, genuine lending.

- 18** **Keeping guarantors informed throughout the life of a loan is a recommended recovery follow-up practice.**

It ensures guarantors remain aware of the account status and their potential liability.

- 19** **Recovery camps organised with government officials help banks build a favourable climate for loan recovery.**

Such camps bring borrowers, officials, and bank staff together to encourage voluntary repayment.

- 20** **The three main legal routes for loan recovery covered in the DRA syllabus are SARFAESI, Lok Adalat, and DRT.**

Each route has its own trigger conditions and is suited to a different scale or type of recovery case.

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