MODULE 6

BANKER AS LENDER

OUTLINE:

- Banker as lender
- Types of loans
- Overdraft facilities
- Discounting of bills
- Financing book
- Debts and supply bills
- Charging of Security bills
- Pledge - Mortgage
- Assignment.

INTRODUCTION:

- Lending is one of the important functi
all banks.

General Principles of Sound Len

- Safety
- Liquidity
- Profitability
- Security to be insisted upon
- Purpose of the loan
- Diversification of loans
- Assured Repayment
- Social Objectives

Forms of advances:

1) Loans
2) Cash Credit
3) Over draft
4) Discounting of Bills
5) Hire purchase advances

1)Loans

- Loans: lump sum amount is sanctione the customer for a specified time and specified rate of Interest. A separate account is opened in the name of the customer
- Short Term – less than one year
- Medium term – 1 to 5 years
- Long term – above 5 years

2)CASH CREDIT

- Cash Credit : Under this system the custor permitted to borrow money upto a particula against sufficient securities.
- A separate account is opened for this purp Deposits and withdrawals are frequently af in this account.
- It is a very popular among large industrial houses.
- It is sanctioned for one year and renewed after.
- Interest is charged only on the amount utili

3) OVERDRAFT

- Customer is allowed to overdraw his current account up to a specified limit
- Relatively it is not granted on a regular basis like cash credit. Interest is charged on the amount utilized

4) DISCOUNTING OF BILLS

- Banker lends against the Promissory or a bill of exchange.
- It is granted to only the well known financial parties as it is a clean advar the banks without any securities. Ban may also purchase the bill instead of discounting.

5) HIRE PURCHASE ADVANCES

- Banks provide finances to companies engaged in hire purchase business.
- They don't finance to the final custom they do so they do it under the catego personal loans.

TYPES OF LOANS

Home Loan

- Home Loans are taken by people for a va of home-related purposes such as constru of home, home renovation, home extensi buying of property or land, or payment o stamp duties.
- Home loans comprise an adjustable or fi interest rate and payment terms. :

Some types of home loans are mentioned be

- Home Purchase Loan
- Land Purchase Loan
- Home Construction Loan
- Home Extension Loan
- Home Renovation Loan
- Stamp Duty Loan
- NRI Home Loans
- Loan Against Property

Personal Loan

- This type of loan is given to individuals after acc their credentials based on their profession or bus any other sources of income.
- The loan can be utilised for any purpose, for exa paying debt, marriage expenses or vacation expe
- No collateral security is required for this type o The span of personal loan repayment varies from months to 60 months depending upon the princi amount and the EMIs.
- The interest rate ranges from 15 percent to 28 p varying from bank to bank.
- Approximately 2 percent of the total loan amoun charged as the loan processing fee.

Business Loan

- This type of loan is provided to either exist
businesses or those venturing into new bus
- As banks provide loans on the basis of
individual's credentials, it is bit difficult to g
loan for starting a business.
- It is very important for individuals (startin
business) to have a clear cut business plan a
is the most important requirement to convi
the banks that your business has the capabi
of repayment.

Education Loan

- Required by and provided to students who wan
pursue higher education in resident country or
- Students should have an admission offer from a
institution before they apply for an education lo
- The loan takes care of the fees of the institutio
including examination and library fees; travel e
for abroad; cost of books and equipments requi
insurance for the student, if applicable; and any
additional expenses such as tours, thesis, projec
etc.
- The terms of education loans vary from bank to

RBI guidelines for Education Loan

- The RBI has fixed certain norms on the tota amount of loan that can be disbursed; howe banks can increase or decrease the limit depending on the institution.
- For studying in India, Rs. 10 lakh is the ave and for studying abroad, the average is Rs. lakh.
- For a loan amount up to Rs. 4 lakh, parents should be the joint borrowers and above th amount, a guarantee or some security in te of tangible assets is required, depending u the bank.
- Simple rate of interest is charged dependir upon the base rate of the bank.

Gold Loan

- Gold loan is imparted only on providing gold as sec to a bank or any other lending institution.
- It is considered as one of the safest methods as the amount is provided on the basis of the security sub
- Amount ranging from Rs. 5k to 25 lakh can be take loan against gold.
- Amount equivalent to 80 percent to 90 percent (var from bank to bank) of the total value of the gold is g as loan to the borrower.
- Depending upon the bank, the tenure of gold loan v from one day to two years. The extension of tenure also allowed by few banks.
- The rate of interest usually ranges from 14 percent percent, depending upon the financial institution.

