

SAIBC — Stressed Assets and IBC

Complete Book | Table of Contents | 28 chapters + 10 sections

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**CH-1****Credit Recovery:
Choosing the Right Route****Topic 1 — Recovery Begins Before****Litigation**

- **Meaning** — Recovery means obtaining money legally due to the bank.
- **Foundation** — It begins with **sound sanction terms, properly executed documents, enforceable security and timely follow-up.**
- **Limits** — A recovery department cannot repair every weakness created at loan origination.
- **Value leaks** — Missing guarantees, inconsistent account statements, defective charges and uncertain ownership can reduce the amount realised.
- **Even clear debts** — This loss can happen even when a borrower clearly owes money.

Building the recovery file

- **Chronology** — Start with a reliable chronology: sanction, disbursement, repayments, default, acknowledgements, notices and earlier proceedings.
- **Parties** — Identify the actual borrower, guarantors and owners of charged assets.
- **Ownership** — The person operating a business may not personally own the company's property.
- **Three tracks** — A branch should distinguish **contractual claims, security enforcement and collective insolvency proceedings.**

Topic 2 — Debt, Default and Security Are Different

Concept	What it means
Debt	An obligation to pay.
Default	Failure to pay when the obligation becomes due and payable.
Security	Rights over identified property, subject to valid creation, registration, priority and enforcement rules. A mortgage does not guarantee that its sale proceeds will cover the debt.
Personal guarantee	A separate promise. Its wording, invocation and legal position need examination.

NPA classification and legal remedies

- **Prudential** — A non-performing asset classification is a prudential banking treatment.
- **Not a decree** — It is not itself a court decree and is not identical to every insolvency entry condition.
- **No suspension** — Legal action does not suspend the bank's classification and provisioning responsibilities.
- **Coordination** — Keep accounting treatment and legal remedies coordinated but distinct.

Remember this

- NPA = **prudential treatment**, not a court decree; legal action does not suspend classification or provisioning.



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Topic 3 — The Main Recovery Routes

Recovery route	What it does
Negotiated repayment / compromise settlement	May resolve a case outside litigation.
Civil proceedings	Relevant where a specialised forum does not apply.
Recovery of Debts and Bankruptcy framework	Specialised debt-recovery machinery for covered bank and financial-institution claims. It seeks recovery of an enforceable claim.
SARFAESI	Enforces eligible security interests, subject to its conditions and safeguards. It focuses on charged assets.
IBC	Collective resolution of eligible defaulting debtors; where resolution fails, liquidation or bankruptcy. It considers the debtor and its stakeholders collectively.

These routes answer different questions. IBC should not be described as a substitute demand notice for every commercial disagreement.

Remember this

- Debt recovery = enforceable claim; SARFAESI = charged assets; IBC = **collective** resolution.

Topic 4 — SARFAESI and DRT: The Basic Process Distinction**SARFAESI enforcement sequence**

- **1. Demand notice** — For an eligible secured debt, **section 13(2)** provides a **60-day** demand notice after the relevant default and NPA conditions, subject to statutory qualifications.
- **2. Measures** — If lawful conditions are met, **section 13(4)** measures can follow.
- **3. Safeguards** — Borrower representations, prescribed responses, possession and sale safeguards must be respected.
- **4. Challenge** — **Section 17** provides a DRT challenge to specified measures within **45 days** of the measure.
- **Caution** — These numbers do not remove the need to check exclusions and procedural requirements.

Aspect	Debt-recovery adjudication	Security enforcement
Focus	The bank establishes its claim before the competent tribunal.	The eligible security interest.
What follows	The bank pursues the resulting recovery machinery.	Lawful measures against the charged assets.

- **Relief** — The team must check which relief is sought and what notices or applications are necessary.
- **Other proceedings** — It must check whether another proceeding restricts action.
- **Proof** — A possession photograph alone is not proof of a compliant sale.

Remember this

- SARFAESI: s.13(2) notice = **60 days**; s.17 DRT challenge = within **45 days** of the measure.

Topic 5 — Selecting a Lawful Strategy

- **1. Facts** — Check the debtor's legal form, amount and nature of debt, default evidence, limitation, security and existing proceedings.
- **2. Economics** — Compare expected net recovery, time, legal expenditure and business viability.



- **3. Coordination** — Coordinate parallel remedies so the bank does not recover the same amount twice or ignore a statutory moratorium.
- **4. Approval** — Obtain appropriate internal sanction and legal advice on jurisdiction.

Situation	Likely better route
Viable factory with temporary cash-flow stress	A credible restructuring may produce more value than a hurried break-up sale.
Non-viable enterprise with deteriorating assets	May need prompt enforcement or insolvency action.

