Bad & Good Loan

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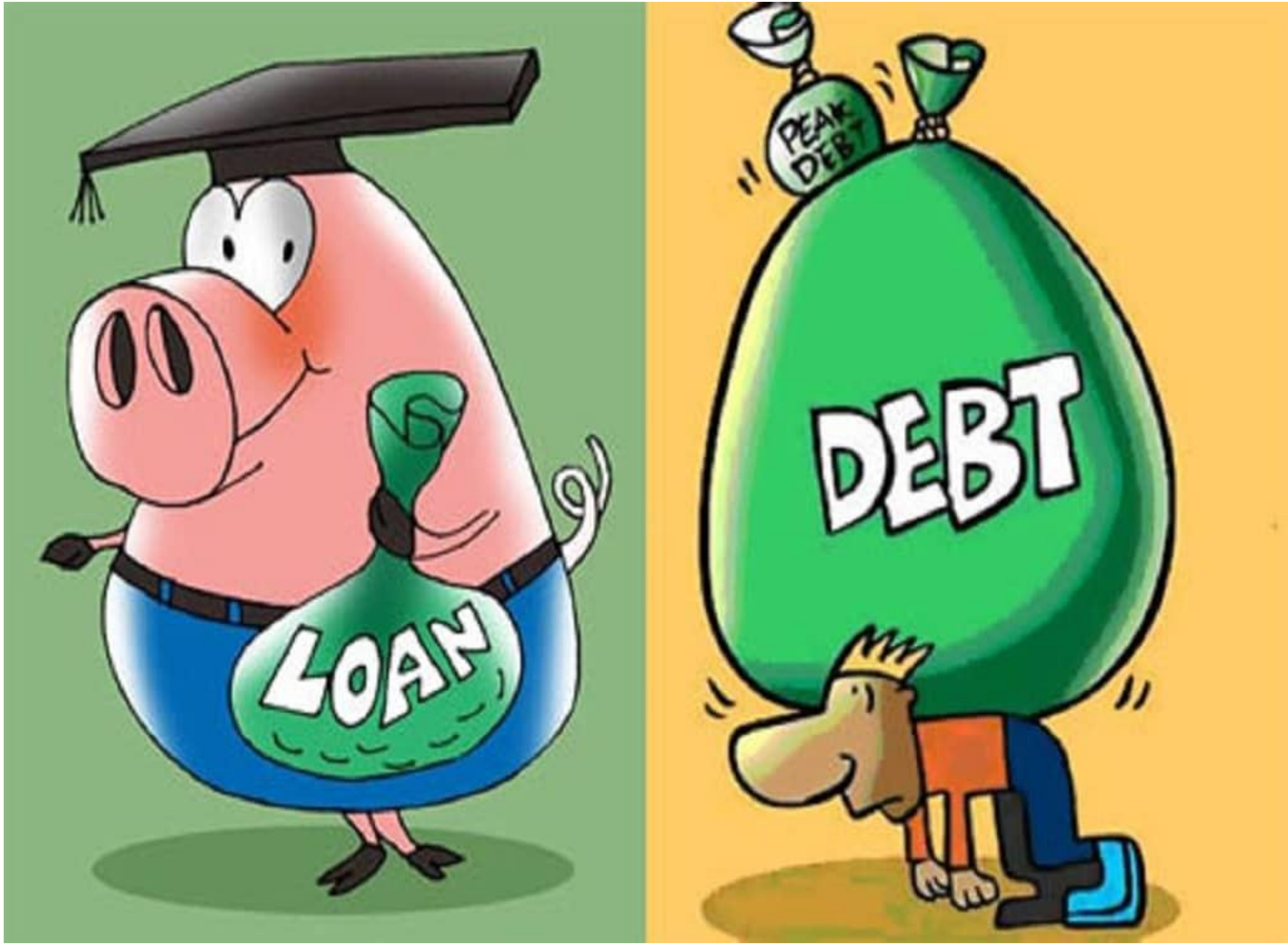

LOAN
PEAK DEBT
DEBT

Difference between Good loan & Bad loan

Good loan/Ideal loan:

1.Good debt or loan is a type of loan which creates assets over time and the product will not decrease with time.

2.The borrower has both ability and willingness to repay.

3.Here supervision cost is low.

4.Results from a very good and efficient credit analysis.

5.The relation between banker and borrower is mutually understanding.

