

Principles of good Lending

- Safety
- Liquidity
- Profitability
- Spread
- Purpose
- End use
- Need based finance
- Viability oriented instead of security oriented lending
- Own stake
- National priorities

Safety

- It is a major concern of a Banker.
- It essentially means ability of a banker to critically assess the borrower's capacity to repay the amount lent to him.
- This factor now assumes great importance due to stringent NPA norms.

Liquidity

- It deals with Bankers ability to get advance liquidated expeditiously.
- The deposits are payable on demand or at short notice and hence banker should not lock up funds in long-term loans.
- This aspect has now assumed great importance due to introduction of ALM.

Profitability

- Profitability is the key word for every business organization and Bank is not the exception to it.
- The profit is the result of sound business decision and is related to cost of funds and other related risks.

Spread

- You should not keep all eggs in one basket.
- Bank should strike a balance between short term, medium term & long term loans.
- Bank should not concentrate advances to one industry or one field.
- Care should also be taken for giving B49 loan to one employer.

Purpose

- Lending should be for an approved purpose.
- All Banks lend for productive purpose as well as for consumption purpose.
- Bank should formulate its lending policy in respect of purpose.

End Use

- Banker should invariably ascertain that money lent has been used for the purpose for which the same was granted.
- Banker should obtain supporting papers in respect of it.

Need based finance

- The Banker should ascertain the credit needs of the borrower and should lend accordingly.
- Banker should neither over finance nor under finance.

Viability oriented instead of security oriented lending

- Advance should be granted with due regard to profitability of the business & looking into character, capacity and capital of the borrower.
- Security should be considered as insurance or a cushion to fall back.
- Security mainly acts as psychological support to the banker and pressure on the borrower.

Own stake

- The borrower should have reasonable financial stake in the business.
- Banker should evaluate the project considering Debt-equity ratio, DSCR, Interest coverage ratio, sensitivity analysis, Break even point, margin of safety etc.

National Priorities

- Co-operative banks are required to lend 40 % of advances to 'priority sector' and 25 % of which should be lent to 'weaker sector' wef 01-04-2008.
 - Refer RBI Circular RBI/2007-08/ 198 UBD.PCB.Cir.No.26 /09.09.001/ 2007-08 dated November 30, 2007

