LENDING ACTIVITIES

A loan application procedure is complete only when all the documents are submitted and they have been successfully verified. The documents required for sanction depends on the type of loan being applied for.

Below is the list of documents that a borrower has to submit to the lender depending on the type of loan being availed.

DOCUMENTS FOR LOAN AGAINST PROPERTY

FOR SALARIED INDIVIDUALS

Proof of Residence – Ration card / Aadhar Card / Elec Bill / Tel Bill / Voters Card / Passport

Proof of Identity – Voters card/ Aadhar Card / Driver's License / Passport

Latest Bank statement (where salary is being credited for last 6 months)

Last six months' salary slip with all deductions

Copies of All property documents.

FOR SELF EMPLOYED INDIVIDUALS

Proof of Residence – Ration card / Aadhar Card / Elec Bill / Tel Bill / Voters Card / Passport

Proof of Identity – Voters card/ Aadhar Card / Driver's License / Passport

Certified financial statements for the last 2 years

Latest bank statement (where income is credited for last six months)

Copies of All property documents

DOCUMENTS REQUIRED FOR A PERSONAL LOAN

Proof of Residence – Ration card / Aadhar Card / Elec Bill / Tel Bill / Voters Card / Passport

Proof of Identity – Voters card/ Aadhar Card / Driver's License / Passport

Latest Bank statement (where salary is being credited for last 6 months)

Last six months' salary slip with all deductions

DOCUMENTS REQUIRED FOR A BUSINESS LOAN

PAN card of company / firm / individual

Proof of Identity – Voters card/ Aadhar Card / Driver's License / Passport

Proof of Address –Aadhar Card / Elec Bill / Tel Bill / Voters Card / Passport

Bank statements for the last six months

Latest ITR along with computation of income, Balance Sheet, Profit & Loss Account for last 2 years, certified by CA

Proof of establishment – Trade License / Shop and Establishment Certificate

Other documents – Partnership deed/ Memorandum & Articles of Association / Board Resolution

DOCUMENTS REQUIRED FOR COMMERCIAL VEHICLE LOAN

Proof of Identity – Voters card/ Aadhar Card / Driver's License / Passport

Proof of Address –Aadhar Card / Elec Bill / Tel Bill / Voters Card / Passport

Bank statements for the last six months

Work in hand / contract copies

Existing vehicle ownership proof

Proforma Invoice

The documents mentioned above are a general set of documents asked by the lender. The list of documents might vary from one lender to another

DIFFERENT TYPES OF BANK LOANS IN INDIA

PERSONAL LOANS – These are usually unsecured loans which the banks offer to their customers. The end use of the loan amount could be some medical expenses, paying school fees or purchase of any household goods.

They are unsecured in nature and are backed by the personal guarantee of the borrower only. The rates of interest are generally high. The credit risk and delinquency are more in this segment. Hence banks do a proper credit appraisal to ensure that the customer has enough income or assets to repay the loan.

CREDIT CARD LOANS – It is a small piece of plastic in which information about the customer is embedded electronically. The customer can use it at designated establishments up to the credit limit set by the bank. It is widely accepted worldwide and is the most convenient mode of making payments.

Customers have the option of making the total outstanding payment at the end of the billing cycle or pay a part amount and carry forward the balance amount to the next cycle. The amount carried forward is liable to interest.

This is the costliest form of credit and has to be utilized judiciously. It comes with many attractive features like reward points, cash back etc.However, delays in payments can lead to heavy interest charges and late fees which can lead to defaults in payments.

HOME LOANS – They are generally given by banks for purchase of homes, land, home renovation or home extensions. These loans are usually given for a longer tenure – from 10 to 30 years and carry a low rate of interest. Currently the interest rate varies from 7.5% to 9%. To encourage purchase of homes, the government has also announced certain income tax benefits on principal and interest payments.

AUTO LOANS – Banks give loans for the purchase of both new and second hand cars. Most of the banks offer loans of up to 90% of the on-road cost of new cards with repayment tenures from 3 years to 8 years. Most of the banks have tie ups with either the manufacturers or auto dealers and offer special incentives on select models of cars. The interest rates on such loans vary from 9% to 12%.

TWO-WHEELER LOANS – Banks give loans for the purchase of two wheelers. Based on the model, banks offer loan up to 100% of the on-road cost of the vehicle. Most of the manufactures also have their in-house finance companies which offer finance on the bikes.

