20 True or False

Decide, then check the answer and reason below each statement.

Question 1

The three core principles of lending are Safety, Liquidity and Profitability.

TRUE

Correct, these three principles form the foundation of all bank lending decisions.

Question 2

The core principles of lending include Safety, Liquidity and Marketing.

FALSE

False; the third core principle is Profitability, not Marketing.

Question 3

Safety in lending requires the borrower to have both the ability and intention to repay.

TRUE

Correct, both capacity and willingness to repay are essential for the safety principle.

Question 4

Liquidity in lending means locking bank funds mainly in long-term illiquid assets.

FALSE

False; liquidity means funds must be recoverable in time, so a bank avoids locking money in long-term assets.

Question 5

Fund-based credit facilities such as cash credit and term loans involve an immediate outflow of money.

TRUE

Correct, actual money leaves the bank immediately under fund-based facilities.

Question 6

Non-fund-based facilities like bank guarantees involve an immediate cash outflow at the time of sanction.

FALSE

False; non-fund-based facilities involve cash outflow only if the guarantee or credit is invoked, not at sanction.

Question 7

A Bank Guarantee creates a contingent liability that becomes real only when invoked.

TRUE

Correct, until invocation the bank's liability under a guarantee stays off the balance sheet.

Question 8

A Letter of Credit is a contingent, secondary obligation similar to a bank guarantee.

FALSE

False; a Letter of Credit is a primary payment undertaking, unlike a bank guarantee which is contingent and secondary.

Question 9

The Nayak Committee method is built for small borrowers, linking working capital to projected turnover.

TRUE

Correct, this method simplifies working capital assessment for smaller business units.

Question 10

The Tandon Committee method is specifically designed for seasonal industries and the service sector.

FALSE

False; the Kannan Committee's Cash Budget Method is the one suited to seasonal industries and services.

Question 11

The Kannan Committee's Cash Budget Method assesses finance using projected cash inflows and outflows.

TRUE

Correct, this approach suits seasonal industries and the service sector.

Question 12

Working Capital Gap includes bank borrowings in its calculation.

FALSE

False; Working Capital Gap specifically excludes bank borrowings from its calculation.

Question 13

Net Working Capital is calculated as Current Assets minus Current Liabilities.

TRUE

Correct, this is the standard formula for Net Working Capital.

Question 14

MPBF represents the full working capital gap with no deduction for the borrower's margin.

FALSE

False; MPBF is the ceiling on bank finance after deducting the borrower's required margin.

Question 15

MCLR stands for Marginal Cost of Funds-based Lending Rate.

TRUE

Correct, MCLR is the internal benchmark banks use for loan pricing.

Question 16

MCLR components exclude any consideration of operating costs.

FALSE

False; operating costs are one of the components that make up the MCLR calculation.

Question 17

Letters of Credit are governed by UCPDC 600 guidelines.

TRUE

Correct, these uniform guidelines govern documentary credit practice in trade finance.

Question 18

Credit appraisal ignores cash flows and DSCR, focusing only on collateral value.

FALSE

False; credit appraisal evaluates cash flows and DSCR alongside collateral and other factors.

Question 19

CMA Data is used to compute MPBF and check feasibility under Tandon Committee norms.

TRUE

Correct, CMA Data presents the projected financials needed for this assessment.

Question 20

A willful defaulter is defined as a borrower who is financially unable to repay despite trying.

FALSE

False; a willful defaulter can repay but chooses not to, or diverts funds to non-permitted uses.