## 20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **The three core principles of lending are Safety, Liquidity and Profitability.**
   These three goals shape every loan sanction decision a bank makes.

2. **Safety in lending means the borrower must have both the ability and the intention to repay.**
   Adequate collateral, guarantees and sound cash flows all support the safety of a loan.

3. **Liquidity in lending means the funds lent out must be recoverable in time.**
   A bank cannot lock all its money in long-term assets since depositors may demand their money back.

4. **Profitability in lending means the loan must earn enough to cover cost of funds, operating costs and risk.**
   A loan should add to the bank's profit even after covering these costs.

5. **Fund-based credit facilities involve an immediate outflow of money, such as cash credit and term loans.**
   Actual money leaves the bank the moment a fund-based facility is used.

6 **Non-fund-based credit facilities, such as bank guarantees and letters of credit, involve no immediate cash outflow.**
The bank lends its name and creditworthiness rather than disbursing funds immediately.

7 **A Bank Guarantee creates a contingent liability that becomes real only when the guarantee is invoked.**
Until invocation, the bank's liability under a guarantee stays off the balance sheet.

8 **A Letter of Credit is a primary payment undertaking where the bank pays once compliant documents are presented.**
This makes an LC different from a bank guarantee, which is a secondary, contingent promise.

9 **The Nayak Committee method for working capital assessment is built for small borrowers, linked to projected turnover.**
It simplifies working capital assessment for smaller business units.

10 **The Tandon Committee introduced lending norms based on current assets and current liabilities.**
These norms include prescribed methods for margin and bank finance.

11 **The Kannan Committee's Cash Budget Method is suited to seasonal industries and the service sector.**
It assesses finance using projected cash inflows and outflows rather than fixed balance-sheet ratios.

12 **Working Capital Gap is Current Assets minus Current Liabilities, excluding bank borrowings.**
It shows the funding shortfall that the bank may bridge for the borrower.

13 **Net Working Capital is Current Assets minus Current Liabilities.**
A positive NWC signals short-term stability while a negative NWC signals dependence on external finance.

14 **Maximum Permissible Bank Finance is the ceiling on bank finance against working capital after deducting the borrower's required margin.**
This keeps the borrower financially committed to the business rather than fully bank-funded.

15 **MCLR stands for Marginal Cost of Funds-based Lending Rate, an internal benchmark for loan pricing.**
It replaced older systems to make lending rates more responsive and transparent.

16 **MCLR components include marginal cost of funds, negative carry on CRR, operating costs and a tenor premium.**
These components together determine how a bank prices a loan internally.

17 **Letters of Credit are governed by UCPDC 600 guidelines.**

These uniform guidelines standardise how documentary credits are handled in trade finance.

18 **Credit appraisal evaluates a borrower's character, capacity, cash flows, DSCR, collateral and credit risk rating.**

These factors together decide whether, and on what terms, a loan gets sanctioned.

19 **CMA Data stands for Credit Monitoring Arrangement data, used to compute MPBF and check feasibility.**

It presents projected turnover, costs, working capital and profits for appraisal purposes.

20 **A willful defaulter is a borrower who can repay but chooses not to, or who diverts funds to non-permitted uses.**

Identifying such cases is central to a bank's credit risk management.