SMALL BUSINESS LOAN – They are loans provided to small and medium scale businesses to meet various requirements like working capital, purchase of machinery etc. These loans are usually for a

period of 3 to 7 years and carry an interest rate of between 9 to 12% depending on the amount of loan, security offered etc.

PAYDAY LOANS – These are also called salary loans. They are short term loans which usually carry high interest rates. They are given to salaried individuals.

CASH ADVANCES – These are loans against credit cards which allows the user to withdraw cash from ATMs up to a certain limit. This has to be repaid as per the customer's billing cycle.

HOME RENOVATION LOAN – These are offered by most of the banks and can be availed to meet expenses relating to renovation, repairs, or improvement of an existing residential property.

AGRICULTURAL LOAN – They are loans that are provided to farmers to meet their day to day expenses or general agricultural requirements. They can be for both long term and short term.

GOLD LOANS– Gold loans are secured loans where gold is placed as security or collateral in return for a loan amount that is in proportion to the market value of gold. The funds can be used to meet any emergency financial requirements like medical expenses, education expenses etc.

LOAN AGAINST CREDIT CARD – Loan against credit card is like a personal loan that is taken against your credit card limits. They are usually pre-approved by the lender.

EDUCATION LOANS – It is a loan availed specifically to finance educational requirements towards school or college. Depending on the lender, the loan will cover the basic fees of the course, exam fees, accommodation and other expenses. The student is the borrower while the parent / sibling / spouse is the co-borrower. The finance can be availed for courses both in India and abroad.

CONSUMER DURABLE LOAN – These are loans which are availed for financing of consumer durables like refrigerators, air conditioners and mobile phones. The loan amounts could range from Rs. 10000 to Rs. 5 lakhs. NBFCs have a major market share in this lending sector.

LOAN AGAINST INSURANCE POLICIES – Loans can be availed against certain types of insurance policies. Usually these loans can be availed after three years of buying the policy.

LOAN AGAINST FIXED DEPOSITS – These are loans given against fixed deposits placed in banks and NBFCs. The loan amount is usually 80% of the value of the deposit and the interest rate is 2% higher than the fixed deposit interest rate.

LOANS AGAINST MUTUAL FUNDS AND SHARES – Certain lenders provide loans against mutual funds and shares held in the demat account. Since the market value of the shares and mutual funds change on a daily basis, banks usually do not give more than 60% of the value as loan.

CREDIT POLICY

Credit control is an important tool used by the Reserve Bank of India to control the demand and supply of money (liquidity) in the economy. Central Bank administers control over the credit that granted by commercial banks. The aim of the RBI is to bring Economic Development with Stability. It means that banks will not only control inflationary trends in the economy but also boost economic growth which would ultimately lead to increase in the per capita income of the country.

NEED FOR CREDIT CONTROL

Controlling of credit in the economy is among the most important functions of the Reserve Bank of India. The basic and important needs of credit control in the economy are as follows:

1. To encourage the overall growth of the Priority Sector – those sectors of the economy which is recognized by the government as prioritized depending upon their economic conditions or strategic interest.
2. To keep a check over the channelization of credit so that credit is not delivered for undesirable purposes
3. To achieve the objective of controlling inflation as well as deflation
4. To boost the economy by facilitating the flow of adequate bank credit to different sectors.
5. To ensure the overall development of the economy.

OBJECTIVES OF CREDIT CONTROL

a) To ensure an adequate level of liquidity to attain high economic growth rate along with maximum utilisation of resources
b) Attain stability in the exchange rate and money market
c) Ensuring that the financial requirements of the economy are met at all times

METHODS OF CREDIT CONTROL

There are two methods that the RBI uses to control the money supply in the economy.

1. Qualitative method
2. Quantitative method

QUALITATIVE METHOD

Qualitative method controls the manner of channelizing of credit in the economy. It is a selective method of control as it restricts credit for certain sections whereas it expands credit for certain important sectors.

Tools used under this method are

MARGIN REQUIREMENT

Margin requirement of loan is the current value of security offered for banks to the value of loans granted. The margin requirements are increased for those activities where the flow of credit is to be restricted.

RATIONING OF CREDIT

Under this method, there is a maximum limit to loans and advances that can be made which the banks cannot exceed. RBI fixes the ceiling for specific activities. Such rationing is used for situations where the credit flow is to be checked for unproductive activities.

