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## Passage No. 94

**Direction: Study the following information carefully and answer the question given below.**

Homebuyers parted of their money by real estate developers have some relief coming their way. The Union Cabinet has cleared an ordinance amending the Insolvency and Bankruptcy Code (IBC), a law which came into force in November 2016 to hasten the process of winding up failed businesses. While the government refused to divulge specific details of the amendment, the change to the law is expected to help offer better treatment to homebuyers when it comes to recovering their dues from bankrupt companies.

A 14-member panel formed by the Ministry of Corporate Affairs had recommended last month that homebuyers should be treated as financial creditors during the bankruptcy resolution process. It is yet to be known whether homebuyers will be treated better or worse than banks and other financial lenders under the amended law. But there is a sound reason to treat them a step above these traditional lenders. Economically speaking, homebuyers are not creditors but only customers to real estate developers. Unlike traditional creditors such as banks and institutional investors, they do not offer their money in expectation of excess returns. Homebuyers simply want the delivery of a good that was promised to them. It is thus unfair to push homebuyers, who did not choose to risk their money on an uncertain venture in the first place, down the pecking order when it comes to sharing the spoils of a bankrupt entity.

Until now, homebuyers have had to knock on the doors of the courts to uphold their rights, while other stakeholders benefited significantly at their cost. The travails of several homebuyers in the Jaypee insolvency case, in which the Supreme Court had to intervene in favour of homebuyers in the bankruptcy resolution process, is a case in point. The amendment, if it meets expectations, could also reduce the inconsistencies between the IBC and the Real Estate Regulation Act (RERA). While RERA was introduced with the goal of protecting the rights of buyers by ensuring the timely and honest delivery of homes, they have had to be content with a relatively low status among the various stakeholders in a bankruptcy proceeding. In fact, buyers have been treated as unsecured creditors. The removal of this inconsistency can help courts deliver better justice to homebuyers in the future.

## Questions:

**1. As per the passage, why should homebuyers be given more priority than lenders?**

- I. Homebuyers are not creditors.
- II. Homebuyers are not customers.
- III. Homebuyers only want the delivery of promised goods.

- A. Only II
- B. Only III
- C. Only I and II
- D. Only II and III
- E. Only I and III

## 2. Which of the following is/are true as per the passage?

- I. Homebuyers are like traditional creditors and want excess returns on their real estate investments.
- II. RERA was introduced to protect the rights of buyers.
- III. Most of the cases with under the IBC proceedings pertain to Real Estate.

- A. Only II                      B. Only III                      C. Only I and II                      D. Only I and III  
E. All of the above

## 3. Why was the Insolvency and Bankruptcy Code passed?

- A. To hasten process of capital infusion into businesses going through a tough time.
- B. To delay the process of bankruptcy proceedings which would have adversely impacted the economy.
- C. To hasten the process of winding up of businesses which have not been performing well.
- D. To hasten the process of winding up of businesses which have failed.
- E. None of the above

## 4. Which of the following is/are the recommendations of the Panel formed by the Ministry of Corporate Affairs?

- I. Homebuyers to be treated as homeowners and financial debtors.
- II. Homebuyers would be given first priority and be repaid before the banks and other Institutions.
- III. Homebuyers to be treated as financial creditors.

- A. Only I                      B. Only III                      C. Only I and II                      D. Only II and III  
E. All of the above

## 5. Which of the following is/are the deficiencies of the current IBC?

- I. It suffers from inconsistencies when compared with the Real Estate Regulation Act.
- II. Homebuyers have been forced to file lawsuits in Courts to uphold their rights.
- III. Homebuyers have been given a low status in the bankruptcy proceedings.

- A. Only I                      B. Only I and II                      C. Only II and III                      D. Only I and III  
E. All of the above

### Correct Answers:

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
E	A	D	B	E

## Explanations:

**1.** Refer to: 'But there is a sound reason to treat them a step above these traditional lenders. Economically speaking, homebuyers are not creditors but only customers to real estate developers. Unlike traditional creditors such as banks and institutional investors, they do not offer their money in expectation of excess returns. Homebuyers simply want the delivery of a good that was promised to them.'

As per the fragments highlighted, I and III are correct while II is the opposite of what has been stated in the passage.

Hence, option E is correct.

**2.** 'Economically speaking, homebuyers are not creditors but only customers to real estate developers. Unlike traditional creditors such as banks and institutional investors, they do not offer their money in expectation of excess returns.'

I is incorrect.

'While RERA was introduced with the goal of protecting the rights of buyers by ensuring the timely and honest delivery of homes, they have had to be content with a relatively low status among the various stakeholders in a bankruptcy proceeding.'

II is correct.

III has not been mentioned in the passage and is incorrect.

Only II is correct. Hence, option A is correct.

**3.** Refer to: 'The Union Cabinet has cleared an ordinance amending the Insolvency and Bankruptcy Code (IBC), a law which came into force in November 2016 to hasten the process of winding up failed businesses.'

As per the fragment highlighted above, option D is correct.

Option C is incorrect as merely *not performing well* is not a criteria and the business needs to have failed.

Hence, option D is correct.

**4.** Refer to: 'A 14-member panel formed by the Ministry of Corporate Affairs had recommended last month that homebuyers should be treated as financial creditors during the bankruptcy resolution process.'

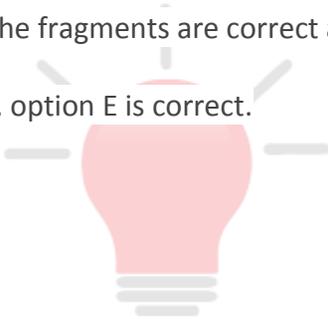
I is incorrect while II has not been decided yet. Only III is correct.

Hence, option B is correct.

**5.** Refer to: 'homebuyers have had to knock on the doors of the courts to uphold their rights, while other stakeholders benefited significantly at their cost...The amendment, if it meets expectations, could also reduce the inconsistencies between the IBC and the Real Estate Regulation Act (RERA). While RERA was introduced with the goal of protecting the rights of buyers by ensuring the timely and honest delivery of homes, they have had to be content with a relatively low status among the various stakeholders in a bankruptcy proceeding.'

All of the fragments are correct as per the paragraph above.

Hence, option E is correct.



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