

Supreme Court of India

State Bank Of Patiala vs Harbans Singh on 14 February, 1994

Equivalent citations: 1994 SCC (3) 495, JT 1994 (3) 211

Author: K Ramaswamy

Bench: Ramaswamy, K.

PETITIONER:

STATE BANK OF PATIALA

Vs.

RESPONDENT:

HARBANS SINGH

DATE OF JUDGMENT 14/02/1994

BENCH:

RAMASWAMY, K.

BENCH:

RAMASWAMY, K.

HANSARIA B.L. (J)

CITATION:

1994 SCC (3) 495 JT 1994 (3) 211

1994 SCALE (2) 582

ACT:

HEADNOTE:

JUDGMENT:

ORDER

1. Leave granted.

2. This appeal arises against the order of the High Court of Punjab & Haryana in Second Appeal No. 1165 of 1993 dated 28-5-1993 dismissing the appeal of the appellant in limine. The respondent is the landlord who obtained loan from the appellant and constructed a building for the business of the appellant in ground floor of the premises bearing No. 55 at Tripurari Sadan, Patiala. The appellant charged interest @ 16% per annum with quarterly rests thereon. Impugning the liability, the respondent laid the suit and the trial court reduced the rate of interest to 15% p.a. and also set aside the liability of quarterly rest. On appeal it was confirmed. As said earlier, the second appeal was dismissed in limine. Thus this appeal by special leave.

3.The contention of the appellants is that the respondent had approached for a term loan for construction of the building with a condition to lease it out to the appellants. In the promissory note and the documents executed by the respondent, it was specifically agreed that the term loan granted by the appellants would carry not only the interest at the rate stipulated therein, but also quarterly rest. It is stated that the word 'term loan' would include not only the loan lent for commercial purposes but also the loan advanced to construct the houses to lease back to the bank for their business purpose and the courts below have, therefore, committed illegality in reducing the liability of quarterly rest. Though we have given sufficient time and +From the Judgment and Order dated 28-5-1993 of the Punjab and Haryana High Court in R.S.A. No. 1165 of 1993 adjourned the case from time to time to produce all the records, the bank has not chosen to produce the records; in particular, circular letter of Reserve Bank of India bearing DBOD No. DCDC 106/c 168(61-80) dated 15-9-1980 on the subject of minimum lending rates of interest in respect of advances to the landlords. Therefore, we are constrained to proceed on the basis of the material placed by the appellants and the respondent.

4.Shri Goel, learned Senior Counsel for the appellants, has strenuously contended that the word 'term loan' would include not only the loan advanced for commercial purpose, but also the loans advanced to the landlords for construction of the building to lease back to the lending bank for their commercial purpose, which loan carries liability to pay interest at quarterly rest. In the promissory note and the agreement executed by the respondent it was mentioned that the liability on interest is also with quarterly rest. He stated that in clause 1(ii) of the letter (Ex. P-7 filed by them on the paper book) addressed by the Reserve Bank of India, Department of Banking Operations to all the commercial banks on 13-3-1976 it was mentioned that:

"(ii) No scheduled commercial bank incorporated in India and having aggregate demand and time liabilities of Rs 25 crores or above but less than Rs 50 crores as on 12-3- 1976 or at any time thereafter, shall charge interest on loans/advances/cash credits/overdrafts or any other financial accommodation made or provided by it or renewed by it, or discount usance bills at a rate, in either case, higher than 17.50 per cent per annum: interest shall be charged with quarterly rests."

5.This clearly shows that landlord is liable to pay quarterly rest. But when we see the letter DBOD No. DCDC 42/c 168(61)-81 dated 18-4-1991 addressed by the Reserve Bank to all the commercial banks including the regional rural banks, we find it was decided by the Reserve Bank that the minimum lending rates of interest in respect of advances to landlords/lessors or premises for bank's use, should be refined and the same should be 15.0% in respect of such advances in urban/metropolitan centres. This letter does not mention about quarterly rest.

