20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Bank credit is extended to individuals, HUFs, partnership firms, LLPs, companies, statutory corporations, trusts and co-operative societies.**
Each borrower category is treated differently in documentation and authorised signatories.

2. **Before entering a loan contract, a bank must ensure the borrower is competent to contract under the Indian Contract Act.**
Capacity to contract is a legal must-check before any lending decision.

3. **A minor, defined as a person below 18 years of age, is treated as incompetent to contract.**
Loans to a minor can be legally void, making recovery difficult for the bank.

4. **A person of unsound mind is treated as incompetent to enter into a valid contract.**
Such a person is unable to understand the contract at the time of making it.

5. **A person disqualified by law, such as someone declared insolvent, is treated as incompetent to contract.**
   Legal disqualification prevents such persons from validly borrowing from a bank.

6. **Credit facilities are classified into fund-based lending, where funds flow out immediately, and non-fund-based lending, with only a contingent commitment.**
   This two-way classification is a foundational concept in bank credit facility exams.

7. **Fund-based lending includes Overdrafts, Bills Finance, Cash Credit accounts, Term Loans and Demand Loans.**
   These are the standard products where the bank disburses money immediately.

8. **Non-fund-based lending includes Letters of Guarantee and Letters of Credit, for which the bank charges a fee.**
   The bank earns fee income while carrying a contingent liability under non-fund-based facilities.

9. **A cash credit account is a running account where a debit balance is sanctioned up to the drawing power limit based on stock held.**
   This limit is generally sanctioned for one year and then renewed, enhanced or reduced.

10 **Cash credit is generally offered against hypothecation or pledge of prime security such as raw material or book debts.**

Security backing distinguishes cash credit from unsecured lending arrangements.

11 **An overdraft allows a customer to draw cheques over the balance standing to their credit in a current account.**

This facility is normally available to current account holders and is repayable on demand.

12 **Temporary or clean overdrafts are based purely on personal credit to meet genuine emergencies.**

This includes situations like drawing against an uncleared cheque in exceptional cases.

13 **Secured overdrafts are offered against tangible security such as LIC policies, National Savings Certificates, bank deposits or shares.**

Traders often prefer secured overdrafts for their lower operating cost and simpler documentation.

14 **A Demand Loan is a secured loan repayable on demand, usually granted against a lien on fixed deposits or insurance policies.**

Repayment can be through instalments, a lump sum, or closure from the security's maturity proceeds.

15 **Bills Finance involves the bank purchasing or discounting demand and usance bills from the customer.**
This short-term facility gives the seller immediate money instead of waiting for buyer payment.

16 **Demand bills are payable on presentation and can be clean or documentary in nature.**
Banks generally accept documentary bills for purchase, with clean bills purchased for good parties.

17 **Term Loans carry a long commitment period with maturity that can range from about 10 to 15 years.**
They are typically repaid from cash generated by the business's ongoing operations.

18 **Term Loan sanction involves thorough credit appraisal covering the borrower's integrity, business capacity and managerial competence.**
Banks also check credit information reports and internal and external credit ratings before sanction.

19 **Cash Credit and Overdraft are considered running accounts, while Demand Loan and Term Loan are one-time disbursals.**
This grouping by account nature helps distinguish the different fund-based facilities.

20 **The age of majority relevant to contractual capacity in banking is 18 years.**

A person below this age is treated as a minor and incompetent to contract for loans.