20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **MPBF stands for Maximum Permissible Bank Finance.**
It is a formula-based method built on the borrower's balance sheet to set a lending ceiling.

2. **MPBF is rooted in the traditional Tandon and Chore committee thinking on working capital.**
Under this approach, the borrower funds part of the working capital gap from their own sources.

3. **A widely taught version of the MPBF second method is Net Working Capital minus 25% of Net Working Capital as the borrower's margin.**
The exact margin percentage can vary by policy, so it should be confirmed against current norms.

4. **Under MPBF, banks apply margins so they never finance 100% of any current asset.**
This margin acts as a cushion protecting the bank if asset values fall.

5. **MPBF is described as fast to calculate, standardised and conservative.**
These features make it useful for small and seasonal units with limited data.

6 **A limitation of MPBF is that it ignores the timing of cash inflows and outflows.**
It treats the year as one static snapshot rather than tracking monthly cash movement.

7 **The cash budget method projects a borrower's cash inflows and outflows month by month.**
Unlike MPBF, there is no single formula; it relies on detailed monthly projections.

8 **A cash budget includes opening cash balance, expected inflows, expected outflows and the peak deficit month.**
The peak deficit month is what drives the borrowing limit under this method.

9 **The bank funds the highest projected deficit under the cash budget method, plus a safety buffer.**
This is often referred to as the peak borrowing requirement.

10 **A limitation of the cash budget method is that it depends heavily on reliable projections from the borrower.**
It is vulnerable to over-optimistic or manipulated forecasts if not tested carefully.

11 **MPBF is generally described as a point-in-time snapshot, while the cash budget method is multi-period.**
This distinction is central to the comparison between the two working capital assessment methods.

12 **MPBF is typically best suited for SMEs and seasonal units, while cash budget suits larger, well-organised businesses.**
This reflects the differing complexity and data requirements of each method.

13 **The operating cycle is calculated as inventory days plus receivable days minus payable days.**
A longer operating cycle generally means a larger funding gap and higher borrowing need.

14 **In the worked example, MPBF is treated as a ceiling rather than a recommendation for the sanctioned limit.**
The sanctioned limit is typically set closer to the cash budget's calculated genuine need.

15 **Smart bankers are advised to run both MPBF and cash budget methods and reconcile the gap between them.**
A large gap between the two figures can signal over-asking by the borrower or balance-sheet weakness.

16 **Regulators have steadily relaxed rigid MPBF prescriptions for larger corporates.**
MPBF nonetheless remains a practical default approach for many small and medium units.

17 **Supplier credit, or payable days, shrinks the funding gap in working capital calculations.**
Forgetting to subtract payable days is listed as a common candidate mistake.

18 **Treating MPBF as the recommended sanction limit rather than a ceiling is listed as a common mistake.**
MPBF represents a safety-net ceiling, not the actual target lending amount.

19 **A prudent banker is advised to always show the working and end with a recommended limit and reason.**
Method marks are earned in exams even if the final arithmetic has minor slips.

20 **Working capital assessment is described as a high-yield, frequently tested area in the CAIIB ABFM exam.**
It often appears as scenario-based or numerical questions requiring judgement, not just definitions.