**CREDIT MANAGEMENT**

**Section- C**

1. **Describe the advantages of credit**

Having the ability to borrow money when you need it gives you flexibility. But borrowing too much money and being unable to pay it back is a serious problem in our country. In fact, the fastest growing group declaring bankruptcy is age twenty to twenty-four. It’s important to use credit responsibly and avoid having too much debt. If you understand how credit works and use it wisely, it can help you to reach your goals.

**ADVANTAGES**

* The option of buying something today and paying the money back over time, rather than having to wait
* The flexibility to act on major purchases and life opportunities that may require more money than you have on hand right now, like buying a computer, or borrowing for college
* Easier to rent an apartment and to get service from local utility companies
* Easier to buy what you want, when you want it
* Purchase Power and Ease of Purchase - Credit cards can make it easier to buy things. If you don't like to carry large amounts of cash with you or if a company doesn't accept cash purchases (for example most airlines, hotels, and car rental agencies), putting purchases on a credit card can make buying things easier.
* Protection of Purchases - Credit cards may also offer you additional protection if something you have bought is lost, damaged, or stolen. Both your credit card statement (and the credit card company) can vouch for the fact that you have made a purchase if the original receipt is lost or stolen. In addition, some credit card companies offer insurance on large purchases.
* Building a Credit Line - Having a good credit history is often important, not only when applying for credit cards, but also when applying for things such as loans, rental applications, or even some jobs. Having a credit card and using it wisely (making payments on time and in full each month) will help you build a good credit history.
* Emergencies - Credit cards can also be useful in times of emergency. While you should avoid spending outside your budget (or money you don't have!), sometimes emergencies (such as your car breaking down or flood or fire) may lead to a large purchase (like the need for a rental car or a motel room for several nights.)
* Credit Card Benefits - In addition to the benefits listed above, some credit cards offer additional benefits, such as discounts from particular stores or companies, bonuses such as free airline miles or travel discounts, and special insurances (like travel or life insurance.) While most of these benefits are meant to encourage you to charge more money on your credit card (remember, credit card companies start making their money when you can't afford to pay off your charges!) the benefits are real and can be helpful as long as you remember your spending limits

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1. **What are the Advantages and Disadvantages of Credit Cards?**

Like other financial tools and services, credit cards come with many advantages and disadvantages. It’s critical to understand the details before you sign up for any credit card. Otherwise, you may end up with a card that traps you instead of setting you free.

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| **Advantages*** Purchasing Power: Credit Cards enable users to make big ticket purchases they might not otherwise be able to afford.
* Rewards: Many cards offer rewards programs that will accrue points, discounts, or other benefits like frequent flyer miles.
* Convenience: Credit cards reduce the need to carry cash. Most retailers accept credit cards and they are pretty much required for online purchases.
* Trackability: The electronic record keeping that comes with credit cards make it easy to track your spending and identify fraud.
* Use during an emergency: There are times when money is the simple solution to an emergency. If you get hit with an unexpected expense, credit cards can be the quick and easy solution you need.
* Builds credit history: Responsible use of a credit card over time builds your credit history, qualifying you for better interest rates and other financial benefits.
 |  **Disadvantages*** Overspending: Credit cards can make life easier, but they can also make overspending easier as well. With a credit card, you’re spending money you don’t necessarily have yet. If you’re not careful, this can quickly lead to unexpected debt.
* Interest and fees: Using credit is essentially borrowing. And you’re not borrowing for free. Mismanaging a credit card can lead not only to a high balance, or maxed-out card, but also to debt in the form of interest and fees.
* Fraud: Credit cards (and other electronic forms of payment) carry unique dangers. Credit cards can be stolen, their numbers can be copied, and they can be used to steal your money and identity.
* Mounting Debt: If you carry a balance on your credit card from month to month, it can be very easy for charges and interest to rack up. Many people don’t expect credit cards to be gateways to extra debt, but if you’re not careful, that’s exactly what happens.

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1. **Explain the 7C’s of credit in detail / Credit assessment methods**

 The 7 Cs of small business lending:

* 1. The Character

This is a highly subjective evaluation, some factors for “character” criteria are: business experience, business knowledge, personal and/or business credit history, references, education, work experience, etc.

* 1. The Capacity

Factors for capacity criteria are: ability to pay back, cash flow of the business, Payment history (previous loans), additional sources of income that can be used to repay a loan, etc.

* 1. Credit Score

A credit score is a measure of an individual's ability to pay back the borrowed amount. It is the numerical representation of their creditworthiness.

* 1. Capital

Factors for capital criteria are: business owner’s investment into their own company, there is no fixed amount or percentage that the owner must be vested in his/her own company before he is eligible for a business loan. However, most lenders want to see at least 25% of a company’s funding coming from the owner.

* 1. Collateral

Collateral is various forms of assets can act as another method of repayment, collateral would include: equipment, real estate, inventory, account receivables, and securities.

* 1. Confidence

A successful borrower instills confidence in the lender by addressing all of the lender’s concerns, with an honest reputation, a good credit history, reasonable financial statements, good capitalization and adequate collateral.

* 1. Conditions

An overall evaluation of the general economic climate and the purpose of the loan.

1. **Write a detailed note on consumer’s rights and obligations.**

 A good credit rating is very important. Businesses inspect your credit history when they evaluate your applications for a credit card, insurance, employment, and even leases. Based on your credit payment history, businesses can choose to grant or deny you credit provided you receive fair and equal treatment. Sometimes, things happen that can cause credit problems: a temporary loss of income, an illness, even a computer error. Solving credit problems may take time and patience, but it doesn’t have to be an ordeal if you know your consumer rights.

1. credit report

Your credit card and other debt payment history is recorded in a file or report. These files or reports are maintained and sold by “consumer reporting agencies” (CRAs). One type of CRA is commonly known as a credit bureau. You have a credit record on file at a credit bureau if you have ever applied for a credit or charge account, a personal loan, insurance, or a job. Your credit record contains information about your income, debts, and credit payment history. It also indicates whether you have been sued, arrested, or have filed for bankruptcy.

**Your rights under the Fair Credit Reporting Act:**

* You have the right to receive a copy of your credit report. The copy of your report must contain all of the information in your file at the time of your request.
* You have the right to know the name of anyone who received your credit report in the last year for most purposes or in the last two years for employment purposes.
* Any company that denies your application must supply the name and address of the CRA they contacted, provided the denial was based on information given by the CRA.
* You have the right to a free copy of your credit report when your application is denied because of information supplied by the CRA. Your request must be made within 60 days of receiving your denial notice.
* If you contest the completeness or accuracy of information in your report, you should file a dispute with the CRA and with the company that furnished the information to the CRA. Both the CRA and the furnisher of information are legally obligated to reinvestigate your dispute.
* You have a right to add a summary explanation to your credit report if your dispute is not resolved to your satisfaction.
1. credit application

When creditors evaluate a credit application, they cannot lawfully engage in discriminatory practices.

1. The Equal Credit Opportunity Act – (ECOA) prohibits credit discrimination on the basis of sex, race, marital status, religion, national origin, age, or receipt of public assistance. Creditors may ask for this information (except religion) in certain situations, but may not use it to discriminate when deciding whether to grant you credit.
2. The ECOA – protects consumers who deal with companies that regularly extend credit, including banks, small loan and finance companies, retail and department stores, credit card companies, and credit unions. Everyone who participates in the decision to grant credit, including real estate brokers who arrange financing, must follow this law. Businesses applying for credit also are protected by this law.
3. credit billing and electronic fund transfer statements

It is important to check credit billing and electronic fund transfer account statements regularly. These documents may contain mistakes that could damage your credit status or reflect improper charges or transfers. If you find an error or discrepancy, notify the company and contest the error immediately.

1. debts and debt collectors

You are responsible for your debts. If you fall behind in paying your creditors or an error is made on your account, you may be contacted by a “debt collector.” A debt collector is any person, other than the creditor, who regularly collects debts owed to others. This includes lawyers who collect debts on a regular basis. You have the right to be treated fairly by debt collectors.

1. The Fair Debt Collection Practices Act

 (FDCPA) applies to personal, family, and household debts. This includes money owed for the purchase of a car, for medical care, or for charge accounts. The FDCPA prohibits debt collectors from engaging in unfair, deceptive, or abusive practices while collecting these debts.

1. Solving your credit problems

Your credit report influences your purchasing power, as well as your chances to get a job, rent or buy an apartment or a house, and buy insurance. A history of timely credit payments helps you get additional credit. Accurate negative information can stay on your report for seven years. A bankruptcy can stay on your report for 10 years. If you are having problems paying your bills, contact your creditors at once. Try to work out a modified payment plan with them that reduces your payments to a more manageable level. Don’t wait until your account has been turned over to a debt collector.

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1. **Discuss the content of credit policy**

Credit policies are critical documents for nearly every organization, but especially for those B2B businesses who manage trade credit. Nearly every construction industry business is in this position, as construction materials, labor, and services are typically furnished and then billed, leaving these companies with cash and credit management challenges.

1) The Credit Department’s Mission Statement

Mission statements are easily overlooked, but nevertheless, can prove to be one of the most important aspects of a credit policy. Just like a corporation’s mission statement can and should be referred to whenever confronted by any difficult decision, this same functionality can be served by a credit department’s mission statement. The best credit policies will not be able to address every possible situation and variable, but a refined mission statement can help guide credit managers and other team members on any situation and decision.

