GOVERNMENT ARTS & SCIENCE COLLEGE (WOMEN),
SATHANKULAM – 628 704
DEPARTMENT OF BUSINESS ADMINISTRATION
STUDY MATERIAL
INTRODUCTION TO BANKING

II – B.B.A. **Sub Code: SSBA3A**

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UNIT - I

Banker and Customer - Meaning - Definition- General and Special Relationship between Banker and Customer – Functions of Bank

Banker

The term banking may define as accepting of deposit of money from the public for the purpose of lending or investing investment of that money which are repayable on demand or otherwise and with a draw by cheque, draft or order.

Features of Banking

The definition of banking describes the following features of banking. A banking company must perform both of the essential functions.

- **Accepting of deposit.**
- Lending or investing the same: The phrase deposit of money from the public is significant. The bankers accept a deposit of money and not of anything else. The world public implies that a banker accepts a deposit from anyone who offers his/her money from such purpose.

  - The definition also implies the time and made to withdraw the deposit. The deposit money should be repayable to the depositor on demand made by the letter or according to the agreement reached between the two parties.

Customer

A person who has a bank account in his name and for whom the banker undertakes to provide the facilities as a banker is considered to be a customer.

To constitute a customer the following requirements must be fulfilled;

- The bank account may be savings, current or fixed deposit must be operated in his name by making a necessary deposit of money.
- The dealing between the banker and customer must be of the nature of the banking business. The general relationship between banker and customer:

Types of the Relationship between Banker and Customer

- Relationship as debtor and creditor.

- Banker as a trustee.
- Banker as an agent.
- Other special relationship with the customer, obligations of a banker
- **Relationship as Debtor and Creditor**

On the opening of an account, the banker assumes the position of a debtor. A depositor remains a creditor of his banker so long as his account carries a credit balance.

The relationship with the customer is reserved as soon as the customer account is overdrawn.

Banker becomes a creditor of the customer who has taken a loan from the banker and continues in that capacity fills the loan is repaid.

- **Banker as a Trustee**

Ordinally a banker is a debtor of his customer in the report of the deposit made by the letter but in certain circumstances, he acts as trustee also.

A trustee holds money or asset and performs certain functions for the benefit of some other person called the beneficiary.

For example;

If the customer deposits securities or other values with the banker for the safe custody, the letter acts as a trustee of his customer.

- **Banker as an Agent**

A banker acts as an agent of his customer and performs a number of agency functions for the conveniences of his customer.

For example, he buys or sells securities on behalf of his customer, collects check/cheques on his behalf and makes payment of various dues of his customer.

- **Special relationship with customer/obligation of a banker:**

Through the primary relationship between a banker and his customer is that of a debtor and a creditor or vice versa, the special features of this relationship as a note above impose the following additional obligations on the banker.

- **The obligation to honor the Check/Cheques**

The deposit accepted by a banker is his liabilities repayable on demand or otherwise. The banker is therefore under a statutory obligation to honor his customer's check/cheque in the usual course.

According to section 31 of the negotiable instruments. Act 1881 the banker is bound to honor his customer's check/cheque provided by following conditions are fulfilled:

- Availability of sufficient funds of the customer.
- The correctness of the check/cheque.
- Proper presentation of the check/cheque.
- A reasonable time for collection.
- Proper drawing of the check/cheque.

The obligation to maintain the secrecy of the customer accounts

The banker is an obligation to take the utmost care in keeping secrecy about the account of his customer.

By keeping secrecy is that the account books of the bank will not be thrown open to the public or government, officials if the following reasonable situation does not occur,

- **Discloser of information required by law.**
- Discloser permitted by bankers' practice and wages. The practice and wages are customary amongst bankers permit disclosure of certain information and the following circumstances.
  - With express or implied consent of the customer.
  - Banker reference.
  - Duty to the public to disclose

Banker-Customer Relationship

- Relationship of
- Relationship o
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- Relationship of Hyp
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- Relationship o
- Relationship o
- Other

Important Functions Of Bank

There are two types of functions of banks:

