



TALK TO EXPERTS – SERIES-6

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This week we are going to look into another reason why the highway projects could not be completed in time. And the reason is the Refusal of Banks to accept first charge of NHAI.

To understand the significance of the phrase 'first charge' some basic banking principles must be made known. Let us try to know the banking operations in a simple language without the necessary banking related jargons.

A bank is a well-defined institution that accepts money from the public, to mention the most popular source of money for the banks. It accepts money from the citizens so that it can lend money to those individuals who need them on some nominal interest. That is, the borrower gives some money more than what he has taken from the bank as a loan. This interest, a complex subject for study which involves the function and

duties of the Bank of all banks, the Reserve Bank of India, constitutes the major source of revenue generation for the banks. Let us not now go into the kinds of banks and their respective functions.

The banks which accept money from the public has the most important task and obligation of protecting the money thus received from the public. The one who gives or deposits money with the bank has the fundamental right of asking for the money back. A cheque is the promise of the bank that the depositor can take money from the bank any time he wants by presenting the cheque subject to availability of balance in the account.

Because the bank is ethically obliged to give back the money it received from the public, it has to take utmost care when it lends money to some people. People may need money for personal use or for commercial use; whatever may be the end for which money is sought, the bank must be convinced first of all that the man who borrows money will repay it in time; he has the capacity to give the money back, that is, he will settle the loan, as stipulated or with penalty if time of return exceeds the date already decided upon.

There are ways in which the man who borrows money from the bank, who gets a loan from the bank, can show the bank with relevant records that he will pay back the money, he is capable of repaying the money. In other words, the borrower assures the bank that the loan is secure in the sense that the loan will be cleared as agreed upon . Security cannot be merely verbal assurances but it must be in form of some assets or properties that have solid value, that can be converted into money on sale. It means that the bank reserves the right to sell the asset given to the bank as security by the borrower and the right of the bank cannot be questioned or denied. This right of exercising the decision to sell the asset of the borrower when he fails to pay the loan back is generally known as the first charge.

We will see more of it next week in relation to NHAI having the first charge.