2) The Credit Application Process

The credit application process represents the entry point for a company’s credit relationship with their customer. A company’s credit policy will not have any applicability until the company somehow extends credit, and the company is not going to extend credit until someone, somehow, asks for or is provided the credit.

3. Segment Your Risk Categories

Every organization that receives trade credit from you will be different. Every B2B credit relationship has different shades of nuance, and this must manifest itself in the credit policy through the definition of different risk categories.

4) Personal Guarantees

The personal guarantee is popularly used to bridge the credit gap with business customers that do not have a sufficient credit record to justify a line. It’s common for small and medium businesses to lack a reliable credit record.

5) Joint Check Agreements

Joint check agreements — also commonly referred to as multi-party checks — are common in the construction industry because there are so many tiers of parties involved in the construction payment process. The basic definition of these agreements is a contractual agreement between multiple parties whereby one party agrees to or is given permission to make payment jointly to two or more parties.

6) Preliminary Notices, Mechanics Lien Rights, and other Security

Joint check agreements can be useful, and personal guarantees are nice-to-haves, but by far, the use of security rights are the most important and effective credit management tool for credit departments. Just as a bank uses collateral and security interests to offset the risk of every loan, any company issuing credit can claim “security” on certain things to offset their credit risk.

7) The Lien Policy (including Lien Waiver Management)

The use of security rights are available to credit departments to offset their credit risk. For those involved with the construction industry, this refers to the use of mechanics lien and bond claim rights; and the use of these rights necessarily requires credit departments to understand and manage preliminary notices (to protect their rights) and lien waivers (to manage the payment process). All of these components are described within the company’s overall credit policy through some sort of “lien policy.”

8) The Collections Policy: Contemplating The Payment Funnel

Inexperienced credit policy drafters will gravitate immediately to the “collections policy,” and start setting forth all the ways to collect on a debt. It’s natural to focus here since the credit department’s ultimate job is to collect cash, but it’s a mistake to over-focus on the collection practices.

9) Litigation Policy and Procedures

As above stated, the collections policy and payment funnel are the steps a company will take to collect a debt after it becomes due and “before litigation.” Unfortunately, however, some accounts will go into a severe default state and will require more aggressive action. While security and mechanics lien rights will help companies avoid much litigation, there is no way to avoid all litigation forever, and accordingly, a solid credit policy must also contemplate the procedures and practices to employ when confronted by litigation.

10) Managing and Oversight

The first 9 credit policy considerations all related to the credit policy itself, but this final consideration contemplates how the credit policy will be managed and supervised. As any great manager knows team managers “respect what is checked.” The attention that a manager pays to certain elements of a company’s procedures just naturally highlights what is considered important by the manager and the company.

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1. **Explain the role of credit in economic development**

Credit is the most important part of the economy. Credit leads to an increase in spending, thus increasing income levels in the economy. This in turn leads to higher GDP (gross domestic product) and thereby faster productivity growth. If credit is used to purchase productive resources, it helps in economic growth and adds to income. Credit further leads to the creation of debt cycles.

1. Economy in the use of money:

The credit system economises the use of metallic money and paper notes. The credit instruments like promissory notes, bills of exchange, cheques, credit cards, etc. are used in the modern society as money-substitutes, and so they have reduced the cost of issuing metallic money and paper notes. Likewise they have minimized or eliminated the risks and inconveniences involved in cash transactions.

2. Easy exchange and remittance:

The credit instruments minimize the cash transactions and thereby make the scope of exchange wider and the remittance of funds easier. They permit wealth to be transferred to places where more economic use can be made of it.

3. Helpful to production:

The credit system facilitates large- scale pro­duction. It stimulates and finances production in anticipation of demand. Producers nowadays very often obtain credit from banks to begin and expand their operations. Even the farmers and the small artisans depend on bank credit for production. The wholesale and retail traders conduct their trading with bank credit.

It is rightly said that the credit system lubricates the production processes and keeps the wheels of production constantly moving. There is a steady flow of goods from the wholesaler to the retailer and from the latter to the consumer with the help of credit.

4. Promotion of trade especially foreign trade:

The bills of exchange have increased the scope of both internal and external trade as the trade- payments can now be made without the transfer of funds or gold. The commercial credit enables the buyers to make payments for the value received at convenient times. So, the credit system enables the traders to tide over periods of difficulty.

5. Expansion of bank credit:

The credit system enables the banks to create a large amount of credit out of a small amount of deposit. This has resulted in the vast expansion of bank deposits.

6. Financial accommodation to industries:

Industries get short-term credit from foe commercial banks and the long-term credit from the development banks. This enables them not only to tide over the temporary financial stringency but also to maintain continuity in their activities.

7. Benefits to consumers:

Bank credit to the consumers enables them to buy durable consumer goods, especially household goods on installment basis.

8. Credit to the government sector:

The credit to the government also helps them to meet both temporary necessities and growth requirements.

9. Stability:

If the issue of credit is properly regulated, it tends to stabilize trade and reduce fluctuations in prices.

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1. **Enumerate the credit approval process in banking sector/ Commercial credit procedures in India**

Credit approval is the process a business or an individual must go through to become eligible for a loan or to pay for goods and services over an extended period. It also refers to the process businesses or lenders undertake when evaluating a request for credit. Granting credit approval depends on the willingness of the creditor to lend money in the current economy and that same lender’s assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained—plus interest—in a timely fashion. Typically, small businesses must seek credit approval to obtain funds from lenders, investors, and vendors, and also grant credit approval to their customers.

WHAT DO BANKS BROADLY CHECK?

1. CIBIL Score and Report: It is one of the most important factor that affects your loan approval. A good credit score and report is a positive indicator of your credit health.

2. Employment Status: Apart from a good credit history, lenders also check for your steady income and employment status.

3. Account Details: Suit filed or written off cases are carefully examined by lenders.

4. Payment History: Lenders check for any default on payments or amount overdue cases, which might project a negative overview of your overall report.

5. EMI to Income Ratio: Banks also consider the proportion of your existing loans when compared to your salary at the time of loan application. Your chances of loan approval gets reduced if your total EMI’s exceed your monthly salary by 50%.

Apart from your CIBIL Score, loan eligibility criteria differs from lender to lender and across loan types. However, some of the basic requirements in terms of documentation are:

Identity Proof: Aadhar Card, Valid Passport, Driving License, Voters ID or PAN Card

Address Proof: Aadhar Card, Valid Passport, Driving License, Voters ID or Utility Bills

Proof of Employment: Salary slip, Official ID card or letter from company

Income Proof: Latest 3 months Bank Statement, salary slip for last 3 months

3 Passport size photographs

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1. **Explain the various salient features of the fair practice code.**

The FPC shall be binding on all the employees and officers of the Company.

**OBJECTIVES**

The objectives of the FPC are as under.

1. Adopt the best practices in dealings with customers.
2. Set challenging benchmarks and strive to achieve high operating standards for ensuring customer satisfaction.
3. Follow transparent, fair, ethical and legally tenable practices while conducting business.
4. Provide all necessary information and inputs to customers / prospective customers and promote a mutually beneficial long term relationship.
5. Facilitate a continuously growing base of satisfied customers while scrupulously avoiding acquisition of customers having doubtful credentials or criminal background.

**FAIR PRACTICES**

1. LOANS, TERMS & CONDITIONS, INTEREST RATE & CHARGES
2. The Company shall make available loan application forms in local language to all prospective customers free of cost at the concerned branches mentioning also the supporting documents to be submitted along with. An acknowledgement for receipt of duly completed loan application forms will be given to the customer  in all cases. As a matter of policy and customer service loan applications are sanctioned / rejected immediately. Disbursement of the loan and acceptance of security will be carried out nearly simultaneously.
3. The Company shall disclose all relevant information relating to a loan / product such as eligible loan amount, interest rate, charges, penal/overdue interest, interest calculation methodology, rebate on interest etc. before sanction of the loan to enable the customer / prospective customer to take an informed decision. The Customer / prospective customer will also be provided, on request, the detailed terms and conditions of the loan before sanction.
4. The Company shall ensure that a loan sanction letter (pawn ticket) is given to the customer containing all the terms and conditions governing the loan facility in the local language or other language understood by the customer. The loan sanction letter (pawn ticket) will also mention the loan amount, loan account number, interest rate, charges, loan processing fees etc. The loan sanction letter (pawn ticket) which will bear the signature of the authorized official of the company will also serve as a receipt for the security (gold) pledged at the branch by the customer.
5. The Company shall not in the normal course make any changes / modifications in the terms and conditions of the loan, including rate of interest, which could adversely affect the customer financially or otherwise. In abnormal circumstances when such changes / modifications are inevitable, keeping in view the new circumstances, adequate and proper notice shall be given to the customer about any such change/modification.