- The banks charge processing fees of u
1.5 percent.
- There is no prepayment fee. You can repay the gold loan any time during the tenure.
- EMI policy also varies from bank to ba few banks prefer EMIs where interest a principal are charged monthly, wherea few only charge the interest on a mont basis and offer flexibility for the payme the interest amount.

Vehicle/ Car Loan

- Compared to other loans, it is easier a
simpler to take vehicle loans.
- Vehicle loans involve less paperwork
around three to six working days are
required to get the clearance.
- The interest rates vary from bank to b
based on their base rate.
- The repayment process involves mon
EMIs and early repayment options

Overdraft facilities

- An overdraft occurs when money is withdraw a bank account and the available balance go below zero.
- In this situation the account is said to be "overdrawn".
- If there is a prior agreement with the accoun provider for an overdraft, and the amount overdrawn is within the authorized overdraft then interest is normally charged at the agre
- If the negative balance exceeds the agreed then additional fees may be charged and hig interest rates may apply.

Reasons for overdrafts

- *Intentional short-term loan*
- *Failure to maintain an accurate accou register*
- *ATM overdraft*
- *Temporary Deposit Hold*
- *Unexpected electronic withdrawals*
- *Merchant error*
- *Bank fees*

- *Intentional short-term loan - The account holders finds themselves short of money and knowingly ma an insufficient-funds debit.*
- *They accept the associated fees cover the overdraft with their nex deposit.*

- *Failure to maintain an accurat account register - The accoun holder doesn't accurately acco for activity on their account ar overspends through negligenc*

- ATM overdraft - Banks or ATMs may cash withdrawals despite insuff availability of funds. The account h may or may not be aware of this fact a time of the withdrawal. If the AT unable to communicate with cardholder's bank, it may automat authorize a withdrawal based on preset by the authorizing network.

- Temporary Deposit Hold - A deposit m
to the account can be placed on hold
the bank. This may be due to Regulat
CC (which governs the placement of
on deposited checks) or due to indivic
bank policies. The funds may not be
immediately available and lead to
overdraft fees.

- Unexpected electronic withdrawals - At some poin
past the account holder may have authorized ele
withdrawals by a business. This could occur in good
both parties if the electronic withdrawal in question is
legally possible by terms of the contract, such
initiation of a recurring service following a free trial
The debit could also have been made as a result of a
garnishment, an offset claim for a taxing agency or a
account or overdraft with another account with the
bank, or a direct-deposit chargeback in order to reco
overpayment.

- Merchant error - A merchant may improperly debit a customer's accoun to human error. For example, a custo may authorize a $5.00 purchase whic may post to the account for $500.00. customer has the option to recover th funds through chargeback to the mer

- Chargeback to merchant - A merchant account co
receive a chargeback because of making an impr
credit or debit card charge to a customer or a cus
making an unauthorized credit or debit card charg
someone else's account in order to "pay" for good
services from the merchant. It is possible for the
chargeback and associated fee to cause an overd
leave insufficient funds to cover a subsequent wit
or debit from the merchant's account that receive
chargeback.

- Authorization holds - When a custom
makes a purchase using their debit c
without using their PIN, the transactio
treated as a credit transaction. The fu
are placed on hold in the customer's
account reducing the customer's avai
balance.

- Bank fees - The bank charges a fee unexpected to the account holder, cre a negative balance or leaving insuffic funds for a subsequent debit from the same account.

Discounting of bills

- Bill of Exchange, is an instrument in writing which is an unconditional order to pay a ce amount of money to a specified person.
- The transaction is practically an advance a the security of the bill and the discount represents the interest on the advance fro date of purchase of the bill until it is due fo payment. Under certain circumstances, the may discount a bill of exchange instead of negotiating them.

- The seller who is the holder of a acce B/E has two options :

- 1. Hold on the B/E till maturity and the take the payment from buyer.
- 2. Discount the B/E with discounting agency.

- ***Discount:***
- ● Seller can take the accepted B/E to discounting agency and obtain ready
- ● The act of giving accepted B/E for money is call discounting the B/E.
- ● The difference between ready mon paid and the face value of the bill is c the discount.

