CREDIT FACILITIES

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MEANING OF CREDIT MANAGEMENT

- **Credit** means receiving something of value now and promising to pay for it later, often with a finance charge added by the lender.
- **Management** is a process of planning, decision making, organizing, leading, motivation and controlling the human resources, financial, physical, and information resources of an organization to reach its goals in an efficient and effective manner.
- **Credit management** is the process of granting credit, setting the terms it's granted on, recovering this credit when it's due, and ensuring compliance with company credit policy, among other credit related functions.

Characteristics of Credit:

1. Confidence:

Confidence is very important for granting or extending any credit. WithouT trust and confidence one can't lend it. It is all about repayment of debts is the confidence which lender should have on the debtor.

2. Capacity:

Borrower should have the capacity to repay what he receives as credit. Willingness and capacity is to be considered. If a person does not have adequate capacity to repay the loan, now it become riskier for the lender. Capacity of the borrower to repay the debt is also very crucial thing to be considered. Before granting or extending any advance, creditor should evaluate the borrower's capacity.

3. Security:

At the time of lending the loan, lender should get security in turn. At the time of non-repayment of loan or debt, security can be availed to get back the loan amount given to the borrower. One has to ensure the right security is attached to the debt and lender should ensure property about the debtor. The availability of credit depends upon property or assets possessed by the borrower.

4. Goodwill:

If the borrower has good reputation of repaying outstanding in time, borrower may be able to obtain credit without any difficulty.

5. Size of credit:

Generally small amount of credit is easily available than the larger one. Again it also depends on above factors.

6. Period of credit:

Normally, long term credit cannot easily be obtained because more risk elements are involved in its security and repayments.

Types of Credit:

Cash credit:

is a credit that given in cash to business firms. A cash credit account is a drawing account against a fixed credit limit granted by the bank and is operated exactly in the same manner as a current account with all overdraft facilities. It is an arrangement by which, a bank allows its customers to borrow money up to a certain limit against tangible securities or share of approved concern etc. cash credits are generally allowed against the hypothecation of goods/ book debts or personal security

Overdraft: A customer having current account, is allowed by the banks to draw more than his deposits in the account is called an overdraft facility. In this system, customers are permitted to withdraw the amount over and above his balance up to extent of the limit stipulated when the customer needs it and to repay it by the means of deposits in account as and when it is convenient. Customer of good standing is allowed this facility but customer has to pay interest on the extra withdrawal amount.

Demand loans:

A demand loan has no stated maturity period and may be asked to be paid on demand. Its silent feature is, the entire amount of the sanctioned loan is paid to the debtor at one time. Interest is charged on the debit balance.

Term loans:

is an advance for a fixed period to a person engaged in industry, business or trade for meeting his requirement like acquisition of fixed assets etc. the maturity period depends upon the borrower's future earnings. Next to cash credit, term loans are assumed of great importance in an advance portfolio of the banking system of country.

The repayment tenure of these two types ranges between 12 months to 5 years. Term loans that are of a shorter duration which is of 12 months are called **short-term loans** and loans up to 5 years or more are **long-term loans**. The collateral-free business loans are offered up to Rs. 2 crore, also can exceed depending upon business requirements. The repayment tenure for a term loan is finalized by the lender at the time of loan application.

Bill purchased:

Bankers may sometimes purchase bills instead of discounting them. But this is generally done in the case of documentary bills and that too from approved customers only. Documentary bills are accompanied by documents of title to goods such as bills of loading or lorry and railway receipts. In some cases, banker advances money in the form of overdraft or cash credit against the security of such bills.

Bill discounted:

Banker loans the funds by receiving a promissory note or bill payable at a future date and deducting that from the interest on the amount of the instrument. The main feature of this lending is that the interest is received by the banker in advance. This form of lending is more or less a clean advance and banks rely mainly on the creditworthiness of the parties.

For example, You have sold goods to Mr. Singh, he has given you a letter of credit from the bank for 45 days, if you want to get money from the bank before 45 days, the bank will charge some interest rate from you, which in return will be called a discount for the seller. Further, let’s assume that the amount which you were supposed to get was Rs. 10 lakh on or after 45 days, by bank’s discount or interest rate of Rs. 50,000 you now get Rs. 9,50,000 in return from the bank. The buyer will anyhow deposit Rs. 10 lakh to the respective bank on the 45th day only.

Credit Instruments:

Cheque:

Cheque is the most popular instrument. It is an order drawn by a depositor on the bank to pay a certain amount of money which is deposited with the bank.

Bank draft:

Bank draft is another important instrument of credit used by banks on either its branch or the head office to send money from one place to other. Money sent through a bank draft is cheaper, convenient and has less risk.

Bill of exchange:

It enables a seller of commodity to issue an order to a buyer to make the payment either to him or to a person whose name and address is mentioned therein either on the site of the bill or within a period of time specified therein.

Promissory note:

According to the Indian negotiable instrument act, „a promissory note‟ is an instrument in writing containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or the order of certain person or the bearer of the instrument.

Government bonds:

Government issues a sort of certificate to the person who subscribes to these loans. Such certificates are called government bonds. Some of them are income tax free.

Treasury bills:

These bills are also issued by the government. They are issued in anticipation of the public revenues.

Traveler’s cheque:

This is the facility given by bank to the people. It was most useful when recent technological instrument like ATMs were not available. A customer was used to deposit money with the banks and banks give traveler’s cheque in turn. It was used to avoid risk of having cash while travelling.

THANK YOU