PUBLICITY

RBI uses the media for articulating its views on the current market conditions and the directions that need to be implemented by commercial banks to control the economic growth

DIRECT ACTION

Under the Banking Regulation Act, the RBI has the authority to issue directives to commercial banks in respect of their lending policies, sectoral ceilings etc

MORAL SUASION

It refers to the advice or request made by RBI to banks to follow policies which are in the country's best interest

QUANTITATIVE METHOD

The different tools used under this method are as follows

BANK RATE

Bank rate is the rate of interest at which RBI lends funds to commercial banks without any security. These funds are long term in nature

REPO RATE

Repo rate is the rate of interest at which RBI lends short term funds to banks against the collateral of government securities. Usually these transactions are short term in nature.

REVERSE REPO RATE

It is the rate of interest offered by RBI when banks deposit their surplus funds with RBI for a short period. It is a measure to absorb liquidity from the market.

CASH RESERVE RATIO

It is the percentage of deposits which a bank has to keep as reserves in the form of cash with the RBI. It is a tool used by RBI to regulate the flow of funds into the economy.

STATUTORY RESERVE RATIO

It is the percentage of Net Demand and Time Liabilities kept by the bank in the form of liquid assets. It is held in the form of cash, gold and government securities.

Changes in the above rates are done with a view to controlling the price levels and business activity.

EXPOSURE NORMS

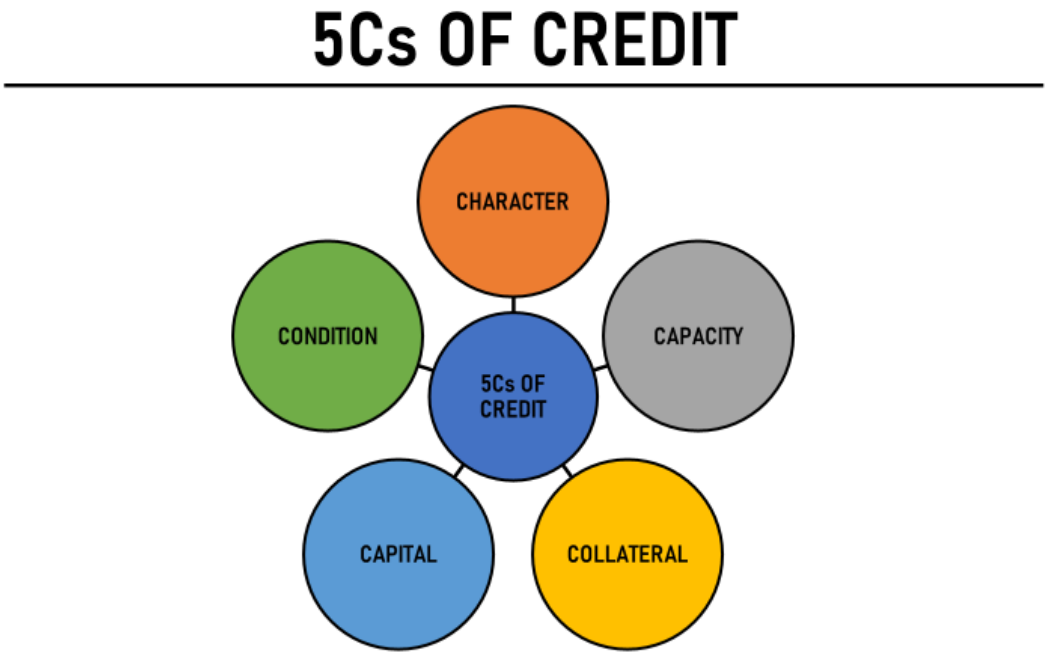
The Reserve Bank of India has mandated the banks to fix limits on their exposure to specific industry or sectors and has prescribed regulatory limits on banks 'exposure to single and group borrowers in India.

RBI's prudential exposure norms mandate that a bank exposure to a single borrower should be capped at 20% of a lender's Tier 1 capital base and to a 25% limit to a group of connected entities with effect from April 1, 2019. Further banks must classify the sum of all exposures of 10% or above as "large exposure "and report them to RBI.

The credit exposure comprises of all types of funded and non-funded credit limits and facilities extended by way of equipment leasing, hire purchase finance and factoring services. The investment exposure comprises of investments in shares and debentures of companies and investments in Commercial papers.