**MARKETING & PROMOTION**

1. The Company shall not deliberately promote a product with any ulterior / selfish motives or contrary to the customer requirements or expectations as disclosed by the customer. The Company will ensure that its personnel engaged in marketing and operations are suitably trained and instructed so as to preclude selling of its products by misrepresentation to the customer / prospective customer.
2. The Company will not indulge in profiteering by charging usurious rates of interest on loans or take undue advantage of adverse market conditions. The rates of interest will be based on variables such as cost of funds, risk premium, loan scheme, loan per gram, profit margin etc. and shall be in conformity with the Interest Rate policy of the Company and Regulatory Guidelines from time to time. It shall also, by and large, be in tune with industry practices and benchmarks.
3. Full and updated information regarding loan schemes, rate of interest, loan per gram, charges etc. will be displayed on the website of the Company and also displayed in the branches. Complete or select information will also be made available through various media channels, posters, brochures, notices, displays etc. based on the decisions of the management of the Company from time to time.

**RECOVERY OF DUES, EXERCISE OF LIEN & DELIVERY OF SECURITY**

1. The Company will not, as a matter of fair dealing, normally recall the loan before the initially agreed tenure except in unanticipated or abnormal circumstances where the Company’s interests are adversely affected e.g. when the security value diminishes substantially, when the quality of gold is not found to be acceptable, due to any regulatory / government directives etc. In all such cases proper and reasonable notice shall be given to the customer recalling the loan before expiry of the normal tenure.
2. The Company will make all possible soft or persuasive efforts to get the customer to repay the dues without resorting to disposal of the security. The Company does not accept nor will it encourage the use any coercive or hard measures to recover its dues from the customer.
3. The Company will deliver the security (gold) to the customer immediately upon settlement of the loan in the same condition as was at the time of sanction of the loan. In case of any damage caused to the security (gold) due to mishandling by its employees, the Company shall at its cost get the damage repaired or alternately pay reasonable compensation to the customer on a case to case basis. If the security (gold) has signs of damage thereon, before being taken custody of by the Company at the time of sanction of loan, the fact will be briefly incorporated in the sanction letter (pawn ticket).
4. The Company will exercise only legitimate right of lien over the pledged security or such cash surplus as may arise upon settlement of existing loans at any time. Such right of lien shall arise only if the customer has any other dues, either directly or as guarantor, and will be subject to proper intimation of such right of lien being given to the customer by the Company.
5. The Company shall issue a signed and, normally, a system generated receipt for all cash payments made by the customer immediately. The Company shall also accept payments vide cheques, demand drafts, electronic transfers etc. subject to the condition that return of the security (gold) will be made only after confirmation of realization.
6. Even though the loan sanction letter (pawn ticket) contains all applicable terms and conditions of the loan the Company shall, nevertheless, endeavour, on a best effort basis, to send advices, reminders etc. regarding due date for payment of interest, principal etc. by letter, courier service, telephone , SMS etc.
7. The Company shall, on demand, provide the customer or his duly authorized representative with a statement of the loan account at any time during the currency of the loan or immediately upon closure. However, the Company may, at its discretion, require payment of reasonable processing charges by the customer for providing statement of account if such demand is made 30 calendar days after closure of the account.
8. The Company will resort to disposal of security (gold) only as a last resort and that too after adequate and proper notice is served on the customer to repay the dues. Such notice will be as per the terms contained in the sanction letter (pawn ticket) and also in compliance with applicable laws and regulatory guidelines. The disposal of the security (gold) will be taken up through public auction when the customer does not positively respond to the communications sent by the Company to close the loan account along with interest and other charges.
9. Where the Company proposes to dispose of the security even before the normal tenure of the loan based on the rights conferred on the Company vide loan application and loan sanction letter (pawn ticket) adequate and proper notice will be served on the customer before such action is initiated for recovery of dues.
10. The Company prefers and encourages customers to take back delivery of the security immediately upon full settlement of all dues. However, should there be exceptional instance of the Customer being unable to take delivery of the security (gold), not attributable to the inability of the Company, after closure of the loan account reasonable safe custody charges may be payable which will be duly advised to the customer or displayed in the branch premises and the Company’s website.
11. The Company will not interfere in the affairs of the customers except for the purposes mentioned in the terms & conditions of the loan or when constrained to do so due to inadequate or false disclosures made by the borrower at the time of putting through the transactions.

**CUSTOMER SERVICE & GRIEVANCE REDRESSAL**

1. The Company will implement all possible steps to prevent and minimize customer complaints / grievances
2. The Company will facilitate the customer to pay the whole or part of the dues at any of the branches of the Company subject to the condition that delivery of the pledged security shall be made only at the branch where loan was originally disbursed.
3. The Company will put in place an effective Customer Grievance Redressal mechanism details of which will be displayed on the website and in all the branches. The mechanism will specify interalia the names & designations of the officials with whom complaints can be registered, their postal address / telephone numbers/ email address, escalation matrix, time limit for acknowledging receipt of complaint, time limit for dealing with the complaint etc. It will also put in place at all offices where business is transacted, the complete contact details of the Regional Office of RBI, Thiruvananthpuram, within whose jurisdiction the registered office of the company is situated, so that the customers may directly approach the RBI in case their grievances are not redressed within one month of the receipt of complaints by the company”
4. The Company will put in place an effective training system to ensure that employees of the Company are customer friendly and do not resort to rude, inappropriate or unethical behavior.
5. The Company will endeavor to work out and display the time norms for putting through and completing the various transactions.

**REPOSSESSION OF SECURITY (COMMERCIAL VEHICLES)**

1. The Company reserves the right to enforce security for recovery of dues on the terms and conditions stipulated in the loan agreement in case of default in payment or on the occurrence of any other event of default. During recovery of loans, the Company will not resort to undue harassment like bothering the borrowers at odd hours or use of force for recovery of loans.
2. The Company would refrain from intervening in the affairs of the borrowers except as provided in the terms and conditions mentioned in the loan agreement, unless new information, not disclosed by the borrower, has come to the notice of the Company.
3. **Bring out the advantages and disadvantages of liberal credit policy**

Your credit policy is a tool you can use to increase sales, but a liberal credit policy has to have a clear framework. Whether the advantages of such a policy outweigh the disadvantages depends on whether you can develop the appropriate terms and conditions and apply them to your customer base in a positive way. The nature of your business influences whether a liberal credit policy can help your company perform better.

**Advantages of a Customer Credit Policy**

* Payment in different currencies. One of the advantages of a credit policy that accepts electronic forms of payment such as credit cards is that the math is already done for you. Currency transfer is usually quite easy, as the payment to you will be in U.S. dollars while the person making the purchase will get charged in their own currency.This makes it easier to accept payment from people in foreign countries or visiting tourists.
* Ease of use. Using electronic forms of credit are extremely easy these days with the advent of such point-of-sale technologies as Square and Apple Pay. For services such as Square, when you sign up the company will supply you with a point-of-sale card reader that can be set up very quickly.Also, with phone apps such as Venmo, Zelle and countless others that allow instant online payment transfer, the days of needing a cash register are long gone.
* Customers more likely to spend more. Studies show that people are much more prone to overspending and making impulse purchases when they have a form of credit in their wallets as opposed to a wad of cash. Psychologically, it’s much more difficult to watch cash disappear.While some customers will always prefer to deal with cash, one of the advantages of a credit policy is that you open yourself up to a whole demographic of customers who will be more willing to pay for your goods and services if you accept credit.
* Convenient recordkeeping. That paper trail you’ve been trying to keep on your customers becomes much easier when you have an itemized list of credit transactions your bank can provide on monthly statements. When it comes time to balance the books and pay taxes, most customer transactions done through a bank can be easily downloaded to financial programs such as QuickBooks and FreshBooks.
* Potential Disadvantages of Customer Credit

The cost of cash discounts. You may offer discounts on your services to entice customers to spend their money with you by paying cash only, or for early payment on their credit accounts. While the tactic may in fact bring in more business, you run the risk of losing money if too many customers take advantage of your generosity. It’s a gamble, and you’ll have to decide if the payoff is worth it.

* Dealing with bad debts and potential fraud. If a customer fails to pay on their credit accounts, or even worse, defaults or goes into bankruptcy, you may have to write off that loss, eating into your potential profits.The same thing can occur if a bad actor uses a stolen credit card to make a fraudulent purchase at your shop; most card companies won’t hold customers liable for those purchases.
* Transaction fees. The ability to accept credit payments and use point-of-sale technology can have its disadvantages as well; while it’s easy, it’s not cheap. Most services will charge your business a fee, usually about 3%, to accept credit card transactions, which can add up for a small business.
* Complicated accounting. If your business is large, or you accept a large number of credit accounts, you could be in for a lot of paperwork and the need for more staffing to handle your accounts. You may need to hire people to deal with sales, accounting and collections to track down late accounts or handle legal issues stemming from non-payment.
* Loss of goodwill. While accepting credit can attract good customers, the need to constantly hound a late-paying client can make for a stressful situation. Everyone falls into tough financial times, and while no one wants to repeatedly ask for payment or charge late fees, it’s a part of business. You’ll have to decide if repeat business with a late-paying customer is worth the hassle.

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1. **Enumerate the issues in access to finance for agriculture /** **Problems of Agricultural Credit in India**

Agricultural Credit:

An average Indian farmer, who has to work on an uneconomic holding’, using traditional methods of cultivation and being exposed to the risks of a poor agricultural season is almost always in debt. He is a perennial debtor.

