

# Commercial Banking

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## **Sub-mortgage**

A sub-mortgage is a type of mortgage that is normally issued by a lending institution to borrowers with low credit ratings.

A sub-mortgage uses a mortgage over land as the security.

# Pledge and Hypothecation

Pledge is a contract between the lender and borrower, where the borrower offers an asset as a security to the lender.

According to Tulsian, “ Pledge is bailment of goods for a specific purpose,i.e. Repayment of a debt or performance of a duty.

Hypothecation is a contract between the lender and borrower, where the borrower agrees to take possession of an asset in case of default.

According to Suresh padmalatha, “ Hypothecation is a legal transaction involving movable assets, **amounting to an equitable charge** on the assets.

## **Debenture**

Debenture is a written instrument acknowledging a debt. It is a long-term loan.

Debenture Represents a debt. It is a repayment of principal and payment of interest at a fixed rate.

According to L.M Pandey- “ A denture is a long term promissory note for raising loan capital.”

# Fundamental aspect of portfolio of securities

The 7 investment concepts of fundamental portfolio of securities is discussed below-

1. The importance of time
2. Keeping expenses low
3. Asset allocation
4. Proper Diversification
5. Don't follow the crowd
6. Buy business- Not Stock
7. Margin of safety

# Collateral

Collateral is any assets that secures a loan or debt.

Collateral refers to assets or personal property that you use to secure loan. It is property or other assets that a borrower offers as a way for a lender to secure the loan.

For a example- you typically secure a mortgage by pledging your home as collateral.

# Cash credit

Cash credit is a short term source of finance. Under cash credit, the bank offers its customer to take a loan up to a certain limit. It's also known as bank overdraft.

Features of cash credit:

1. This loan is given to meet the working capital requirements of a company.
2. It is given against a collateral security.
3. Interest is charged only on the amount of loan taken by the customer and not on the amount of credit sanctioned.

# Precaution of bank before loans and advances

1. Ability to repay
2. Purpose
3. Business Volume
4. Business volume
5. Purpose of the loan
6. Amount of financing
7. Period of financing
8. The earning power of the customer
9. The sources of Repayment
10. Check the asset
11. Liquidity



12.Capability

13.Safety and security

14.Stability

## **5 c's of credit worthiness**

The **5 c's** are the basic components of credit analysis. These are-

1. Capacity
2. Capital
3. Collateral
4. Conditions
5. Character