

TYPES OF ADVANCES:

Introduction:

In order to meet various types of requirements of client, commercial banks make different types of advances. Normally four different types of advances are made.

These are as follows:

1. OVERDRAFT:

Meanings:

It is a facility provided by a bank to his client that he can withdraw a limited amount in excess of his original balances, For example if you have Rs.5000 in your account and you have been granted over draft facility of Rs. 10,000 you can now draw cheques to Rs.15,000.

Features:

- 1. Current Account:** This facility is only available in current account.
- 2. Application:** Application has to be made to bank requesting to grant overdraft.
- 3. Credit Analysis:** Bank examines the record of the dealing of the party before granting overdraft.
- 4. Short Term:** Overdraft is short term finance but the term can be renegotiated with the banker.
- 5. Interest:** Interest is charged by bank on the amount overdrawn.
- 6. Securities:** Bank in order to secure advance usually keeps certain securities. The securities may be fixed deposit receipt, life insurance policies etc.
- 7. Grantee:** In certain cases when party is of sound reputation the bank can be granted on the guarantee of a third party.

2. CASH CREDIT:

Meanings:

Cash credit means that bank after deciding the amount of loan transfers the amount in an account. The customer is giving a cheque book of that account and he can withdraw any portion of the amount according to his needs. In practice cash credit is similar to overdraft, only difference is that current account is not needed in this case. The cash credit is granted against pledge or by pothecation of assets of the client.

1. Features:

Separate Account: Usually the cash finance is provided in separate account. The bank transfers the funds in the credit account and cheque book is issued to the client.

2. Securities: The bank can demand securities against the loan.

3. Pledge: Usually the cash credit is advanced against ledge or hypothecation of

goods.

4. Term of Finance: Cash credit can be granted for short or medium terms.

5. Interest: Interest is charged on the amount withdrawn by the client. It is charged on daily basis so client can save the interest expense by depositing money in the account at any time.

DEMAND LOANS:

Meanings:

Demand loans are the loans granted by banks for an agreed period of time. The whole amount of loan is transferred to the account of customer. He can withdraw it either in lump sum or installments.

Features:

1. Securities: The loan advanced is secured by way of mortgage or pledge.

2. Interest: Interest is charged on the whole amount either quarterly, semi annually or annually.

3. Repayment: The loan is repayable within a fixed time period. However the bank reserves the right to call back the loan after one year.

Objectives:

The demand loans are arranged by client to meet their working capital requirements. Demand loans can further be classified into following.

a) Term Loan: Term loans are advanced for a particular time period and they are repayable at the expiry of period. However they can be renegotiated also.

b) Personal Loans: Personal loans are advanced for such purposes as purchases of or construction of house etc.

4. DISCOUNTING OF BILLS:

Meanings:

By discounting bills of exchange, bank makes at payment to the holder or instrument before the date of maturity. Bank deducts an amount called discount for making early payments.

FEATURES:

Income:

This discount constitutes the income of the bank. Finance:

The holder of the instrument can get finance (cash) from the bank. He does not have to wait until the maturity of bill.

Summing Up:

These are different types of advances which are made by commercial banks.