Once the farmer falls into debt due to crop failure or low prices of crops or malpractices of moneylenders he can never come out of it. In fact, large part of the liabilities of farmers is ‘ancestral debt’. Thus, along with his landed property, he passes on his debt to the next generation.

There are four main causes of rural indebted­ness in India:

(i) Low earning power of the bor­rower,

(ii) Use of loan for unproductive purposes,

(iii) Very high rate of interest charged by the vil­lage moneylender and

 (iv) The manipulation of accounts by the lenders.

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1. **Characteristics of a good borrower**

**Credit-worthiness**.

These are traits from the bank or financial institutions point of view and have to do with the applicant’s credit history, their capacity to pay, and in some cases, the value of their collateral. Banks in particular like to lend to people with high net worth, stable incomes, have a good loan payment history, and liquid assets that produce income or value. But if you don’t rate very high on one or more of these aspects, you could possibly balance it off by doing well with another.

**Keen money management skills.** This includes a solid grasp of one’s cash flow, the ability to live within your means, and the skill of keeping accurate and timely financial records. The last item is invaluable for obtaining a loan, as banks will require not just proof of income, but proof of residence, marriage, ownership of assets, and so on.

**A sense of integrity.**

The big “I” means you walk your talk: if you borrow a certain sum of money, integrity means paying back the agreed sum on time. Keeping your word is the basis of all financial agreements and is often the most overlooked trait. The lack of integrity is the main reason for a long history of lost wealth and damaged relationships—both business and personal.

**A sense of prudence.**

A good borrower does not bite off more than he can chew. He will only borrow what he can pay and tracks whom he borrowed from. Some borrowers are not done in by the size of their debts, but by the sheer number of them: they get loans from so many sources, juggling money to pay and repay creditors, that they’re overwhelmed by the task of organizing and keeping track of whom they borrowed from and how much they owe. Ideally, one borrows from a single source at a time, and consolidates any other existing debts into a single low-interest one.

**Purposeful spending.**

Perhaps the best indicator of a successful loan is what you ultimately do with the extra cash: is it going to provide you with greater value, or is it just going to take more money out of your pocket? Thus it’s imperative to be clear with your financial goal: that you are borrowing money to pay for or take care of a valuable asset. This may mean buying a home, a business, perhaps another investment. It may mean investing in people, such as educating yourself or a child.

1. **Bring out the various types of credit available to borrowers in India**

Types of Consumer Credit & Loans

Loan contracts come in all kinds of forms and with varied terms, ranging from simple promissory notes between friends and family members to more complex loans like mortgage, auto, payday and student loans.

Banks, credit unions and other people lend money for significant, but necessary items like a car, student loan or home. Other loans, like small business loans and those from the Department of Veterans Affairs, are only available to select groups of people.

**Open-End**

The two basic categories of consumer credit are open-end and closed-end credit. Open-end credit, better known as revolving credit, can be used repeatedly for purchases that will be paid back monthly, though paying the full amount due every month is not required. The most common form of revolving credit are credit cards, but home equity loans and home equity lines of credit (HELOC) also fall in this category.

**Closed-end** credit is used to finance a specific purpose for a specific period of time. They also are called installment loans because consumers are required to follow a regular payment schedule (usually monthly) that includes interest charges, until the principal is paid off.

Examples of closed-end credit include:

• Mortgages

• Car loans

• Appliance loans

• Payday loans

Debt Consolidation Loans

A consolidation loan is meant to simplify your finances. Simply put, a consolidation loan pays off all or several of your outstanding debts, particularly credit card debt. It means fewer monthly payments and lower interest rates. Consolidation loans are typically in the form of second mortgages or personal loans.

Student Loans

Student loans are offered to college students and their families to help cover the cost of higher education. There are two main types: federal student loans and private student loans. Federally funded loans are better, as they typically come with lower interest rates and more borrower-friendly repayment terms.

Mortgages

Mortgages are loans distributed by banks to allow consumers to buy homes they can’t pay for upfront. A mortgage is tied to your home, meaning you risk foreclosure if you fall behind on payments. Mortgages have among the lowest interest rates of all loans.

Auto Loans

Like mortgages, auto loans are tied to your property. They can help you afford a vehicle, but you risk losing the car if you miss payments. This type of loan may be distributed by a bank or by the car dealership directly but you should understand that while loans from the dealership may be more convenient, they often carry higher interest rates and ultimately cost more overall.

Personal Loans

Personal loans can be used for any personal expenses and don’t have a designated purpose. This makes them an attractive option for people with outstanding debts, such as credit card debt, who want to reduce their interest rates by transferring balances. Like other loans, personal loan terms depend on your credit history.

Loans for Veterans

The Department of Veterans Affairs (VA) has lending programs available to veterans and their families. With a VA-backed home loan, money does not come directly from the administration. Instead, the VA acts as a co-signer and effectively vouches for you, helping you earn higher loan amounts with lower interest rates.

Small Business Loans

Small business loans are granted to entrepreneurs and aspiring entrepreneurs to help them start or expand a business. The best source of small business loans is the U.S. Small Business Administration (SBA), which offers a variety of options depending on each business’s needs.

Payday Loans

Payday loans are short-term, high-interest loans designed to bridge the gap from one paycheck to the next, used predominantly by repeat borrowers living paycheck to paycheck. The government strongly discourages consumers from taking out payday loans because of their high costs and interest rates.

Borrowing from Retirement & Life Insurance

Those with retirement funds or life insurance plans may be eligible to borrow from their accounts. This option has the benefit that you are borrowing from yourself, making repayment much easier and less stressful. However, in some cases, failing to repay such a loan can result in severe tax consequences.

Borrowing from Friends and Family

Borrowing money from friends and relatives is an informal type of loan. This isn’t always a good option, as it may strain a relationship. To protect both parties, it’s a good idea to sign a basic promissory note.

Cash Advances

A cash advance is a short-term loan against your credit card. Instead of using the credit card to make a purchase or pay for a service, you bring it to a bank or ATM and receive cash to be used for whatever purpose you need. Cash advances also are available by writing a check to payday lenders.

Home Equity Loans

If you have equity in your home – the house is worth more than you owe on it – you can use that equity to help pay for big projects. Home equity loans are good for renovating the house, consolidating credit card debt, paying off student loans and many other worthwhile projects.Home equity loans and home equity lines of credit (HELOCs) use the borrower’s home as a source of collateral so interest rates are considerably lower than credit cards.

1. **Explain the principles of sound lending**

Bank performs different functions. Lending of money to different kinds of borrowers is one of the most important functions of commercial bank. A major portion of its fund is used for this purpose and this is also the major sources of bank’s income. However, lending is not without risk. The borrowers of a bank range from individuals to partnership, companies, institutions, societies etc.

Safety:

Safety means that the borrower should be able to repay the loan and interest in time at regular intervals without default. Banks are trustee of public money. Bank’s deposits are always payable on demand. Bank has to maintain trust of depositor forever. As such the first and foremost principle of lending is to ensure safety of funds lent. Further, it is just not the capacity of the borrower to repay but also his willingness to repay. The former depends on his tangible assets and the success of his business.

Liquidity:

 The term liquidity refers to the extent of availability of funds with the banker for providing credit to borrowers. It is to be seen that money lent is not going to be locked up for a long time. The money should return to the bank as per the repayment schedule. This schedule that is drawn up by the banker has to adhere to the requirement that at any point of time the banker should possess liquidity to meet the withdrawals of the depositors.

Purpose:

The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment. Loans may be required for productive purposes, trading purposes, agriculture, transport, self-employment etc. If a loan is required for a non-productive or speculative purpose, the banker should be very much cautious in entertaining such proposals. It is very difficult to ensure that the loan has been utilized for the purpose for which it was sanctioned.

Profitability:

 Banks are not charitable institutions. All banks are profit-earning institutions. The ultimate objective of lending is to earn profits. Banks receive interest on loans and advances lent, and they pay interest to their depositors. This difference between the receipts and payments will be the bank’s gross profit. Banks further incur various expenses as any organization does. After accounting for all such expenses and provisions, banks have to earn reasonable amount as net profit (NIM) so that dividends can be paid to its shareholders. The trust and confidence level of the customer and investor will be high with a bank that has a good track record of profits and dividend rates.

Security:

The security offered by a borrower for an advance is as like as the insurance to the banker. It serves as the safety valve for an unforeseen emergency. So another principle of sound lending is the security of lending. Security offered against loan may be various. It may be a plot of land, building, flat, insurance policies; term deposits etc. There may even be cases where there is no security at all.

Diversification:

 A prudent banker always tries to select the borrower very carefully and takes tangible assets as security to safeguard his interests. While this is no doubt an adequate measure, there are other unforeseen contingencies against which the banker has to guard himself. Further if the bank lends large amounts to a single industry or borrower, then the default by that customer can affect the banking industry as a whole and will affect the basic survival of the industry

National Interest:

 Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. Bank has a significant role in the economic development process of a country. They should keep in mind the national development plan/program while going for lending but maintaining safety, liquidity and profitability.

**Section – B**

* 1. **Enumerate the objective of credit management**

Credit Management is not all about finding the best way to minimise debt, the most efficient way possible. It’s about developing trusting relationships with clients so that business outcomes are achieved and profits are increased.