Neither perpetual accommodation nor automatic litigation is a sound universal policy.

Topic 6 — Why Proceedings Get Delayed

Common causes of delay

- **Causes** — Defective service, incomplete documents, title disputes, valuation challenges, adjournments, appeals and lack of coordination between lenders.
- **Weak filings** — Repeatedly filing weak applications adds cost and may create avoidable adverse orders.

Reducing controllable delay

- **Documents** — Check documents before filing.
- **Evidence** — Supply clear evidence.
- **Counsel** — Appoint accountable counsel and maintain a hearing calendar.
- **Tracking** — Track what is due next, who owns the action and the last permissible date.
- **Reasons** — Record reasons for delay rather than simply recording that a case is pending.
- **Digital register** — A digital case register is useful only if the underlying information and escalation are reliable.

Topic 7 — Recovery Cost and Present Value

Measure	Meaning
Gross recovery	Cash collected before expenses .
Net recovery	Gross recovery less legal fees, valuation, preservation, sale and other relevant costs.

- **Time** — Time also matters.
- **Certainty** — A certain receipt of ₹50 lakh now is not economically identical to an uncertain ₹50 lakh several years later.
- **Method** — Discount future expected cash flows at an appropriate internal rate and consider the chance of success.

Example: ₹110 lakh expected after one year has a present value of ₹100 lakh at a 10% discount rate ($110 \div 1.10$), before expenses and risk adjustments.

This is a comparison tool, not a mandatory regulatory discount rate or permission to accept any settlement.

Remember this

- Compare routes on **risk-adjusted net present value**, not on headline amounts.

Topic 8 — Settlement Discipline and Conduct

Compromise discipline

- **Policy** — A compromise should follow the bank's approved policy, delegated authority and applicable RBI directions.

- **Fraud or wilful defaulter (from 1 October 2026)** — A permitted compromise with such a borrower is approved by the Management Committee of the Board, or by the Board where that Committee approved the original underwriting; criminal proceedings are not erased.
- **Ability to pay** — Establish the borrower's ability to pay and the source of settlement funds.
- **Position** — Assess the value of security, the legal position and the conditions for closing the case.
- **Reasoning** — Document why the offer is preferable to realistic alternatives.
- **Write-off** — A technical write-off is an accounting action and does not automatically waive recovery rights.

Fair recovery conduct

- **Lawful methods** — Recovery staff and agents must use lawful, respectful methods.
- **Prohibited** — Threats, humiliation, misleading statements and improper disclosure of debt undermine both customer protection and recovery.
- **After payment** — Receipt reconciliation and controlled release of securities protect the bank.

Remember this

- Technical write-off = **accounting action**; recovery rights are not automatically waived.

Topic 9 — Why Recovery Proceedings Stall and How to Reduce Avoidable Delay

- **Early loss** — A recovery file often loses time before a judge considers its merits.
- **Causes** — Suing the wrong legal person, incomplete service addresses, missing authority to sign, unreconciled account statements, defective security records and repeated requests for adjournment.

Problem type	Example
Substantive problem	A contested title or a prior charge.
Preparation problem	A missing certified document.

Separate the two kinds of problem.

Monthly litigation review

- **Next event** — Identify the next procedural event.
- **Owner** — Name the person responsible.
- **Document** — State the document required.
- **Deadline** — Fix the date for completion.
- **Avoid** — Counting hearings without identifying the next action does not improve recovery.

Optimisation: a worked comparison

Optimisation means maximising **expected net recovery**, not choosing the lowest legal bill.

Option	Cash flow	Value today
Immediate documented settlement	₹62 lakh now	₹62 lakh
Disputed sale	₹80 lakh after two years, less ₹8 lakh enforcement and preservation costs = ₹72 lakh net	About ₹57.4 lakh at a 12% annual discount rate

- **Result** — On those assumptions, the settlement has higher economic value.
- **Still check** — The bank must examine sanction powers, fairness, connected-party concerns and whether the settlement amount is credible.
- **Sensitivity** — Change the assumptions if the security can sell sooner or litigation prospects improve.



- **Purpose** — This comparison supports a reasoned choice; it is not a rule to accept every discounted offer.

Topic 10 — Case 1: A Quick Offer versus a Long Suit

Example: A borrower offers ₹70 lakh immediately. Counsel estimates that enforcement might yield ₹90 lakh in two years, with ₹8 lakh expenses and uncertain sale demand.