Types of Bills

- 1. Demand Bill
- 2. Usance Bill
- 3. Documentary Bill
- 4. Clean Bill

Creation of a B/E

- Suppose a seller sells goods or merchandise to a bu most cases, the seller would like to be paid imme but the buyer would like to pay only after some tim is, the buyer would wish to purchase on credit. To this problem, the seller draws a B/E of a given matu the buyer. The seller has now assumed the rol creditor; and is called the drawer of the bill. The who is the debtor, is called the drawee. The selle sends the bill to the buyer who acknowledg responsibility for the payment of the amount on the mentioned on the bill by writing his acceptance on t The acceptor could be the buyer himself or any thir willing to take on the credit risk of the buyer.

- **Financing book dates and supply bills**
- When a bank receives a deposit of checks from a p it will credit the payee's account with the funds represented by the checks. However, the bank has really received the cash yet, since it must still collec funds from the bank of the paying party. Until the ba collects the funds, it is at risk of having a negative c flow situation if the payee uses the cash it has just received.
- To avoid this risk, the bank posts the amount of the deposit with a value date that is one or more days la than the book date. This value date is the presumed of receipt of the cash by the bank. Once the value c reached, the payee has use of the funds. The value may be categorized by the bank as 1-day float, 2+-c float, or some similar term.

- **Charging of security bills**
- 🕐 Charging of security is done by bar safe guard their advances by taking different kinds of securities reason be to fall back on it in case of loan is defaulted.

- ***Type of Charges***
- Assignment – it is a mode of provid security to a banker for an advance includes transfer of a right, property o debt.

- Lien – right of the banker to retain possessions of the goods
securities owned by the debtor until debt due is paid
- Set-off – Total or partial merging of a claim of one person
another in a counterclaim by the latter against the former.
- Mortgage – Transfer of interest in immovable property to
an advanced loan or an existing debt or performance of an
obligation.
- Pledge – Bailment of goods for providing security for pay
debt or performance of promise.
- Hypothecation – Charge upon any movable property crea
borrower in favor of a secured creditor without delivery of
possession of the movable property, also called as a mortga
movable property.

- **Pledge**
- 🕐 Bailment of goods as security for payment of debt or performance of a promise :PLEDGE
- 🕐 Bailer: PAWNER
- 🕐 Bailee: PAWNEE
- 🕐 Example:
- 🕐 A borrows Rs.100 from B & keeps watch as security : pledge

- **Mortgage**
- A mortgage loan, also referred to as a mortgage, is used by purchasers of real property to raise capital to buy real estate existing property owners to raise funds for any purpose whil a lien on the property being mortgaged. The loan is "secure borrower's property. This means that a legal mechanism is place which allows the lender to take possession and sell th secured property ("foreclosure" or "repossession") to pay of loan in the event that the borrower defaults on the loan or o fails to abide by its terms. The word mortgage is derived fro French" term used by English lawyers in the Middle Ages m "death pledge", and refers to the pledge ending (dying) whe the obligation is fulfilled or the property is taken through fore Mortgage can also be described as "a borrower giving cons in the form of a collateral for a benefit (loan).

- ***Standard or conforming mortgages***
- Many countries have a notion of standar or conforming mortgages that define a perceived acceptable level of risk, which may be formal or informal, and may be reinforced by laws, government intervention, or market practice.
- For example, a standard mortgage may be considered to be one with no more th 70-80% LTV and no more than one-thir of gross income going to mortgage debt

- ***Foreign currency mortgage***
- In some countries with currencies tha
to depreciate, foreign currency mortg
are common, enabling lenders to lenc
stable foreign currency, whilst the
borrower takes on the currency risk th
the currency will depreciate and they
therefore need to convert higher amo
of the domestic currency to repay the

- **Assignment**
- Essentially, an assignment is the transfe
ownership. An example of an assignment i
when a person sells his or her car, thereby
transferring the title to another.
- When assigned, the option writer has ar
obligation to complete the requirements of
option contract. If the option was a call (pu
option, then the writer would have to sell (b
the underlying security at the stated strike

- **Example:**
- One example of assignment is 'transfer by the hol life insurance policy (the assignor) of the benefits proceeds of the policy to a lender (the assignee), collateral for a loan'. In such case in the event of t death of the assignor, the assignee is paid first an balance (if any) is paid to the policy's beneficiary. However, insurance policies other than life insura may not be used for this purpose.

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