Safeguarding Customer Risk

Controlling expenses and ensuring that adequate care is used to make the right decisions at the right time is the most valued objective of credit management. It’s the first step; and one that must be used with as much caution as risk. It’s a true paradox that ignites the success of modern-day business.

Settlement of Outstanding Balances

Making sure that outstanding balances are settled can be challenging. This task is like the eggs to a cake. You need it to rise. Without the receipt of payment there’s no cash flow. Without cash flow, there’s no opportunity. Without opportunity, there’s no business. It needs to be done, and as a matter of priority.

Improving Cash Flow

Credit management is all about adopting the most efficient, trustworthy methods to improve cash flow. This includes utilising reputable software programs, as well as training and development opportunities to ensure that the business continues to grow and compete with the best.

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* 1. **What are the risks involved in Agricultural credit?**
* Operational risk

Operational risk arises from the potential that inadequate information systems and controls,

operational problems, breaches in internal controls, fraud, human error, management failure or

unforeseen catastrophes will result in unexpected losses.

* Credit risk

Credit risk is the risk that the borrower may not pay as scheduled; or may not pay at all. One

context in which credit risk needs to be examined is the problem of asymmetrical distribution

of information. In any lending relationship, the borrower has more information about his activities than the lender does. This means that the lender bears the risk of innocently making

poor credit decisions because of inadequate information, and also that the borrower may abuse the lending relationship. Another view on credit risk is one that arises from the design of credit arrangements. Are loan products, amounts, repayment plans, maturities, costs etc. adequate for the borrower or do they cause the borrower to default?

* Intrinsic risk

Intrinsic risk is the risk associated with the financial situation, skills and experience of an

individual borrower. Assuming the problem of information asymmetry is adequately dealt with,

does the borrower have the skills and experience to make the project work?

* Concentration risk

Concentration risk is the risk associated with a concentration of borrowers with certain

characteristics in a loan portfolio that are subject to similar adverse events. For instance,

hawkers may be subject to restrictive municipal legislation, maize farmers may be subject to

price risk; coffee farmers may be subject to risk of coffee berry borer. The higher the

concentration of similar characteristics in a loan portfolio, the higher the concentration risk

may be.

* Agricultural production risk

Agricultural production risk can be broken down into:

 Climatic risk: the occurrence of drought, excessive rainfall, temperatures, hailstorms etc.

 Risk of pests and diseases;

 Risk related to farm management (intrinsic risk).

* Agricultural marketing and price risk Marketing risk relates to the inability to sell on time, in the right quantities and/or at an acceptable quality standard. This includes the short- and long-term market situation and the use or absence of marketing contracts. Related to marketing risk is the risk of side selling (from a buyer’s perspective), whereby farmers do not honor their supply obligations by selling ‘on the side’.
* Rural risks

A number of risks occur precisely because the target group resides in the rural areas. As

mentioned before, rural areas are sparsely populated by relatively poor people and have poor

access to basic services such as health and education, which increases the risks to the lender.

* 1. **Explain the benefits of consumer credit**

Consumer credit allows people to purchase goods and services immediately and repay the costs over time. It offers consumers flexibility in spending and, in some cases, perks and rewards. However, consumer credit can also tempt some to spend beyond their means.

Financial Flexibility

The single biggest advantage of consumer credit is the financial flexibility it enables. In the days before widespread access to credit cards and other consumer lending options, people often had to save for years to make major purchases. If your car broke down or you needed a new refrigerator, it could hamper your ability to make ends meet. Credit allows consumers to spread out major costs over the course of months or years so they don't have to choose between buying a new transmission and putting food on the table.

Temptation to Overspend

Access to credit makes it easier to pay for basic needs and cover emergency expenses, but it also simplifies buying expensive products you might want but not need. Psychologists have found that people often use credit unwisely due to natural human impulses.

Perks and Rewards

Consumers can earn substantial benefits by using credit if they use it wisely. Many department stores and car dealerships offer their customers advantageous financing options, including delayed payments and low interest rates.

Interest Payments and Penalties

The interest rates on consumer credit are often staggeringly high and can force consumers to pay back several times the initial value of their purchases.

* 1. **Differences between secured and unsecured loan**
* The most important difference between a secured and unsecured loan is the collateral required to attain the loan. A secured loan requires you to provide the lender with an asset that will be used as a collateral for the loan. Whereas and unsecured loan doesn’t require you to provide an asset as collateral in order to attain a loan.
* Another key difference between a secured and unsecured loan is the rate of interest. Secured loans usually have a lower rate of interest when compared to an unsecured loan. This is because unsecured loans are considered to be risker loans by lenders than secured loans.
* Secured loans are easier to obtain while unsecured loans are harder to obtain, as it is less risker for a banker to dispense a secured loan.
* Secured loans usually have longer repayment periods when compared to unsecured loans. In general, secured loans offer a borrower a more desirable contract that an unsecured loan would.
* Secured loans are easier to obtain for the mere fact that they are less risky for a lender to give out, while unsecured loans are comparatively harder to obtain.
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	1. **What is credit netting?**

What Is Credit Netting?

Credit netting is a practice common among large financial firms. It consists of consolidating together a series of financial transactions and agreeing to carry out a single credit check that relates to the entire bundle of transactions. In this sense, the transactions are effectively combined, or "netted together."

This practice is common among large banks and other financial institutions who wish to avoid carrying out numerous and redundant credit checks on repeat transactions.

**Advantages Derived from Netting System:**

1. It reduces the number of cross-border transactions between subsidiaries, results in to savings in the overall administrative costs of such cash transfers;

2. It reduces the necessity for foreign exchange conversion, results into decreases in transaction costs associated with foreign exchange conversion.

3. It supports to improve cash flow forecasting because only net cash transfers are made at the end of each period

4. It provides to the management an accurate report about cash position in future, and settles accounts through co-ordinated efforts among all subsidiaries.

**Types of Netting:**

1. Bilateral Netting System:

It involves transactions between the parent and a subsidiary or between two subsidiaries. If subsidiary A purchases $ 20 million worth of goods from subsidiary B and subsidiary B in turn buy $ 30 million worth of goods from subsidiary A, then the combined flows add up to $ 50 million.

But in a bilateral netting system subsidiary A would pay subsidiary B only $10 million. This results into reduction in the number of foreign exchange transactions and it also saves the costs associated with foreign exchange conversion. A more complex situation arises among the parent firm and several subsidiaries paving the way to multinational netting system.

2. Multilateral Netting System:

The head quarter of MNC try to nets all its inter affiliate receipts against all its disbursements. It instructs the affiliate unit to transfers or receives the balance on the net position as a net receiver or a payer. This results in savings in transfer or exchange costs.

For an effective multilateral netting system, these should be a centralized communication system along with disciplined subsidiaries. Such netting system give rise to the system for the consolidation of information and net cash flow positions for each pair of subsidiaries.

* 1. **How do you evaluate the borrower’s credit worthiness?**

Creditworthiness means the ability of an individual or a company or any other entity to meet the obligations created by the debt or loans obtained. It’s a parameter of a person’s ability to honor a debt within the time bound it is supposed to be. I found many financial intuitions and banks make call to those having an excellent creditworthiness to suggest them their attractive personal loans.

## ****1. Repayment History:****

Banks and financial institutions will ask for the credit reports which consist of the repayment history of any loans taken by the applicant previously. They will examine whether there is any default or delay in honoring the loan within the time period given. The more credit worthiness means more the chances of repaying the debt with satisfying all the conditions.

## ****2. Credit Score:****

Credit score is widely used by the banks in sanctioning the loans to the companies and other intuitions. Credit score is given by  Credit Information Bureau of India Ltd (CIBIL). If your credit score is lower, then the chances of getting loan is lower and vice versa. Credit score depends upon the previous history of honoring the debts of the borrower.

## ****3. Capacity:****

This addresses the borrower’s cash flow and ability to repay the debt from ongoing sources of income .Unforeseen business difficulties will always arise.  The projected financial position of the borrower will indicate the capacity of the borrower to repay the debt in future.

## ****4. Assets/Collateral security:****

If you have some assets that can give the lender a feeling of confidence that you can repay the debt, then this would definitely be helpful in cases where the other parameters of credit worthiness do not result well.

**Must Read –**[**Debt stacking vs snowball**](https://bank.caknowledge.com/debt-stacking-vs-snowball/)

## ****5. Existing Credit relations:****

If your existing debts are huge in volume so that it takes to spend you’re a major part of your income in the future to repay these obligations then it would give the lender an inference that your ability to repay the new loan will be counter occupied by existing loans hence the chances of getting new loan is very difficult. If your current obligations are very nominal that they can be met with a smaller portion of your income then it improves the credit worthiness.

## ****6. Debt to Income Ratio :****

This ratio indicates how much percentage of your income will go for meeting the obligations. To find it yourself divide the monthly / yearly debt obligations by monthly or yearly income. The lower the rate better the position is and vice versa.

* 1. **Objectives of credit risk management**

Create a Decision-making Framework

Policy directives establish a clear, unbiased process for collecting information, processing credit applications and dealing with slow paying customers or those who stop paying entirely. A well-developed decision-making framework is vital to detecting fraudulent applications, reducing the number of accounts in collection, reducing write-offs and minimizing losses that can result from making judgment calls, especially with customers having mid-range credit scores or a mix of both timely and late payments.