FIVE C'S OF CREDIT

The five Cs of credit is a system used by lenders to gauge the credit worthiness of the borrowers. The system weights five characteristics of the borrower and the conditions of the loan, attempting to estimate the chance of default, and, consequently, the risk of financial loss for the lender. The five Cs of credit are character, capacity, capital, collateral and conditions.



CHARACTER

It refers to the applicant's credit history – a borrower's reputation or track record for repaying debts. This information appears on the borrower's credit reports. There are currently four bureaus in India who generate these credit reports – TransUnion, Crif Highmark, Equifax and Experian. The reports contain detailed information about how much an applicant has borrowed in the past and whether they have repaid loans on time.

Many lenders have a minimum credit score requirement before an applicant can be eligible for a new loan. Minimum credit score requirements vary from lender to lender and from loan to loan. The general rule is that the higher the credit score, the higher are the chances of the loan getting approved. A higher credit score also helps in the borrower getting an attractive rate on the loan.

CAPACITY

Capacity measures the borrower's ability to repay a loan by comparing income against recurring debts and assessing the borrower's debt to income (DTI) ratio. The lower an applicant's DTI, the better the chances of qualifying for a new loan.

CAPITAL

Lenders also consider any capital that the borrower puts as a down payment for the loan. A large down payment by the borrower decreases the chances of default.

Down payment size can also affect the interest rate and other terms of the loan. More the down payment, better are the loan terms.

COLLATERAL

A collateral gives the lender the assurance that if the borrower defaults on the loan, they can repossess the collateral and recover part of the dues. Often, the collateral is the object for which the loan is being availed. E.g. In case of auto loans, the car is the collateral while in case of home loans, the house is the collateral. Loans with a collateral are also known as secured loans.

Secured loans are generally considered less risky by the lenders. Hence these loans usually have lower interest rates and better terms and conditions than unsecured loans.

CONDITIONS

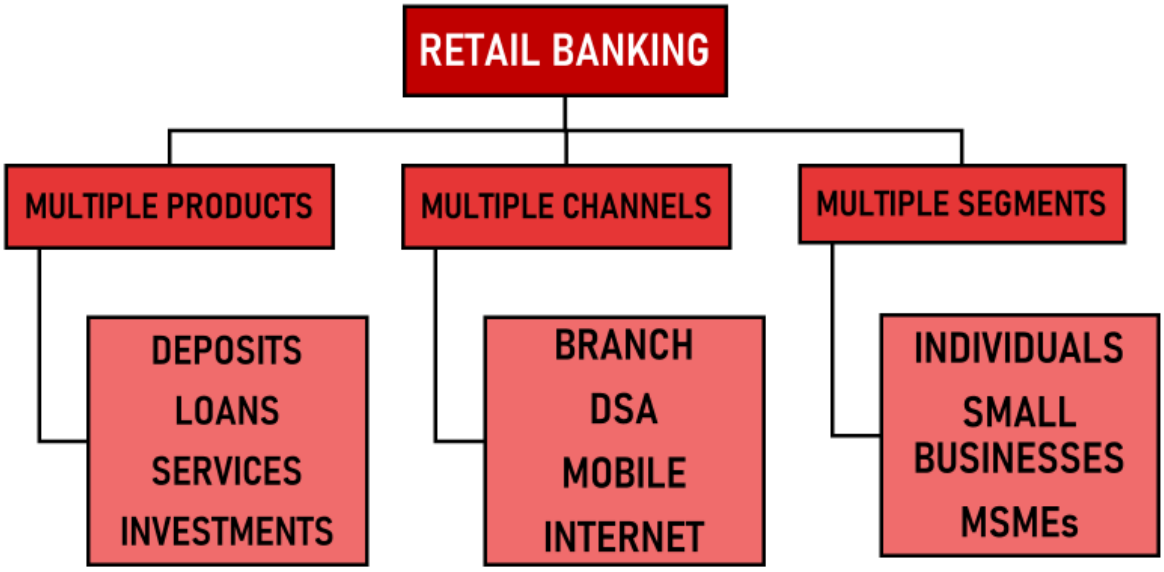
The conditions of the loan such as the interest rate, repayment tenure influence the ability of the borrower to repay the loan. Conditions can also refer to the end use of funds.

