

# BUDGET 2021: NBFCs CAN START RECOVERY OF 20 LAKH IN LOAN DEFAULT UNDER SARFAESI

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New Delhi: The [Union Budget](#) for 2021-22 on Monday proposed to lower the threshold for non-banking financial companies (NBFCs) to initiate recovery proceedings under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (Sarfaesi Act).

## Announcement

In her Budget speech, finance minister Nirmala Sitharaman said, "To improve credit discipline while continuing to protect the interest of small borrowers, for NBFCs with a minimum asset size of 100 crore, the minimum loan size eligible for debt recovery under the Sarfaesi Act is proposed to be reduced from the existing level of 50 lakh to 20 lakh".

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## Implications

Proceedings under the Act help lenders recover their dues faster. If a lender cannot resort to the Sarfaesi Act, it needs to file cases in civil courts, which is a time-consuming process. Recovery under Sarfaesi is applicable only to secured loans, and allows lenders to auction the property mortgaged with them to recover dues from borrowers who have defaulted on loans. It is applicable to home loans, loan against property, and loan against collateral that micro small medium enterprises (MSME) avail. Under the Sarfaesi Act, a lender can take possession of the property or mortgaged assets after a 60-day notice. Lenders can take over the physical possession or control the mortgaged asset and can sell or transfer them to a buyer without the intervention of any court or a third party. Once the property is auctioned, the lender deducts its dues and pays the rest of the funds, if any, to the property owner.

## Context

Due to covid-19 pandemic, loan defaults have been rising. NBFCs wanted the limits to be lowered so that they can take quick action against defaulters. According to reports, in a pre-Budget meeting with the finance minister, the Finance Industry Development Council, a representative body for NBFCs, had suggested lowering the limit, to bring some level of parity between recovery procedures available to banks and NBFCs, as the former can initiate recovery under Sarfaesi Act for loans above 1 lakh.

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