Importance of Bank Documents and Their Verification

The Law of evidence plays a pivotal role in the effective functioning of the judicial system. “The existence of substantive rights can only be established by relevant and admissible evidence.” Relevancy of facts is the key to determine the outcome of the judicial process which is based on fair trial without fear or favor and upholding the principles of Natural Justice and Human Rights. Hence the importance of evidence neither be overlooked nor be ignored. The proof of evidence comes out of documents and the establishment of relevant evidence is through the verification of documents. Hence the documents and verification of documents are very important and very essential to establish the truth and to bring Justice.

A writing is a document, Section 3; Indian Evidence Act defines evidence as under:

Evidence means and includes-

1. Oral testimony
2. Writing
3. Recorded evidence
4.ittestimony of experts
5. Records of courts, and public authorities
6. Books, charts, and maps
7. Photographs, films, and sound recordings
8. Any other proof enabling the court to form a just idea of the matter in issue.
(a) All statements which the court permits or requires to be made before it by witnesses, in relation to matters of facts under inquiry, such statements are called oral evidence;

(b) All documents including electronic records produced for the inspection of the court; such documents are called documentary evidence.

What are Bank documents? It is generally believed that the documents signed by any person to avail any facility alone are bank documents. If anybody nurses such a belief, then he is wrong particularly for a borrower. The very first day when a potential customer approaches a bank to establish a relationship with the bank through an interaction, the potential document and the proof thereof begins. There are oral and documentary evidences. Oral evidence need not constitute documentary evidence. But when minutes of the meetings / discussions are recorded, it becomes a documentary proof.

1. Banks do not entertain any proposal without a preliminary discussion and if such discussion takes place neither the minutes of the meeting and discussion are recorded nor the gist of the meeting is made either by the bank or by the prospective borrower. Thus an opportunity to create a document is lost for the prospective borrower.

2. If the discussion bears fruit, then the bank requests their prospective borrower to submit their application for bank facility containing all relevant information along with the detailed project report of the proposed venture. The bank may also ask the borrower to open their account and start their bank transactions so that the bank can monitor their activities from the very beginning itself. One of the most important aspects of opening the account is the introduction of KYC norms which should be complied with and it is mandatory. The bank customer is entitled to receive the certified copies the aforesaid documents and these constitute the first documents.

3. After the receipt of the application for bank facilities along with the project report, the bank undertakes a technical feasibility and economic viability study in detail. During the course of the study the bank may raise many queries and sometimes further discussion on
the project proposal for which the borrower client will have to give convincing and satisfactory replies in writing. It may be noted if any meetings and discussions take place with regard to the proposed project, then the minutes of the meeting and discussion should be recorded in detail and duly acknowledged by the borrower and the bank officials. If the bank is satisfied with the replies of the borrower customer, then they after discussion sanction the facilities and intimate the borrower in writing regarding the sanction with all relevant terms and conditions. The entire process is carried out through various documents and these constitute very important documents.

4. Once the loan is sanctioned, the bank conveys their sanction in duplicate with all the terms and conditions to the borrower along with all relevant documents and related papers and get them acknowledged by the borrower for having accepted the terms and conditions. If the borrower belongs to corporate sector, then a resolution is passed by the borrower company for having accepted the terms and conditions as per the bank's requirement. The entire documents and papers and letters exchanged between the bank and the borrower become very important documents.

5. In case the bank rejects the proposal, then they have to give valid reasons for rejecting the proposal and if the borrower is not satisfied with the reasons, then they can make a representation to the bank to reconsider their decision.

6. After the sanction of the facility, the borrower executes bank documents with regard to the facilities sanctioned so as to enable the bank to create security documents legally binding the bank and the borrower so that the bank becomes a secured creditor. After fulfilling and complying with all the terms and conditions as stipulated in the sanction letter, the bank releases the funds for the utilization of released fund for the purpose for which it is released. If the borrower is a company incorporated as per the Company law, then they will have to create charge on the secured assets in favor of the bank within 30 days from the date of the documents. Subsequently there can be modification, verification and satisfaction of the charges created. All these form important documents.
7. The moment the bank releases the funds, credit monitoring by the bank begins. Since bank credit is purpose oriented, post sanction supervision, control and monitoring of credit becomes very important. Further it also helps the bank to prevent any slippage by which the account becomes an NPA. Hence if credit monitoring is done judiciously, diligently, honestly and focusing on the purpose for which the credit was granted, then it can prevent the account becoming NPA and the unit becoming sick.

The supervision, control and monitoring of credit may be divided into the following categories.

(I) (a) Legal control. (b) Physical control. (c) Financial control.

(II) Off-site and onsite inspection and supervision.

(III) Off-site supervision by banks.

(IV) Returns / statements submitted to the bank at the instance of Reserve Bank of India. They are:

(a) Quarterly Information System (QIS) Forms I and Form II

(b) Half Yearly operating fund flow statement – Form III

(c) Annual review.

(d) Monthly statement of select operational data (MSOD).

(e) Control at the instance of the bank.

(f) Monthly Stock Statement and yearly stock audit.
All the above items constitute yet other important documents more so they contain bank’s observations.

8. Besides, any correspondence exchanged between the borrower and the bank becomes documentary evidence. Hence the communication becomes an important toll which will aid the borrower to establish his credibility.

9. The importance of verification of documents is based on the fact that the contents of the documents may be proved either by primary or secondary evidence. The principle is “best evidence in the possession of power of the party must be produced. What the best evidence is, it must depend upon circumstances. Generally speaking, the original document is the best evidence. This is the general and ordinary rule; the contents can only be proved by the writing itself.” Further, “The contents of every written paper are, according to the ordinary and well established rules of evidence, to be proved by the paper itself, and by that alone, if the paper is in existence.” This tenet of law clearly establishes the need for verification of documents. Besides, the existence of any onerous clause or any distortion in the terms and conditions as laid down in the sanction letter or any breach of contract if any, and any lacuna that exists in the document can be established only by verification of the documents.

10. In the ultimate analysis, communication is the most vital aspect of any dealings particularly so in legal matters. It can make a life or mar a life.

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- Investment Proof Verification Process for Tax deduction by Employer
- Why Ravneet Gill may make a great CEO for Yes Bank

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Thanks. Very informative and useful. Looking forward for such informative articles in the future.

CA (MRS) MANISHA (MOHOL) FATAR
thanks for such valuable information

PRADEEP KUMAR
very useful information

NIRMAL
Good Thanx For This info.

VIJAY
thanks for providing information... this is very useful for everyone...