RETAIL BANKING

Retail banking is a banking service that is geared primarily towards individual customers. Retail banking entities provide a wide range of personal banking services like savings account, credit and debit cards, loans, payment services etc. It was conceived to provide mass market banking services to private individuals. However, over the years, it has expanded to include services provided to small and medium sized business.

Retail banking is characterised by three basic elements

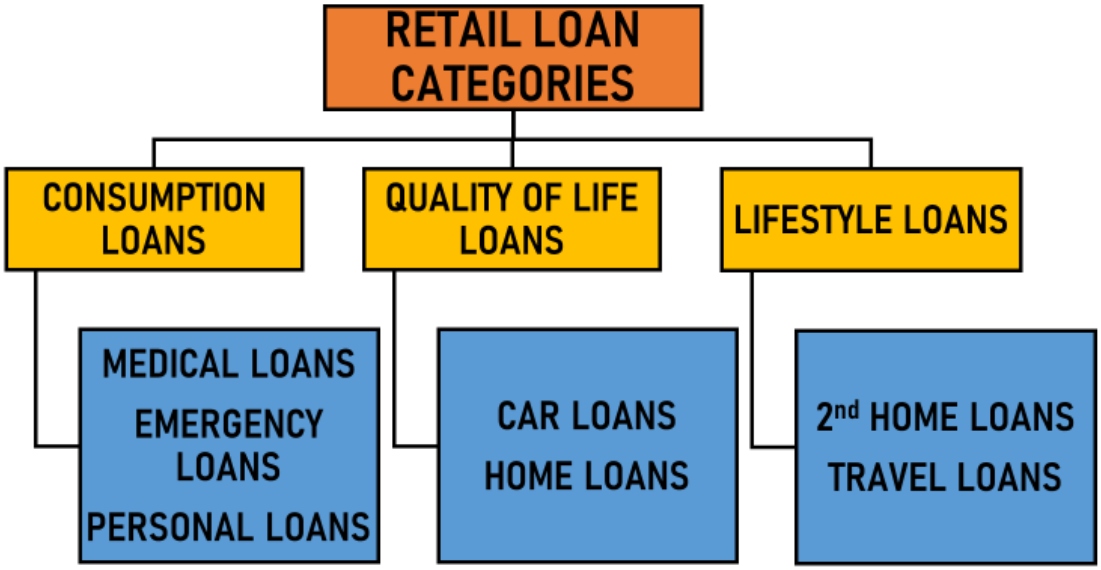
a) Multiple products
b) Multiple distribution channels
c) Multiple customer groups



RETAIL BANKING IN INDIA

Retail banking has been prevalent in India since many years. Over the last few years, it has become synonymous with mainstream banking for many banks.

The typical products offered in retail banking are various types of accounts, credit and debit cards, retail loans like home loans, auto loans, personal loans etc. In the past few years, retail banking has become the key profit driver for many banks in India. The NPAs in the retail portfolio is considerably less than the overall NPA percentage of the banks. Hence more emphasis is given in growing their retail loan book these days.



CHARACTERISITCS OF RETAIL BANKING

Retail banking has the following characteristics

1. Banking facilities targeted at individual customers
2. Focussed towards mass market segment covering a large population of individuals.
3. Offer different liability, asset and a variety of products to individual customers
4. The delivery model of retail banking is both physical and virtual i.e. services are extended through branches and also through technology driven electronic off-site delivery channels like ATMs, internet banking, apps etc
5. Extended to small and medium sized businesses.

ADVANTAGES OF RETAIL BANKING

1. Client base will be large and therefore, the risk is spread across the customer base
2. Customer loyalty is strong and customers tend not to change from one bank to another frequently.
3. Attractive interest spreads are available, since customers are too fragmented to bargain effectively. Credit risk tends to be well diversified since the loan amounts are relatively small
4. There is less volatility in demand and credit cycle as compared to corporates.
5. Large number of clients can facilitate marketing, mass selling and ability to select clients using scoring system / data mining.

CONSTRAINTS IN RETAIL BANKING

1. Problems in managing large number of clients – especially if the IT systems are not sufficiently robust.
2. Rapid evolution of products can lead to IT complications and redundancies.
3. The cost of maintaining branch networks and handling a large number of low value transactions tends to be high.
4. Higher delinquency especially in credit card and unsecured loans segments.

