

Loan and Advances

Profit is aim of all the business, likewise other business banks are profit oriented. Bank invest fund in many ways to earn income. The bulk of income is derived from loan and advances.

Bank makes loan and advances to traders businessmen and industrialist against the security of some assets (or) on the

Personal security of the borrower. In either case there is a risk of repayment. Therefore banks have to follow a sound lending policy in matter of lending.

Principles of Sound lending policy.

Traditionally banks have been following three basic principles - Safety, liquidity and profitability. Banks in India shouldered additional responsibility also.

30	29	28	27	26	25	24
19	18	17	16	15	14	13
12	11	10	9	8	7	6
5	4	3	2	1		
30	29	28	27	26	25	24
19	18	17	16	15	14	13
12	11	10	9	8	7	6
5	4	3	2	1		

December

30

Sunday

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
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January

1. Safety :- Safety is foremost important aspect in form of advances. Bank accept money from public in form of deposit. The success of a bank depends upon the public confidence. Before lending money the bank should consider two things (1) Security offered by the customer (2) Repaying liability with interest.

So the banks should ensure the security offered by the borrower and Goodwill reputation of a customer.

Liquidity :- Liquidity refers to the ability of an assets easily convertible into cash.

The liability of an Bank is repayable on demand. To meet the demand of the depositor the bank should keep the fund liquid in nature.

Money locked up in long term loan such as land and building, plant, machinery etc. cannot be received back in time so it is less liquid.

Short term loan against security so it is easily convertible to cash.

③ Profitability

Like all other Commercial Institution bank can profit. Even a government banks also there is no exemption. They need to earn profit to pay interest to depositors, declare dividend and meet establishment charges, depreciation, bad and doubtful debts, and the maintenance of property owned by the bank. The main source of income of a bank is interest on loan. The difference between ~~income~~ interest received from borrower and the interest given to the depositor is a source of income.

C-2 responsibility

1. Security :- The customers offered different kind of security. ex land and building

Machinery, raw material

to get advances. The security must adequate and marketable without any encumbrances.

⑤ Purpose of the loan :-

As per the Banking Regulation Act 1949 the Reserve Bank gave ~~control~~ direction for the banks to provide loan.

Before granting loan they should verify the purpose of a loan. The purpose is not for gambling. The purpose of a loan received by the customer is generally for only productive purpose. and the bank should ensure that the loan is utilized for the purpose for which the loan is granted.

⑥ Source of repayment :-

Before providing loan the should consider the repayment ability.

ex debenture redeemed in few months. The life policy maturing shortly can be given as a security.

Sometimes customer may apply loan for working capital for their business.

By verifying audited accounts they may know about the repaying capacity of a customer

① Diversification of Risk :- The Banker should not provide the loanable money to a single borrower or business. It should be diversified and provide money to number of business people

② To diversify the risk the loan should be provided to different kinds of people.

③ Recent Concept of Lending :-

A sound credit is one where timely repayment is assured on the earning power of a business and repaying capacity of the borrower.