Establish a Communication Policy

Credit-based risk management communications focus on what and how you distribute information to your customers and employees. External communications that describe your credit policy and make sure customers understand debt collection procedures can reduce late payments and default accounts. Internal communications define company-approved methods for distributing information, which for most companies includes both written and electronic methods. Internal communications objectives also work to make sure your employees receive timely and accurate information.

The Three Components of Credit Policy

It’s not unusual for a small business to both implement and abide by the rules of a credit risk management policy. The goal is to set and maintain a balance between the risks and rewards of extending credit. A business that both extends credit to its customers and is itself a credit customer experiences both sides of a process that works to ensure a company remains financially healthy.

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Create Internal Accountability

Even a well-thought out and communicated credit risk management plan won’t work if your employees don’t take it seriously. Internal accountability objectives focus on internal controls such as separation of duties, transaction audits and mandatory authorizations that make sure employees in every department comply with credit-risk management rules. For a business that extends credit to its customers, accountability also refers to complying with federal consumer credit regulations as required in the Sarbanes-Oxley Act and in the Credit Card Accountability, Responsibility and Disclosure Act of 2009.

Balance Risks with Good Customer Service

Balancing credit risks while providing superior customer service is a primary risk management objective. Well-defined credit-related customer service standards are vital to achieving this goal. These standards can include risk-based decision-making options, such as increasing or decreasing interest rates or a required down payment. This also means treating customers with respect and dignity no matter what a credit decision might be.

Collections

The purpose of the collections policy is to reduce the bad debt exposure of a company. The probability of a collection drops rapidly as an account ages. In other words, the longer an account is overdue, the more difficult it is to collect the outstanding balance. Collection procedures typically depend on the size and dollar value of the overdue account.

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* 1. **Explain the role and functions of NABARD in agricultural credit**

Role and Functions of NABARD

The National Bank for Agriculture And Rural Development is popularly referred to as NABARD.

NABARD is designated as an apex development bank in the country.This national bank was established in 1982 by a Special Act of the Parliament, with a manadate to uplift rural India by facilitating credit flow in agriculture, cottage and village industries, handicrafts and small-scale industries. It is also required to support non-farm sector while promoting other allied economic activities in rural areas. NABARD functions to promote sustainable rural development for attaining prosperity of rural areas in India.

**Role of NABARD:**

* It is an apex institution which has power to deal with all matters concerning policy, planning as well as operations in giving credit for agriculture and other economic activities in the rural areas.
* it is a refinancing agency for those institutions that provide investment and production credit for promoting the several developmental programs for rural development.
* It is improving the absorptive capacity of the credit delivery system in India, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, and training of personnel.
* It co-ordinates the rural credit financing activities of all sorts of institutions engaged in developmental work at the field level while maintaining liaison with Government of India, and State Governments, and also RBI and other national level institutions that are concerned with policy formulation.
* It prepares rural credit plans, annually, for all districts in the country.
* It also promotes research in rural banking, and the field of agriculture and rural development.

 **Functions of NABARD:**

* NABARD gives high priority to projects formed under IRDP.
* It provides refinance for IRDP accounts in order to give highest share for the support for poverty allevia­tion programs run by IRDP.
* Other than the activities included under IRDP, it also makes the service area plan, to provide backward and for­ward linkages and also infrastructural support.
* NABARD also prepares guidelines for promotion of group activities under its programs and provides 100% refinance support for them.
* It is making efforts to establish linkages between Self-help Group(SHG) that are organized by voluntary agencies for poor and needy in rural areas and other official credit agen­cies.
* It refinances to the complete extent for those projects that are taken under the ‘National Watershed Development Programme‘ and the ‘National Mission of Wasteland Development‘.
* It also has a system of District Oriented Monitor­ing Studies, under which, study is conducted for a cross section of schemes that are sanctioned in a district to various banks, to ascertain their performance and to identify the constraints in their implemen­tation, It also initiates appropriate action to remedy them.
* It also supports Vikas volunteer Vahini programs which offer credit and development activities to poor farmers.
* It also inspects and supervises the cooperative banks and RRBs to periodically ensure the development of the rural financing and farmers’ welfare.
* NABARAD also recommends about licensing for RRBs and Cooperative banks to RBI.
* NABARD also provides assistance and support for the training and development of the staff of various other credit insti­tutions, that are engaged in credit distributions.
* It also runs programs for agriculture and rural development.
* It is engaged in regulations of the cooperative banks and the RRB’s, and manages their talent acquisition through IBPS CWE conducted across the country.
	1. **What are the accounting practices followed by the banker’s towards lending?**

1. Finding prospective loan customers

Most loans to individuals arise from a direct request from a customer who approaches a member of the lender’s staff and asks to fill out a loan application.

On the other hand,Business loan request, often arise from contacts the loan officers and sales representatives make as they solicit new accounts form firms operating in the lender’s market area.

2. Evaluating a prospective customer’s character and sincerity of purpose

Once a customer decides to request a loan, an interview with a loan officer usually follows, allowing the customer to explain his/her credit needs.

That interview is particularly important because it provides an opportunity for the loan officer to assess the customer’s character and sincerity of purpose.

3. Making site visits and evaluating a prospective customer’s credit record

IT a business or mortgage loan is applied for, a loan officer often makes a site visit to assess the customer’s location and the condition of the property and to ask clarifying questions.

4. Evaluating a prospective customer’s financial condition

If all is favorable to this point, the customer is asked to submit several crucial documents the lender needs to fully evaluate the loan request, including complete financial statements and, in the case of a corporation, board of directors’ resolutions authorizing the negotiation of a loan with the lender.

5. Assessing possible loan collateral and signing the loan agreement

If the loan committee approves the customer’s request, the loan officer or the credit committee will usually check on the property or other assets to be pledged as collateral to ensure that the lending institution has immediate access to the collateral or can acquire title to the property involved if the loan agreement has defaulted.

6. Monitoring compliance with the loan agreement and other customer service needs

The new agreement must be monitored continuously to ensure that the terms of the loan are being followed and that all required payments of principal and interest being made as promised, for larger commercial credits, the loan officer will visit the customer’s business periodically to check on the firm’s progress and see what other services the customer may need.

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* 1. **Explain the role and function of debt recovery tribunal in India**

What are Debt Recovery Tribunals (DRTs)?

 Debt Recovery Tribunals were established to facilitate the debt recovery involving banks and other financial institutions with their customers. DRTs were set up after the passing of Recovery of Debts due to Banks and Financial Institutions Act (RDBBFI), 1993. Appeals against orders passed by DRTs lie before Debts Recovery Appellate Tribunal (DRAT). DRTs can take cases from banks for disputed loans above Rs 10 Lakhs. At present, there are 33 DRTs and 5 DRATs functioning at various parts of the country. In 2014, the government has created six new DRTs to speed up loan related dispute settlement.

Application Route

The recovery procedure through this way requires making of the application to the DRT and paying off the required fees. DRT location chosen under this route matters. Currently, there are 33 DRTs in 22 locations. Section 19 of the RDDBFI Act mentions the prerequisites for a choice of DRT to make an application. Bank or Financial Institution can make an application to DRT which has jurisdiction in the region to which the financial body carries business. An application may likewise be filed to a specific DRT if the cause of action completely or in part emerges within the limits of its jurisdiction.

SARFAESI Route

An application can likewise be made to the DRT under the Securitization and Remaking for Enforcement of Security Interest Act (SARFAESI), 2002. SARFAESI perceives the need to strengthen the rights of secured creditors to help them in recouping their dues. It sets out the procedure for doing as such without the intercession of courts or councils.

Service of Summon/Notice

The Registrar of DRT or any other officer that has been authorized by the Presiding Officer will issue a notice which will be served by the applicant to the defendant. The summon also includes the paper book of the petition which is served to defendant generally by hand or registered post with Acknowledgement Due (AD) or speed post. With the consent, of Registrar, Summon/Notice can likewise be additionally sent through email or fax, in any case, in such occasion, it must be guaranteed that defendant gets a duplicate of the paper book on the primary date of his appearance. If the Summon/Notice has been sent through registered post or email or fax, an affidavit ought to be filed expressing method of dispatch and the accuracy of the address where it was sent.

Hearing of the case before Presiding Officer

Filing of reply

The defendant is required to file for the reply within one month from the date of service of the notice. The defendant can be allowed to file the reply after some time only with the permission of the DRT. DRT may proceed ex-parte if the defendant even after the extension of time is not able to file his reply.

The claim for counterclaim

The defendant can file for counterclaim only on the first hearing. After that, the permission of DRT would be required. The claim for counterclaim will have the same impact as a countersuit would in any proceedings.

Admission of liability by the defendant

The Presiding Officer would pass an order if the defendant admits his liability, instructing him to pay the required amount within a period of 30 days from the date of the order of DRT.

Affidavits

In a situation where the defendant tries to deny his commitment in that occasion, Presiding Office may require the parties to him to file an affidavit for proving any fact which will be read in the hearing as per DRT wishes. If the case requires a witness to be present for cross-examination, which needs to be recorded, then DRT may order the witness to be present for cross-examination and if the witness is not present at the time of the hearing, the affidavit would not be taken into evidence.