EVOLUTION OF RETAIL BANKING IN INDIA

The evolution of retail banking in India can be traced back to the entry of foreign banks in the late 70s and early 80s. Standard Chartered Bank and Grindlays Bank were the pioneers in introducing retail banking products in India. Citibank entered the credit card space in 1980s. Public sector banks like Bank of Baroda, Andhra Bank and Canara Bank then entered the retail segment.

In the 90s, NBFCs like GE Capital, Apple Finance, Anagram Finance, Kotak Mahindra Finance entered the car finance market. In the late 90s, ICICI Bank entered the retail banking segment and quickly became market leaders in the segment

Currently private sectors banks like HDFC Bank, ICICI Bank, Kotak Bank and PSU banks like SBI, Canara Bank and NBFCs like Bajaj Finance are big players in the retail financing industry. All of them cater to specific segments in the market.

REASONS FOR BOOM IN RETAIL BANKING

1. Economic prosperity and increase in purchasing power
2. Growing urban population
3. Technological development has led to cheaper delivery models
4. Growing trend of nuclear families.
5. Increasing literary levels
6. Increasing consumption mindset
7. Declining interest rates
8. Boom in service sector
9. Change in mindset regarding borrowing money

TRENDS IN RETAIL BANKING

In the past decade, the banking industry has undergone a major revolution. Due to the rise of competition, IT revolution, emergence of fintech firms, and changing customer demographics, have prompted banks to adopt new strategies and techniques. Banks are moving towards a digital transformation that offers better customer experience and reduction in operating costs. Internet and mobile banking are the rapidly emerging trends in retail banking. This trend is predicted to result in a drop in branch visits in the coming years. Use of artificial intelligence and voice assistants to deliver personalised services are expected to revolutionise banking systems.

CORPORATE BANKING

Corporate Banking refers to banking which targets medium and large sized companies and organisations. Project finance, working capital loans, loan syndication, transaction processing is some of the products and services offered.

DIFFERENCE BETWEEN CORPORATE AND RETAIL BANKING

	RETAIL BANKING	CORPORATE BANKING
1	IT REFERS TO BANKING WHICH MAINLY TARGETS SMALL INDIVIDUALS AND BUSINESSES.	IT REFERS TO BANKING WHICH TARGETS LARGE COMPANIES AND ORGANIZATIONS.
2	EDCUCATION, VEHICLE, HOME. CONSUMER DURABLE ARE THE TYPES OF LOANS GIVEN HERE.	PROJECT FINANCE, WORKING CAPITAL LOANS, LOAN SYNDICATION ARE THE SERVICES OFFERED HERE.
3	IT HAS A LARGE VOLUME OF LOW VALUE TRANSACTIONS.	HERE YOU HAVE A SMALL VOLUME OF HIGH VALUE TRANSACTIONS.
4	HERE THE BANK-CUSTOMER RELATIONSHIP IS AT MEDIUM LEVEL.	HERE THE BANK-CUSTOMER RELATIONSHIP IS AT A HIGH LEVEL.
5	THE RATE OF INTEREST IS HIGHER AND HENCE THE SPREADS ARE HIGHER.	HERE THE LENDING RATES ARE LOWER AND HENCE THE SPREADS ARE LOWER.

Corporate banking can be divided into three parts

TRANSACTION BANKING – This segment includes various types of current accounts opened for companies based on their requirements, salary accounts for employees of large corporates, bulk deposits from corporates and escrow accounts.

FUND BASED ACTIVITIES – This would include short term / long term loans, project finance, working capital finance and infrastructure funding

FEE BASED ACTIVITIES – This can be further classified into three

a) Cash Management System – Banks provide services like collection, payments to vendors, advanced web services, lock box etc.
b) Trade Services – These include open of letter of credits, giving bank guarantees and forex remittance
c) Advisory Services – These include mergers and acquisitions, merchant banking services and loan syndication

LOAN SYNDICATION

It is a term which is usually used for loans involving international transactions. It involves multiple lenders, different currencies and a single borrower. The managing bank is responsible for negotiating the conditions of the loan in return for a fee

CONSORTIUM LENDING – Here several banks come together to finance a single borrower. It is usually undertaken when the size of the project is very huge and one single lender cannot take the risk. It has common documentation, joint supervision and follow up exercises. The risk is shared by all the lenders based in proportion to their exposure.