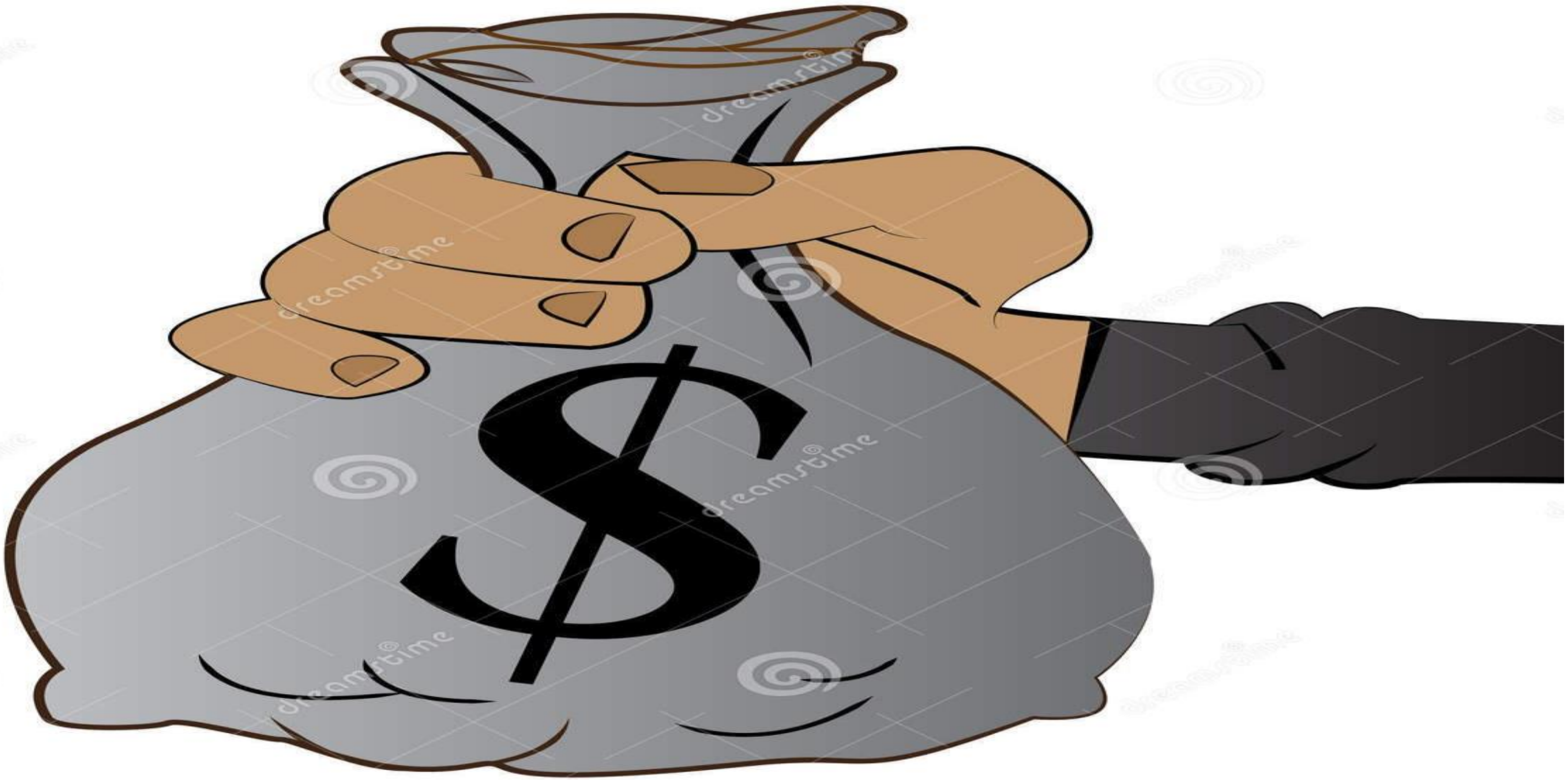
6.The bank enjoys sound liquidity as it gets the cash flows as planned.

Bad Loan and Problem Loan:

1. The term bad debt refers to an amount of money that a creditor must write off as a result of a default on the part of the debtor.
2. The borrower has neither willingness nor ability to repay .
3. Supervision cost is high.
4. Results from a poorly conducted credit analysis.

5.Relationship of distrust and doubt often leading to civil case in the court.

6.The bank faces a dearth of liquidity as cash flows do not come as planned.



Lending Policy

The banks make loans and advances out of deposits, received from their customers.

According to Collins Dictionary- Lending policy is a set of guidelines and criteria developed by a bank and used by its employees to determine whether an applicant for a loan should be granted.

Principles of sound lending policies

- ★ Liquidity
- ★ Safety
- ★ Diversity
- ★ Stability
- ★ Profitability
- ★ Sale ability of securities
- ★ Margin Money
- ★ Principle of purpose

Elements of Lending Policy

1.Statements of lending

2.Lending Authority

3.Lines of Responsibility

4.Operating Procedure

5.Required Documents

6. Lines of authority
7. Guidelines
8. Policies
9. Quality Standards
10. Community