

Important Vocab for the Editorial

1. **guarantor** (noun) – warrantor, surety; a person who provides a guarantee.
2. **beware** (verb) – be wary, be careful, look out, be on the alert.
3. **entrepreneur** (noun) – businessman, businesswoman, business person.
4. **flounder** (verb) – struggle financially, have difficulty, face financial ruin, be in difficulties, be in dire straits.
5. **uphold** (verb) – confirm, endorse/approve, vindicate/validate.
6. **creditor** (noun) – lender; an entity (person or institution) to whom money is owed by a debtor (borrower).
7. **proceed (against)** (verb) – begin/start an action against, start proceedings against, sue, take to court.
8. **lift** (verb) – remove.
9. **uncertainty** (noun) – unpredictability, unreliability, riskiness/precariousness.
10. **lender** (noun) – financial institution (bank) which lends money.
11. **pursue** (verb) – go after, run after, follow, chase; engage in, conduct, take part in (an activity).
12. **furnish** (verb) – provide, give, present, grant.
13. **enable** (verb) – allow, facilitate, permit, authorize.
14. **credit flow** (noun) – availability of credit.
15. **stand for** (phrasal verb) – support, recommend, be in favour of.
16. **surety** (noun) – guarantor.
17. **stand surety** (phrase) – become a guarantor/surety.
18. **ought to** (modal verb) – must, should.
19. **consequence** (noun) – outcome, ramification, repercussion.
20. **a mountain of** (noun) – a lot, a large amount/quantity of something.
21. **sour/bad loans** (noun) – non-performing assets (NPAs), stressed assets/loans; an account where the principal and/or interest remains overdue for a period of time.
22. **expedite** (verb) – accelerate, speed up, quicken.
23. **resolution** (noun) – a plan with detailed steps to be followed by banks in case they face any difficulty; solution/answer.
24. **stressed assets** (noun) – bad loans, sour loans, non-performing assets (NPAs).
25. **bench** (noun) – a court of law with a number of judges.

26. **clutch** (noun) – quantity, group, collection (of people/things).
27. **Insolvency and Bankruptcy Code (IBC)** (noun) – Insolvency and Bankruptcy Code 2016 was implemented through an act of Parliament. It got Presidential assent in May 2016. The law was necessitated due to the huge accumulation of bad (non-performing) loans of banks and the delay in debt resolution. Insolvency resolution in India took 4.3 years on an average against other countries such as the United Kingdom (1 year) and the United States of America (1.5 years), which is sought to be reduced besides facilitating the resolution of big-ticket loan accounts.
28. **insolvency** (noun) – a condition in which the financial difficulties of an individual or organisation are such it is unable to pay its debts.
29. **bankruptcy** (noun) – legal state of insolvency. An individual or organisation is declared bankrupt if a court judges that the party involved can no longer meet debt payments to creditors. It is defined as the outcome of a legal procedure.
30. **proceedings** (noun) – action, legal action/proceedings, lawsuit.
31. **default** (verb) – fail to pay, not pay (banks/lenders' debt on time for various reasons).
32. **entity** (noun) – organization, institution, establishment, outfit.
33. **dismiss** (verb) – refuse, reject, deny.
34. **make clear** (phrase) – explain, clarify, elucidate.
35. **carve out** (phrasal verb) – establish, develop, create something (by taking something from a larger whole) with effort.
36. **species** (noun) – type, kind, sort.
37. **given** (preposition) – considering, taking into account, bearing in mind.
38. **intimate** (adjective) – close, familiar.
39. **stand a chance** (phrase) – the only possibility for success.
40. **substantially** (adverb) – considerably, significantly, largely.
41. **relatively** (adverb) – comparatively, proportionately, somewhat, to a certain extent/degree.
42. **affluent** (adjective) – wealthy, well off, rich.
43. **avail** (verb) – use, utilize, take advantage of (an opportunity/resources).
44. **run** (verb) – manage, administer, direct, control, govern.
45. **serve a notice** (phrase) – to officially give legal notice to.
46. **aggregate** (verb) – combine, total, mix, collect.
47. **credit** (noun) – loan.

48. **clear the air** (phrase) – reduce the tense situation; restore harmony, make peace, reconcile differences.
49. **bound to** (adjective) – certain, sure, very likely, guaranteed.
50. **ongoing** (adjective) – current, existing, continuing.
51. **extinguish** (verb) – eradicate, eliminate, wipe out, remove, put an end to.
52. **liability** (noun) – financial obligation, debt, indebtedness.
53. **arise out** (verb) – result, occur, accrue, stem, ensue.
54. **haircut** (noun) – a reduction in the mentioned value of an asset.
55. **negotiate** (verb) – get over, get past, cross, pass over (a difficulty).
56. **wrinkle** (noun) – difficulty, snag, obstacle/drawback.
57. **binding** (adjective) – compulsory, obligatory, imperative, mandatory, required, necessary, essential.
58. **recourse** (noun) – an action that can be taken to attempt to remedy a legal difficulty; option, possibility, alternative, possible course of action, resort, way out.
59. **remedy** (verb) – rectify, solve, fix, sort out.
60. **remedy** (noun) – solution.
61. **invoke** (verb) – resort to, have recourse to, call into use, use, put into effect, put into use.

Guarantor beware: On loans to corporate borrowers

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Entrepreneurs signing guarantee will have to be certain that the business will not flounder

The Supreme Court judgment **upholding creditors' right to proceed against personal guarantors** to loans provided by them to a corporate borrower helps lift the uncertainty over the extent to which banks and other financial lenders can pursue not only the corporate debtor but also the individuals who had furnished personal guarantees to enable the flow of credit to the company they had stood surety for. This ought to be of significant consequence to the financial system, already under a mountain of bad loans, by helping expedite the resolution of such stressed assets. The

two-judge Bench was considering a clutch of petitions challenging the government's 2019 notification that made personal guarantors a separate category of individuals who could be proceeded against under the Insolvency and Bankruptcy Code as part of the insolvency proceedings initiated by lenders against defaulting corporate entities. In dismissing the petitions, the judges made clear that the government was right in "carving out personal guarantors as a separate species of individuals", given the "intimate connection between such individuals and corporate entities to whom they stood guarantee". Banks now stand a real chance of recovering substantially more from the resolution of a stressed corporate entity, as in most cases it has been the relatively affluent promoters who have been standing as individual personal guarantors for the loans extended to the companies they promoted.

Several corporate leaders are set to be impacted. The promoters of many defaulting corporates, which are facing action under the IBC, had furnished guarantees for thousands of crores in loans availed by the companies they ran. The State Bank of India alone had submitted in the apex court that it had served demand notices aggregating to more than ₹ 39,000 crore to individuals who had signed as guarantors for credit provided to corporate entities. The judges also cleared the air over another issue that is bound to strengthen the creditors' positions in all ongoing, future and even completed insolvency proceedings. The Bench ruled that the approval of a resolution plan for the corporate debtor does not extinguish the personal guarantor's liability, which it said "arises out of an independent contract". Lenders can now proceed against the guarantors to enhance recovery given that most banks agree to 'haircuts' when negotiating a resolution plan with a new promoter for the defaulting company. The only wrinkle here is that once the resolution plan becomes legally binding, the guarantor loses the recourse to remedy from the borrower when the creditor invokes the personal guarantee. Entrepreneurs will now have to think twice before signing a personal guarantee unless they can be very certain that the business they found will not flounder.