Study more at iibf.store • YouTube: Learning Sessions • WhatsApp your course name to 8360944207 for daily updates

20 True or False

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

Question 1

Bank credit is extended to borrower types including individuals, HUFs, partnership firms, LLPs, companies and trusts.

TRUE

These are among the recognised borrower categories eligible for bank credit.

Question 2

A bank does not need to verify a borrower's competence to contract before lending.

FALSE

Checking competence to contract under the Indian Contract Act is described as a legal must before lending.

Question 3

A minor, defined as a person below 18 years, is treated as incompetent to contract.

TRUE

Minors cannot validly enter into a loan contract under the Indian Contract Act.

Question 4

A person of unsound mind is considered fully competent to enter into a valid loan contract.

FALSE

A person of unsound mind is treated as incompetent to contract since they cannot understand the contract.

Question 5

A person declared insolvent is generally treated as incompetent to contract.

TRUE

Legal disqualification, such as insolvency, prevents a person from validly borrowing.

Question 6

Fund-based lending involves an immediate flow of funds to the borrower, unlike non-fund-based lending.

TRUE

This is the defining distinction between the two broad credit facility categories.

Question 7

Overdrafts, Bills Finance, Cash Credit and Term Loans are examples of fund-based lending.

TRUE

These products involve immediate cash outflow from the bank, characteristic of fund-based lending.

Question 8

Letters of Guarantee and Letters of Credit are examples of fund-based lending facilities.

FALSE

These are actually non-fund-based facilities, involving only a contingent commitment and fee income.

Question 9

A cash credit account allows a debit balance up to the drawing power limit based on stock held by the borrower.

TRUE

This drawing power mechanism defines how much a borrower can access under cash credit.

Question 10

Cash credit is typically offered without any security, purely on the borrower's personal credit.

FALSE

Cash credit is generally offered against hypothecation or pledge of security like stock and book debts.

Question 11

An overdraft allows a customer to draw cheques over the balance in their current account and is normally repayable on demand.

TRUE

This describes the standard overdraft facility mechanism.

Question 12

Temporary or clean overdrafts require substantial tangible security before being granted.

FALSE

Temporary or clean overdrafts are based purely on personal credit, not tangible security.

Question 13

Secured overdrafts can be backed by assets such as LIC policies, National Savings Certificates or bank deposits.

TRUE

These are recognised forms of tangible security used for secured overdrafts.

Question 14

A Demand Loan is typically an unsecured loan granted without any lien on assets.

FALSE

A Demand Loan is actually a secured loan usually granted against a lien on fixed deposits or insurance policies.

Question 15

Bills Finance involves the bank purchasing or discounting bills to give the seller immediate money.

TRUE

This is the core mechanism and advantage of the bills finance facility.

Question 16

Demand bills are always payable only after a long future maturity date, similar to usance bills.

FALSE

Demand bills are payable on presentation, unlike usance bills which mature on a future date.

Question 17

Term Loans generally have maturities that can range from about 10 to 15 years.

TRUE

This is the commonly cited long-term maturity range for term loans.

Question 18

Term Loan sanction typically skips credit appraisal since the loan is long-term.

FALSE

Term Loans actually require thorough credit appraisal of the borrower and the project before sanction.

Question 19

Cash Credit and Overdraft are considered running accounts, unlike Demand Loan and Term Loan which are one-time disbursals.

TRUE

This distinction in account nature helps classify the different fund-based facilities.

Question 20

The age of majority relevant to contractual capacity in Indian banking is 21 years.

FALSE

The relevant age of majority for contractual capacity is 18 years, not 21.

Keep Learning with Learning Sessions

iibf.store
Mock tests, video classes, one-liners & PDFs — all in one portal.

YouTube: Learning Sessions
Subscribe for free daily video classes.

WhatsApp 8360944207
Send your course name for daily updates.