MULTIPLE BANKING ARRANGEMENTS – Here a borrower borrows simultaneously from variousbanks. Each loan is independent of each other and there is not contractual relationship between various banks. Each bank holds its individual securities. The borrower negotiates the terms and conditions separately with each bank.

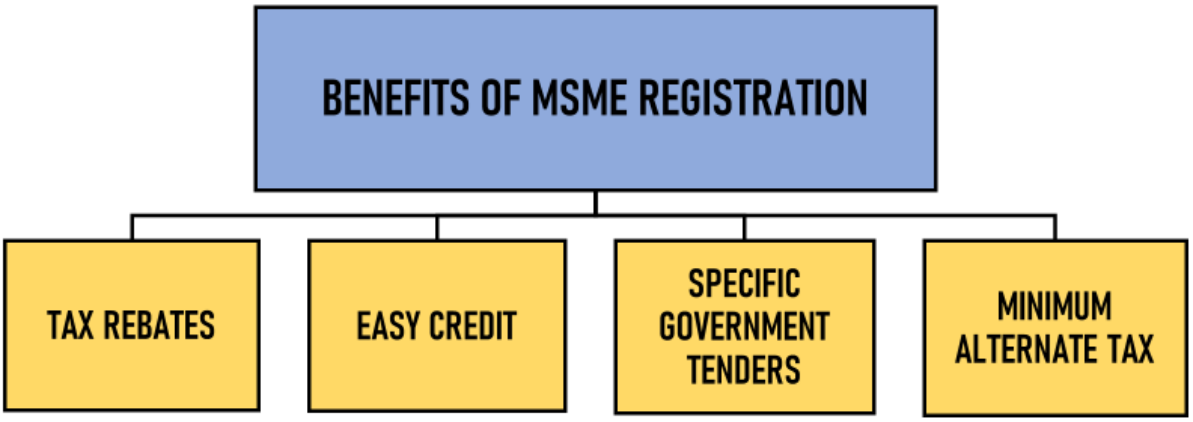
SME FINANCING

Micro,SmallandMediumEnterprise(MSME) sectorhasemergedasaveryimportantsectorof the Indian economy, contributing significantly to employment generation, innovation,exports, and inclusive growth of the economy. Micro, Small and Medium Enterprises(MSME) are the backbone of the socio-economic development of our country. It alsoaccounts for 45 % of total industrial production, 40% of total exports and contributes verysignificantly to the GDP. Manufacturing segment within the MSME contributes to 7.09% ofGDP. MSMEs also contribute to 30.50% of services. The total contribution of MSMEs to theGDPis 37.54.

SME stands for Small and Medium Enterprises. The SME definition in India as per Section 7of Micro, Small & Medium Enterprises Development Act, 2006 is based on the investmentamountas perthesectorsthesecaterto.

REVISED CLASSIFICATION OF MSME APPLICABLE FROM JULY 2020

ClassificationofMicro,Smalland MediumEnterprise(MSME)sector			
CompositeCriteria InvestmentinPlant &Machinery/equipment andAnnualTurnover			
Classification	Micro	Small	Medium
Manufacturing and ServiceSector Enterprises	InvestmentinPlantan d Machinery orEquipment up to Rs.1crore and Annual Turnover doesnotexceedRs.5cro res	InvestmentinPlantand Machinery orEquipmentup toRs.10crore and Annual Turnover doesnotexceedRs.50cr ores	InvestmentinPlantand Machinery orEquipment up to Rs.50crore and Annual Turnover doesnot exceed Rs.250crores



GOVERNMENT MSME SCHEMES

MSMESchemes	Description
Mudra Loan	TheMudraloan yojanawaslaunched toprovideadequate functioning to the non-corporate MSMEs. Thescheme focuses more on the priority sector lending,withmaximumlendingofRs10lakhs.
Credit Guarantee Funds Trust forMicro and Small Enterprise orCGTMSE	CGTMSE is an MSME scheme launched by theGovernmentofIndiatoprovidecollateral-freeloanstothe existing and new Micro and Small-scale industries.The loans are granted for a maximum amount of Rs 1crores.
Prime Minister's EmploymentGenerationProgramm eorPMEGP	PMEGPisanintegratedsubsidyschemelinkedwithPri me Minister Rojgar Yojana. The scheme waslaunchedin2008 andaimstoprovidebusinessopportunitiesforthe unemployedyouth.

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