BHARAT SCHOOL OF BANKING

PLEDGE, HYPOTHECATION, MORTGAGE, LIEN

Securities for loan

If you want a **loan** from a **bank (**or any other **financial institution)**, you generally need to provide some kind of **security** against the **loan** to the bank. There are several types of **securities**, against which a **bank** will offer you a **loan** -

1. **Pledge** - It is used when the **bank** (or, **lender**, known as **pledgee**) takes actual **possession** of the **securities**, such as **goods, certificates**, **golds**, etc, (you provide it to bank to **avail loan**) which are generally **movable** in nature. Bank **keeps** the **securities** with itself, and provide **loan** to you.
   Bank will return the **securities** (**possession** of goods) to you **(borrower,** known as **pledgor**), after you **repay** all the **debts** (i.e., **loan**) to the **bank**. In case you are **unable** to **pay back**, then the **bank** has the **right to sell** the **assets**, and **recover** the loan amount (with interest).

   Example - **Gold loans, Jewellry loans, advances** against NSC (National Saving Certificates), or **loans** against any other **assets**.
2. **Hypothecation** - It is used when you (**borrower**) have the actual **possession** of the **asset,** for which you have taken the **loan.** Generally, this is charged against loans for **movable assets,** like **car, bus**, etc. (i.e., **vehicle loans**). Here, the **assets** (bus, car, etc.) **remain** with you, and you are **hypothecated** to the **bank** for the **loan granted.**
   In case you are **unable** to **repay** the **loan amount**, then the **bank** has the **right to sell** the **asset** (bus, car, etc.), (which is **possessed** by you) and **recover** the total amount (with interest).

   Example - **Car loans, Bus loans,** etc.
3. **Mortgage** - It is used when you (**borrower**) have the actual **possession** of the **assets**, for which you are granted **loan** (e.g., **house loan**), or against which you are granted **loan** (e.g., **house mortgaged**). **Mortgages** are generally those **assets**, which are **permanently** attached with **Earth surface**, like **house, land**, **factory** etc.
   In case you are **unable** to **repay** the **loan amount**, the **bank** has the **right** to **seize** and **sell** the **mortgage**, and **recover** the loan amount (with interest).
4. **Lien** - It is almost similar to **Pledge**, except that in case of **lien**, the **lender** can **only detain** the **asset/goods** until the **borrower** repays the **loan**, but have **no right to sell** the **asset**, unless **explicitly declared** in the **lien contract.** (For a **pledge**, the **lender** can **sell** the **asset**, if the **borrower** is unable to pay the loan)

Note the followings -
Movable assets - **Pledge, Hypothecation, Lien**
Immovable assets - Mortgage

Possessed by lender - Pledge, Lien
Possessed by borrower - Hypothecation, Mortgage