

## CREDIT MANAGEMENT

Credit management is the process of granting credit, setting the terms it is granted on, recovering this credit when it is due and ensuring compliance with company credit policy. The goal within a bank or company in controlling credit is to improve revenues and profit by facilitating sales and reducing financial risks. Credit management helps in monitoring and collecting payments from customers. A good credit management system minimizes the amount of capital tied up with debtors. It is very important to have good credit management for efficient cash flow.

## PRINCIPLES OF BANK LENDING

Lending in the general sense means the temporary giving of money or property to another person with the expectation that it will be repaid. In the business and financial context, lending includes many different types of commercial loans.

The following are the principles of lending followed by the banks:

### LIQUIDITY

Liquidity is an important principle of bank lending. Bank lend for short periods only because they lend public money which can be withdrawn at any time by depositors. They, therefore advance loans on the security of such assets which are easily marketable and convertible into cash at a short notice. A bank chooses such securities in its investment portfolio which possess sufficient liquidity. It is essential because if the bank needs cash to meet the urgent requirements of its customers, it should be in a position to sell some of the securities at a very short notice without disturbing their market prices much.

### SAFETY

The safety of funds lent is another principle of lending. Safety means that the borrower should be able to repay the loan and interest in time at regular intervals without default. The repayment of the loan depends upon the nature of security, the character of the borrower, his capacity to repay and his financial standing. Like other investments, bank investments involve risk. But the degree of risk varies with the type of security. Securities of the central government are safer than those of the state governments and local bodies.

## DIVERSITY

A commercial bank should follow the principle of diversity while choosing its investment portfolio. It should not invest its surplus fund in a particular type of security but in different types of securities. The bank should choose the shares and debentures of different types of industries situated in different parts of the country. Diversification aims at minimizing risk of the investment portfolio of a bank.

## STABILITY

Another important principle of bank's investment policy should be to invest in those stocks and securities which possess a high degree of stability in their prices. The banks should invest its funds in the shares of reputed companies where the possibility of decline in their prices is remote.

## PROFITABILITY

This is the cardinal principle for making investment by a bank. The bank must earn sufficient profits. Therefore it should invest in such securities which ensure a fair and stable return on the funds invested. The earning capacity of securities and shares depends upon the interest rate, dividend rate and the tax benefits they carry.

## TYPES OF LOANS

### PERSONAL LOANS

Most banks offer personal loans to their customers and the money can be used for any expense like paying bills or purchasing something for the household. Generally, these loans are unsecured loans. The lender or the bank needs certain documents like proof of assets, proof of income etc before approving the personal loan amount.

### CREDIT CARD LOANS

Using a credit card implies that the customer has to repay for all the purchases made at the end of the billing cycle. As credit cards are accepted everywhere it is one of the convenient ways for payment while buying things. It has become a popular loan type.

## HOME LOANS

Home loans are primarily taken for buying new homes. However, these loan can also be used for home renovations, home extensions, purchasing land property, under-construction houses, etc. These loan generally come with longer tenures (20 years to 30 years). The rates offered by some of the top banks in India with their home loans start at 8.30%. Credit score is checked before the loan request is approved by the lender. Having a good credit score, there is a fair chance to enjoy lower rates of interest with the home loan.

## CAR LOANS

A car loan helps to pave the path between a dream of owning a car and actually buying a car. Since credit reports are crucial for judging eligibility towards any loan, it is good to have a high credit score while applying for a car loan. The loan application will get approved easily and might get a lower rate of interest associated with the loan.

Car loans are secured loans. Failing to pay the instalments will led the lender will take back your car and recover the outstanding debt.

## TWO-WHEELER LOANS

A two-wheeler is pretty essential in today's world. May it be going for a long ride or a busy road in a city – bikes and scooters helps to commute conveniently. A two-wheeler loan is easy to apply for. The borrowings under this loan type helps to purchase a two-wheeler. But if the installments are not paid on time the insurer will take the two-wheeler to recover the loan amount.

## SMALL BUSINESS LOANS

Small Business Loans are loans that are provided to small scale and medium scale businesses to meet various business requirements. These loans can be used for a variety of purposes that help in growing the business. Some of these could include purchase of equipment, buying inventory,

paying the salaries of employees, marketing expenses, paying off business debts, meeting administrative expenses, or even to open a new branch or take up a franchise.

The eligibility criteria for small business loans varies from lender to lender, but the common ones are the age of the business owner, the number of years the business has been operational, income tax returns, and statement of the previous year's turnover that has been audited by a Chartered Accountant (CA).

## PAYDAY LOANS

Payday loans are also called salary loans. These are unsecured short-term loans that require the customer to be employed with a steady income. They usually have high interest rates. This is based on the applicant's credit profile, age, and income. Documents required would be salary statements and other proof of income.

## CASH ADVANCES

These loans are offered by credit card issuers and allow credit card users to withdraw cash from an ATM machine using the credit card. The amount of cash that can be withdrawn from a credit card in this way will depend on the credit limit available. The cash has to be paid back with interest, which is usually calculated from the day the cash has been withdrawn. There are also other fees associated with a cash advance, such as cash advance fees and ATM or bank fees.

## HOME RENNOVATION LOAN

Home innovation loans are offered by most lenders. These can be availed to meet the expenses related to renovation, repairs, or improvement of an existing residential property. Depending on the lender, there is a lot of flexibility with what you can do with a home renovation loan. You can use it to buy products or pay for services. For example, you can use it to pay for the services of a contractor, architect, or interior decorator. You can also use it to buy furniture, furnishings, or household appliances such as a refrigerator, washing machine, air conditioner, etc. It can be used for painting, carpentry, or masonry work as well.

## AGRICULTURE LOAN

Agriculture loans are loans that are provided to farmers to meet the expenses of their day-to-day or general agricultural requirements. These loans can be short term or long term. They can be used for raising working capital for crop cultivation or to buy agricultural equipment.

## GOLD LOAN

A gold loan can be used to raise cash to meet emergency or planned financial requirements, such as business expansion, education, medical emergencies, agricultural expenses, etc. The loan against gold is a secured loan where gold is placed as security or collateral in return for a loan amount that corresponds to the per gram market value of gold on the day that the gold has been pledged. Any other metals, gems, or stones that are in the jewelry will not be calculated when determining the value of the gold loan.

## LOAN AGAINST CREDIT CARD

Loan against credit card is like a personal loan that is taken against your credit card. These are usually pre-approved loans that do not require any additional documentation. Depending on the lender, this can be converted into a personal loan that is interest free within a certain period of time. After that, it will attract a certain percentage of interest. There is a processing fee associated with converting the credit limit that is pre-assigned into a loan.

## EDUCATIONAL LOAN

An education loan is availed specifically to finance educational requirements towards school or college. Depending on the lender, it will cover the basic fees of the course, the exam fees, accommodation fees, and other miscellaneous charges. The student is the borrower with any other close relative being the co-applicant, such as a parent, grandparent, spouse, or sibling. It can be availed for courses in India or abroad. It can be taken for a wide variety of recognised courses which are either part time or full time. They cover vocational courses as well as undergraduate and postgraduate courses.

## CONSUMER DURABLE LOAN

Consumer durable loans are loans that are availed to finance the purchase of consumer durables such as electronic gadgets and household appliances. Depending on the lender, they can be

used to buy anything from mobile phones to television sets. Loan amounts range from Rs.5,000 to Rs.5 lakh. There is no security deposit required usually. Some lenders offer 0% interest on consumer durable loans with instant approvals and minimal documentation required.