Interim Order by DRT

As per Section 19(12) of RDDBFI, DRT has the power to pass an interim order against the defendant, restricting him from disposing or transferring his property without the prior assent of the Tribunal. DRT is also authorized to confine the defendant for a period of three months on the ground of disobedience of any order issued under Sections 19(12), 19(13) and 19(18) of the SARFAESI Act.

Judgement and Recovery Certificate by DRT

DRT after hearing both the parties and their submissions would pass the final judgement within 30 days from hearing. DRT will issue a Recovery Certificate within 15 days from the date of judgement and pass on the same to Recovery Officer. RC shall have the same effect as the decree of the civil court.

Appeal

An aggrieved party can file for an appeal to Debt Recovery Appellate Tribunal (DRAT) having the jurisdiction to entertain the matter, against the order passed by the Debt Recovery Tribunal (DRT) within 30 days from the date of passing of the order by DRT. However, an appeal will not be entertained if the judgement given by the DRT was discharged with the consent of both the parties. DRAT shall entertain the appeal after the expiry of 30 days from the date of passing the order by DRT if he is satisfied that there was a sufficient cause for the same.

In Axis Bank v/s SBS Organic Pvt. Ltd. & Ors., the Supreme Court held that the appeal in DRAT would be entertained only on the condition that the borrower deposits the 50% of the amount in terms of the order passed by DRT or 50% of the sum due from the borrowers as asserted by the secured creditor, whichever is less. The DRAT in his discretion may reduce the amount to 25%.

Conclusion

With the aim of providing financial bodies with a speedier and more proficient method of recuperation of debts, the legislature has provided for the introduction of special courts for the purpose, called as Debt Recovery Tribunals. Debt recovery Appellate tribunals have been set up to take up the appeal against the decision passed by DRT. These Tribunals have contributed to lessening the burden on civil courts.

* 1. **Differences between market risk and credit risk**

Market risk is the probability for an investor losing money due to market factors which affect the overall performance of the market. Market risk is also referred to as systematic risk and cannot be diversified. Factors associated with market risk include changes in interest rates, political turmoil, recession, natural disaster, and terrorism. Credit risk is the probability of the borrower defaulting on money borrowed or meet contractual obligations. Credit risk can be lessened through proper credit management policy which scrutinizes through borrowers before the credit is extended

**A credit risk** is the risk of [default](https://en.wikipedia.org/wiki/Default_%28finance%29) on a debt that may arise from a borrower failing to make required payments.[[1]](https://en.wikipedia.org/wiki/Credit_risk#cite_note-bcbs-1) In the first resort, the risk is that of the lender and includes lost [principal](https://en.wikipedia.org/wiki/Principal_sum) and [interest](https://en.wikipedia.org/wiki/Interest), disruption to [cash flows](https://en.wikipedia.org/wiki/Cash_flow), and increased [collection costs](https://en.wikipedia.org/wiki/Collection_cost). The loss may be complete or partial. In an efficient market, higher levels of credit risk will be associated with higher borrowing costs. Because of this, measures of borrowing costs such as [yield spreads](https://en.wikipedia.org/wiki/Yield_spread) can be used to infer credit risk levels based on assessments by market participants.

Losses can arise in a number of circumstances,[[2]](https://en.wikipedia.org/wiki/Credit_risk#cite_note-2) for example:

* A consumer may fail to make a payment due on a [mortgage loan](https://en.wikipedia.org/wiki/Mortgage_loan), [credit card](https://en.wikipedia.org/wiki/Credit_card), [line of credit](https://en.wikipedia.org/wiki/Line_of_credit), or other loan.
* A [company](https://en.wikipedia.org/wiki/Company) is unable to repay asset-secured fixed or [floating charge](https://en.wikipedia.org/wiki/Floating_charge) debt.
* A business or consumer does not pay a [trade invoice](https://en.wikipedia.org/wiki/Trade_credit) when due.
* A business does not pay an employee's earned [wages](https://en.wikipedia.org/wiki/Wage) when due.
* A business or government [bond](https://en.wikipedia.org/wiki/Bond_%28finance%29) issuer does not make a payment on a [coupon](https://en.wikipedia.org/wiki/Coupon_%28bond%29) or principal payment when due.
* An insolvent [insurance company](https://en.wikipedia.org/wiki/Insurance_company) does not pay a policy obligation.
* An insolvent [bank](https://en.wikipedia.org/wiki/Bank) won't return funds to a depositor.
* A government grants [bankruptcy](https://en.wikipedia.org/wiki/Bankruptcy) protection to an [insolvent](https://en.wikipedia.org/wiki/Insolvency) consumer or business.

To reduce the lender's credit risk, the lender may perform a [credit check](https://en.wikipedia.org/wiki/Credit_check) on the prospective borrower, may require the borrower to take out appropriate insurance, such as [mortgage insurance](https://en.wikipedia.org/wiki/Mortgage_insurance), or seek [security](https://en.wikipedia.org/wiki/Security_%28finance%29) over some assets of the borrower or a [guarantee](https://en.wikipedia.org/wiki/Guarantee) from a third party. The lender can also take out insurance against the risk or on-sell the debt to another company. In general, the higher the risk, the higher will be the [interest rate](https://en.wikipedia.org/wiki/Interest_rate) that the debtor will be asked to pay on the debt. Credit risk mainly arises when borrowers are unable to pay due willingly or unwillingly.

**Market risk** is the [risk](https://en.wikipedia.org/wiki/Risk) of losses in positions arising from movements in market prices.[[1]](https://en.wikipedia.org/wiki/Market_risk#cite_note-1) There is no unique classification as each classification may refer to different aspects of market risk. Nevertheless, the most commonly used types of market risk are:

* [*Equity risk*](https://en.wikipedia.org/wiki/Equity_risk), the risk that [stock](https://en.wikipedia.org/wiki/Stock) or [stock indices](https://en.wikipedia.org/wiki/Stock_indexes) (e.g. [Euro Stoxx 50](https://en.wikipedia.org/wiki/Euro_Stoxx_50), etc.) prices or their [implied volatility](https://en.wikipedia.org/wiki/Implied_volatility) will change.
* [*Interest rate risk*](https://en.wikipedia.org/wiki/Interest_rate_risk), the risk that [interest rates](https://en.wikipedia.org/wiki/Interest_rate) (e.g. [Libor](https://en.wikipedia.org/wiki/Libor), [Euribor](https://en.wikipedia.org/wiki/Euribor), etc.) or their implied volatility will change.
* [*Currency risk*](https://en.wikipedia.org/wiki/Currency_risk), the risk that foreign exchange rates (e.g. [EUR/USD](https://en.wikipedia.org/wiki/Currency_pair), [EUR/GBP](https://en.wikipedia.org/wiki/Currency_pair), etc.) or their implied volatility will change.
* [*Commodity risk*](https://en.wikipedia.org/wiki/Commodity_risk), the risk that [commodity](https://en.wikipedia.org/wiki/Commodity) prices (e.g. [corn](https://en.wikipedia.org/wiki/Corn), [crude oil](https://en.wikipedia.org/wiki/Crude_oil)) or their implied volatility will change.
* [*Margining risk*](https://en.wikipedia.org/wiki/Margining_risk) results from uncertain future cash outflows due to [margin](https://en.wikipedia.org/wiki/Margin_%28finance%29) calls covering adverse value changes of a given position.
* [*Shape risk*](https://en.wikipedia.org/wiki/Shape_risk)
* [*Holding period risk*](https://en.wikipedia.org/wiki/Holding_period_risk)
* [*Basis risk*](https://en.wikipedia.org/wiki/Basis_risk)
	1. **Explain the different types of borrowers**

**Types of Borrowers**

* Individual
* Partnership Firm
* Hindu Undivided Family : Joint Hindu Family is governed basically by two schools of thought. They are Dayabhag and Mitakshara schools
* Companies
* Statutory Corporations
* Trusts and Cooperative Societies
	1. **What is risk management and why it is important?**

Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters. IT security threats and data-related risks, and the risk management strategies to alleviate them, have become a top priority for digitized companies. As a result, a risk management plan increasingly includes companies' processes for identifying and controlling threats to its digital assets, including proprietary corporate data, a customer's personally identifiable information (PII) and intellectual property.

Importance

By implementing a risk management plan and considering the various potential risks or events before they occur, an organization can save money and protect their future. This is because a robust risk management plan will help a company establish procedures to avoid potential threats, minimize their impact should they occur and cope with the results. This ability to understand and control risk will allow organizations to feel more confident about their business decisions. Furthermore, strong corporate governance principles that focus specifically on risk management can help a company reach their goals.