6.The appellant bank itself have stated that in the letter of the Reserve Bank of India dated 7-3-1986 it has been reiterated in paragraph 2 that the matter regarding rates of interest to be charged by the banks on advances granted to landlords for purpose of (sic) has been reviewed and it has been decided that such advances should be treated as term loans and charged interest accordingly which was at that time 15 % per annum. Even in the letter subsequently addressed by the Regional Manager of the appellant bank on 22-4-1988 it was stated that:

"Please refer to your letter mentioned above and advise us the reasons for charging higher rate of interest @ 16% and 17.5% whereas per loans and conditions settled with the landlord 15% p.a. interest plus interest tax is to be charged."

When the respondent vide his letter dated 16-4-1988 had expressly protested not only charging the rate of interest at 16% p.a., but also quarterly rest, the appellant bank specifically referred to this request of the respondent and pointed out that the aforesaid mistake was committed by the authorities. The appellant bank in its latest circular No. Prem/Gen/8 of 1993-94 dated 29-10-1993 have stated that the Reserve Bank of India have reduced the lending rates by one per cent point from 18% (minimum) to 17% (minimum), from 17% (minimum) to 16% (minimum) and from 16% (minimum) to 15% (minimum) w.e.f. 1-3-1993, 24-6-1993 and 2-9-1993 respectively. Consequent to the above revision, the appellant bank itself decided to charge interest on term loans granted to landlords for purpose of acquisition of premises for bank's use w.e.f. 1-3-1993 to 23-6-1993, 24-6-1993 to 1-9-1993 and 2-9-1993 onwards as per the schedule mentioned as under:

Size Effective	Effective	Effective	Effective	interest rate	interest	interest	interest	prevalent rate from		
rate from	rate from	rate from	rate from	w.e.f before	1-3-1993 to	24-6-1993	2-9-1993	1-3-1993	23-6-1993 to	1-9-1993 onwards
(A) Up to & inclusive	12.00	12.00	of Rs 7500	(11.50)	(11.50)	(B) Over Rs 7500 &	14.00	14.00		
12.50	12.50	up to Rs 25,000	(13.50)	(13.50)	(12.00)	(12.00)	(C) Over Rs 25,000	17.25	17.25	
16.50	15.50	& up to Rs 2.00	(16.50)	(16.50)	(16.00)	fixed lakhs	(15.00)	(D) Over Rs 2.00	18.75 min.	
17.75 min.	16.50 min.	15.50 min.								

lakhs (18.00)min. (17.00)min.(16.00) min. (15.00) min.

(Figures given in brackets indicate interest rate without tax)

7. In the light of these intrinsic factual material, directions by the Reserve Bank and circumstances, it is clear that there is no liability of the landlord, who had taken loan for constructing the premises and leasing back to the bank for commercial purpose, to pay interest at more than 15% and he need not pay interest at quarterly rest. The letter of RBI dated 13-3-1976 also indicates that the obligation to pay quarterly rest was not with reference to the loans taken by the landlords for construction of the premises but for commercial purpose. The word term loan was used for the commercial purpose and it did not include the loan advanced to the landlords for construction of the buildings. Term loan would mean the loan advanced for commercial purposes and not the loans given to the landlords for construction of the buildings to lease back for the use by the bank itself. It was not so intended would be clear from clause 1 (ii) of the letter relied on by the bank (Ex. P-7) as extracted earlier. It would indicate that in respect of commercial loans, they appear to have intended to charge quarterly rest. The Reserve Bank at nowhere indicated that the term loans given to the landlords for construction of the buildings to lease back to the commercial banks should be intended to be charged with interest with quarterly rest. On the other hand, they have reduced sufficiently from time to time even the lending rate of interest in favour of landlords/lessors.

8. It is true, as contended by Shri Goel, learned Senior Counsel, that the State Bank of Patiala, Head Office while addressing the letter to the Manager of the State Bank of Patiala at Tripurari Sadan,

Patiala (Ann. P-6) have referred to the rate of interest at 15% per annum plus interest tax with quarterly rest. But in the light of the directions given by the Reserve Bank which the commercial banks are bound to follow and the bank itself adopted that policy and reduced the rate of interest, the liability to pay quarterly rest is obviously illegal. The trial court and the district court, therefore, are quite right in limiting the liability of the respondent only to pay simple interest on the loan advanced by the bank at 15% p.a. without quarterly rest. We do not find any illegality warranting interference.

9. The appeal is accordingly dismissed. No costs.