- **Approach** — The banker should compare risk-adjusted net present values and the legal alternatives.
- **Controls** — Obtain authority and verify funding.
- **Error** — Accepting or rejecting purely because ₹90 lakh is larger ignores timing and cost.
- **Policy** — The final decision must remain within policy.

Topic 11 — Case 2: The Security Belongs to Someone Else

Example: A branch assumes that a director's warehouse belongs to the company and includes it in a recovery strategy. Title records show **personal ownership** and **no valid mortgage** to the bank.

- **Asset map** — The bank must correct the asset map.
- **Guarantee** — It must assess any separately enforceable guarantee.
- **Principle** — Company insolvency does not automatically transfer every promoter-owned asset into the company's estate.

SAIBC | Module A | CH-1 | MCQs

Q1. What should precede the choice of a recovery forum? [Ref: Topic 5, p. 2]

- (a) Verification of debt, debtor, evidence and applicable jurisdiction
- (b) Selecting the forum with the lowest filing fee before checking eligibility
- (c) Selecting IBC solely because the account is classified NPA
- (d) Selecting SARFAESI solely because the lender is a bank

Q2. Which figure best supports an economic comparison of recovery routes? [Ref: Topic 7, p. 3]

- (a) Risk-adjusted net present value
- (b) The contractual amount due without considering timing
- (c) The highest estimated sale value without execution risk
- (d) Undiscounted recovery without allowing for litigation cost

Q3. A technical write-off normally means what? [Ref: Topic 8, p. 3]

- (a) A compromise that legally reduces the borrower's obligation
- (b) An accounting treatment, not automatic waiver of recovery
- (c) A discharge of guarantors to the extent written off
- (d) A final settlement that prevents later recovery proceedings

Q4. What is the main focus of security enforcement? [Ref: Topic 3, p. 2]

- (a) Determining all creditor claims through a collective insolvency plan
- (b) Recovering from any asset of any director without separate liability
- (c) Approving a restructuring of every unsecured debt
- (d) Lawful realisation of eligible charged assets

Q5. A director owns an uncharged house. Is it automatically company property? [Ref: Topic 11, p. 4]

- (a) Yes, if the company's assets are insufficient to pay its creditors
- (b) No, ownership and enforceable rights must be checked
- (c) Yes, once the company's account becomes non-performing
- (d) Yes, if the director signed the company's financial statements

Q6. What can reduce avoidable litigation delay? [Ref: Topic 6, p. 3]

- (a) Relying on informal notice delivery without preserving proof
- (b) Filing immediately and supplying missing essential evidence later
- (c) Complete evidence and a monitored action calendar
- (d) Allowing separate teams to pursue inconsistent recovery figures

Q7. IBC is best understood as which mechanism? [Ref: Topic 3, p. 2]

- (a) Collective insolvency resolution, with applicable liquidation routes
- (b) A procedure requiring every viable borrower to be liquidated
- (c) A security-enforcement process limited to mortgaged property
- (d) A debt-collection process available for every genuinely disputed invoice

Q8. What is the present value of ₹110 lakh after one year at 10%? [Ref: Topic 7, p. 3]

- (a) ₹99 lakh (b) ₹100 lakh (c) ₹121 lakh (d) ₹110 lakh

Q9. What should a compromise decision contain? [Ref: Topic 8, p. 3]

- (a) Comparison of headline offers without assessing payment timing
- (b) Acceptance based solely on the borrower's promise to arrange funds
- (c) Documented comparison, funding verification and competent approval
- (d) Release of security on approval before agreed payment conditions are met

Q10. Which recovery conduct is appropriate? [Ref: Topic 8, p. 3]

- (a) Discussing the debt with unrelated colleagues to encourage repayment
- (b) Collecting cash without issuing and reconciling the authorised receipt
- (c) Using unapproved settlement promises to secure an immediate payment
- (d) Lawful communication and controlled receipt reconciliation

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	3	b	5	b	7	a	9	c
2	a	4	d	6	c	8	b	10	d

CH-2

RBI Prudential Framework and Resolution Discipline

Topic 1 — Why the Syllabus Includes the 7 June 2019 Framework

- **Syllabus** — The syllabus expressly includes RBI's **Prudential Framework for Resolution of Stressed Assets** dated 7 June 2019.
- **Foundation** — Study it as an important foundation for **lender-led resolution**.
- **Coverage** — It explains early recognition, review, inter-creditor coordination, implementation discipline and additional provisioning for delay.
- **Current instrument** — For commercial banks the framework now sits in RBI's consolidated **Commercial Banks – Resolution of Stressed Assets Directions, 2025**; 7 June 2019 is the earlier, syllabus source.
- **Caution** — Do not assume the original circular is the only current instrument.