Other important benefits of risk management include:

* 1. Creates a safe and secure work environment for all staff and customers.
	2. Increases the stability of business operations while also decreasing legal liability.
	3. Provides protection from events that are detrimental to both the company and the environment.
	4. Protects all involved people and assets from potential harm.
	5. Helps establish the organization's insurance needs in order to save on unnecessary premiums
	6. **Risk management strategies**

 **Risk management strategies and processes**

All risk management plans follow the same steps that combine to make up the overall risk management process:

* **Establish context.**Understand the circumstances in which the rest of the process will take place. The criteria that will be used to evaluate risk should also be established and the structure of the analysis should be defined.
* **Risk identification.** The company identifies and defines potential risks that may negatively influence a specific company process or project.
* **Risk analysis.** Once specific types of risk are identified, the company then determines the odds of it occurring, as well as its consequences. The goal of [risk analysis](https://searchsecurity.techtarget.com/definition/risk-analysis) is to further understand each specific instance of risk, and how it could influence the company's projects and objectives.
* **Risk assessment and evaluation.** The risk is then further evaluated after determining the risk's overall likelihood of occurrence combined with its overall consequence. The company can then make decisions on whether the risk is acceptable and whether the company is willing to take it on based on its [risk appetite](https://searchcompliance.techtarget.com/definition/risk-appetite).
* **Risk mitigation***.*During this step, companies assess their highest-ranked risks and develop a plan to alleviate them using specific risk controls. These plans include risk mitigation processes, risk prevention tactics and contingency plans in the event the risk comes to fruition.
* **Risk monitoring***.*Part of the mitigation plan includes following up on both the risks and the overall plan to continuously monitor and track new and existing risks. The overall risk management process should also be reviewed and updated accordingly.
* **Communicate and consult.**Internal and external shareholders should be included in communication and consultation at each appropriate step of the risk management process and in regards to the process as a whole.

**Approaches**

* Risk management approaches

After the company's specific risks are identified and the risk management process has been implemented, there are several different strategies companies can take in regard to different types of risk:

* Risk avoidance. While the complete elimination of all risk is rarely possible, a risk avoidance strategy is designed to deflect as many threats as possible in order to avoid the costly and disruptive consequences of a damaging event.
* Risk reduction. Companies are sometimes able to reduce the amount of effect certain risks can have on company processes. This is achieved by adjusting certain aspects of an overall project plan or company process, or by reducing its scope.
* Risk sharing. Sometimes, the consequences of a risk is shared, or distributed among several of the project's participants or business departments. The risk could also be shared with a third party, such as a vendor or business partner.
* Risk retaining. Sometimes, companies decide a risk is worth it from a business standpoint, and decide to keep the risk and deal with any potential fallout. Companies will often retain a certain level of risk if a project's anticipated profit is greater than the costs of its potential risk.
	1. **How is India’s Exports Financed?**

Export finance is a kind of advance by which not only the customer is benefited but also the country itself as it brings valuable foreign exchange earnings. Hence, government has given more importance to export finance and has simplified various procedures involved in obtaining finance. Reserve Bank of India has also given instructions to commercial banks that they should give top priority in the sanctioning of export finance.

**DIFFERENT TYPES OF EXPORT FINANCE**

There are basically five types of export finance.

1. Pre-shipment export finance
2. Post shipment export finance
3. Export finance against collection of bills.
4. Deferred export finance
5. Export finance against allowances and subsidies.

Pre-shipment export finance:

The exporter is provided finance even for the purchase of raw materials and processing them into finished products but this finance can be provided only when the exporter has firm order from the importer and the importer has also given an anticipatory Letter of Credit from his bank. So, against the export order received from the importer, the exporter is given finance by his bank which is called pre-shipment export finance.

Post shipment export finance:

After dispatching the goods to the importer, the exporter draws a bill, against which the importer will make payment. But this may take a minimum period of 3 to 6 months and this time gap will affect the exporter in his continuation of production. For this purpose after exporting, the export bill will be presented by the exporter to his bank. The bank will prefer to purchase the bill or collect the bill or even discount the bill, which depend on the economic status of the importing country.

Export finance against collection of bills:

When export is made to different countries, loan can be obtained from the bank against the bills sent for collection. As there are institutions such as Export Credit Guarantee Corporation, banks will come forward to provide finance to exporters. In case of a default, the guaranteeing company will indemnify at least 80% of defaulted amount. While financing against the export bills, the banker will take into account the FOB invoice and not CIF invoice (FOB — Free on Board invoice — Price includes all expenses incurred until the goods are kept on board the ship. CIF invoice includes costs, insurance and freight and so this type of an invoice will not be taken by the banker for financing).

Deferred export finance:

To enable the importer to purchase valuable goods, hire purchase financing or lease finance may be arranged. There are two types of deferred export finance.

Supplier’s finance; and Buyer’s finance.

Supplier’s finance in exporting:

In the supplier’s finance, exporter’s bank will finance the exporter so that he will sell the goods on installment basis to the importer. The exporter will receive the full value and the payment made in installments by the importer will be received by the exporter’s bank.

Export finance against allowances and subsidies:

Exporters are given subsidies by the government so that they can sell the goods on reduced price to importer. For example, cash compensatory support is a subsidy given to the exporter by the government whenever there is an increase in expenditure, due to reasons beyond the control of the exporter, such as increase in transport cost or wage of the laborers.

**16. Factors influencing credit policy**

The credit policy is one of the essential factors determining both the quantity and quality of accounts receivables. Various factors determine the size of the investment a company makes in accounts receivables. They are, for instance:
i. The effect of credit on the volume of sales;
ii. Credit terms;
iii. Cash discount;
iv. Policies and practices of the firm for selecting credit customers;
v. Paying practices and habits of the customers;
vi. The firm’s policy and practice of collection; and
vii. The degree of operating efficiency in the billing, record keeping and adjustment function, other costs such as interest, collection costs and bad debts etc., would also have an impact on the size of the investment in receivables. The rising trend in these costs would depress the size of investment in receivables.

A firm may follow an easy or strict credit policy. The firm following a liberal credit policy sells their goods or services to their customers easily on credit. On the contrary, firms with strict credit policy generally offer credit sales to selected customers only.

Section – A

* 1. Define Credit

Credit is the ability to borrow money or access goods or services with the understanding that you'll pay later.

* 1. What do you mean by export credit?

A loan given to a person or company who has exported goods while they wait for payment from the buyer: In effect, importers of capital equipment under an export credit system are provided, as buyers, with fixed-term funds at subsidized interest rates.

* 1. Define Agricultural credit

Agricultural Credit is defined as a type of financing used to provide funding for agricultural producers. This may be in the form of letters of credit, loans or banker's acceptance documents. This is generally used to provide investment from outside resources to the farming sector.

* 1. Who is a guardian?

 A legal guardian is a person who has the legal authority to care for the personal and property interests of another person, called a ward. Guardians are typically used in three situations: guardianship for an incapacitated senior, guardianship for a minor, and guardianship for developmentally disabled adults.

* 1. State the benefits of consumer credit.

Consumer credit allows people to purchase goods and services immediately and repay the costs over time. It offers consumers flexibility in spending and, in some cases, perks and rewards.

* 1. What do you mean by loan portfolio?

The loans that a lender (or a buyer of loans) is owed. The loan portfolio is listed as an asset on the lender's or investor's balance sheet. The value of a loan portfolio depends on both the principal and interest owed and the average creditworthiness of the loans.

* 1. What is loan pricing?

Loan pricing is the process of determining the interest rate for granting a loan, typically as an interest spread (margin ) over the base rate , conducted by the bookrunners

* 1. What is the impact of NPA in credit?

Higher NPA ratio trembles the confidence of investors, depositors, lenders etc. It also causes poor recycling of funds,which in turn will have deleterious effect on the deployment of credit. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks.

* 1. What is credit bureau?

A credit bureau is an agency that collects and researches individual credit information and sells it for a fee to creditors so they can make a decision on granting loans.

* 1. What is irrevocable letter of credit?

An irrevocable letter of credit is a financial instrument used by banks to guarantee a buyer's obligations to a seller. It is irrevocable because the letter of credit cannot be modified unless all parties agree to the modifications.

* 1. What do you mean by credit netting?

Credit netting is a system whereby the number of credit checks on financial transactions is reduced by entering into agreements that simply net all transactions.

* 1. What is liquidity?

Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market at a price reflecting its intrinsic value.

* 1. Define credit policy

In economics, credit policy is government policy at a particular time on how easy or difficult it should be for people and businesses to borrow money and how much it will cost.

* 1. Define the term credit risk

A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

* 1. What is unexpected loss?

The unexpected loss is the average total loss over and above the mean loss. It is calculated as a standard deviation from the mean at a certain confidence level at a certain confidence level.

* 1. Give any four risk involved in agricultural credit

Five general types of risk are described here: production risk, price or market risk, financial risk, institutional risk, and human or personal risk.

* 1. What do you mean by composite credit?

Composite loan is a loan extended by banks and financial institutions for the purpose of purchasing a plot or land and constructing a house on it within a given a timeline. It's a combination of plot loan and construction loan.

* 1. What is corporate lending?

Corporate loans are loans made to businesses for a specific business purpose. There are many types of corporate loans, and lenders change interest rates for these loans based on risk and market conditions, just like individual loans.

* 1. What is credit worthiness?

Creditworthiness is how a lender determines that you will default on your debt obligations, or how worthy you are to receive new credit.

* 1. What is micro credit?

Microcredit is a common form of microfinance that involves an extremely small loan given to an individual to help them become self-employed.

* 1. What do you mean by fair practice code?

FAIR LENDING PRACTICES CODE (FLPC for short) is a voluntary code adopted by our Bank, which aims to achieve synchronization of best practices while dealing with Customers in India. It aims to provide valuable inputs to Customers and facilitates effective interaction of customers with the Bank.

* 1. What is insolvency risk?

Insolvency risk is defined as the risk that an individual or company will not be able to meet its debt obligations.

* 1. What is capital adequacy?

The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.