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Banking on Flamboyance, Electronics and Brand Values: The Signs of the 'Good Times'

March saw the 'King of Good Times' Vijay Mallya in the news for defaulting to pay a debt of 9000 crores. It was reported that Kingfisher's gross block (investment in fixed assets) was a fraction of its total debt from day one. Some of these loans were given by the 17-bank consortium of lenders on pledging office furniture like folding chairs and electronic equipment such as boarding pass printers, and on the so-called brand value of Kingfisher. SBI petitioned the North Goa Collector for assistance to attach Mallya's villa in Candolim, but unlike the prompt action when it comes to small borrowers, or small people who are not even liable, in this case, if you please, the Collector chose to have hearings.

Thus, we see the nexus between bankers who winked at the value-hyped securities offered for the loan, an administration that apparently colluded (going by an interview with the SBI chairperson) and an entire system that let the developments play out to Mallya's benefit. The Mallya-Kingfisher episode has in fact brought the spotlight on two aspects. One, the very development model around which the banking model is crafted, where speculation is the new normal and instability of the common person is key. Two, the corruption and prejudices in lending, which in turn are located in a system that lacks transparency and accountability.

The system calibrates items like brand value of a business (howsoever it is computed), the expensive flamboyant lifestyle image of a person of 'Good Times' with an expensive flamboyant lifestyle, and office furniture of a corporate including folding chairs, as good security. But a track record of consistent small business does not qualify similarly. This calibration of assets in our present banking system is symptomatic of the perspectives that inform the present development model.

At the micro-level, when an individual submits the loan application form, its copy is not made available to her. Also, often the forms are not encouraged to be fully filled by the Applicants and are subsequently filled by the bankers, leaving room for manipulation. No periodic statements of the amounts due are issued at the respective points of time. This results in unwittingly continuing defaults in payment once one default occurs. The small borrower also does not know, or rather, is not informed when the payments being made by her will be adjusted against the principal amount as against on interest payable, what are the possibilities of one time settlements and the criteria on the basis of which they are effected (be it political backing or genuine concern for the defaulter and to recover what is recoverable). So the small time borrower often ends up literally tying a noose around her neck when taking a loan despite real creditworthiness and sincere intentions and efforts to pay.

It is the same story with the collateral offered. A housing loan is granted based on title documents of the house, not documents of established possession, only ownership. So a big corporate may own property but may lease it to its other avatars or to a substantial stake-holder in the business and get a loan.

Banks say they require original documents to ensure the asset is not already mortgaged. But this is overlooked with influence. With old houses, most people will not have such original documents. The banks do not accept court orders as a proof of encumbrance-free title, or ownership, or settled possession. The pre-1961 system of inscription and description was meant to indicate the devolution of property including any alienation but it was dismantled and not substituted by any system that records transfers and alienation of property as is now reflecting in the *hakkache patrak*, for instance, in Maharashtra.

So, if you possess a maintained old house which may be much sturdier than the flats you come across, or if you are economically backward or even a professional single woman, a whole set of doubts persist. But if you sell the same old house to a builder who seeks a loan with the Deed of Sale, he and the purchasers of the proposed flats can get whopping loan amounts. The assumptions here are about creditworthiness of flats, especially those built by big name real estate companies, as against old houses; the lack of creditworthiness of single women or economically backward sections, presumed to have nobody else or nothing to fall back upon.

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