1. Primary functions – being primary are also called banking functions.
2. Secondary Functions

Both the types of functions of bank are explained below in detail:

Primary Functions of Bank

All banks have to perform two major primary functions namely:

1. Accepting of deposits
2. Granting of loans and advances

Accepting of Deposits

A very basic yet important function of all the commercial banks is mobilising public funds, providing safe custody of savings and interest on the savings to depositors. Bank accepts different types of deposits from the public such as:

1. **Saving Deposits:** encourages saving habits among the public. It is suitable for salary and wage earners. The rate of interest is low. There is no restriction on the number and amount of withdrawals. The account for saving deposits can be opened in a single name or in joint names. The depositors just need to maintain minimum balance which varies across different banks. Also, Bank provides ATM cum debit card, cheque book, and Internet banking facility. Candidates can know about the Types of Cheques in the linked page.
2. **Fixed Deposits:** Also known as Term Deposits. Money is deposited for a fixed tenure. No withdrawal money during this period allowed. In case depositors withdraw before maturity, banks levy a penalty for premature withdrawal. As a lump-sum amount is paid at one time for a specific period, the rate of interest is high but varies with the period of deposit.
3. **Current Deposits**: are opened by businessmen. The account holders get overdraft facility on this account. These deposits act as a short term loan to meet urgent needs. Bank charges a high-interest rate along with the charges for overdraft facility in order to maintain a reserve for unknown demands for the overdraft.
4. **Recurring Deposits:** A certain sum of money is deposited in the bank at a regular interval. Money can be withdrawn only after the expiry of a certain period. A higher rate of interest is paid on recurring deposits as it provides a benefit of compounded rate of interest and enables depositors to collect a big sum of money. This type of account is operated by salaried persons and petty traders.

Granting of Loans & Advances

The deposits accepted from the public are utilised by the banks to advance loans to the businesses and individuals to meet their uncertainties. Bank charges a higher rate of interest on loans and advances than what it pays on deposits. The difference between the lending interest rate and interest rate for deposits is bank profit.

Bank offers the following types of Loans and Advances:

1. **Bank Overdraft**: This facility is for current account holders. It allows holders to withdraw money anytime more than available in bank balance but up to the provided limit. An overdraft facility is granted against collateral security. The interest for overdraft is paid only on the borrowed amount for the period for which the loan is taken.
2. **Cash Credits:** a short term loan facility up to a specific limit fixed in advance. Banks allow the customer to take a loan against a mortgage of certain property (tangible assets and / guarantees). Cash credit is given to any type of account holders and also to those who do not have an account with a bank. Interest is charged on the amount withdrawn in excess of the limit. Through cash credit, a larger amount of loan is sanctioned than that of overdraft for a longer period.
3. **Loans:** Banks lend money to the customer for short term or medium periods of say 1 to 5 years against tangible assets**.** Nowadays, banks do lend money for the long term. The borrower repays the money either in a lump-sum amount or in the form of instalments spread over a pre-decided time period. Bank charges interest on the actual amount of loan sanctioned, whether withdrawn or not. The interest rate is lower than overdrafts and cash credits facilities.
4. **Discounting the Bill of Exchange:** It is a type of short term loan, where the seller discounts the bill from the bank for some fees. The bank advances money by discounting or purchasing the bills of exchange. It pays the bill amount to the drawer(seller) on behalf of the drawee (buyer) by deducting usual discount charges. On maturity, the bank presents the bill to the drawee or acceptor to collect the bill amount.

Secondary Functions of Bank

Like Primary Functions of Bank, the secondary functions are also classified into two parts:

1. Agency functions
2. Utility Functions

Agency Functions of Bank

Banks are the agents for its customers, hence it has to perform various agency functions as mentioned below:

Transfer of Funds: Transfering of funds from one branch/place to another.

Periodic Collections: collecting dividend, salary, pension, and similar periodic collections on the clients' behalf.

Periodic Payments: making periodic payments of rents, electricity bills, etc on behalf of the client.

Collection of Cheques: Like collecting money from the bills of exchanges, the bank collects the money of the cheques through the clearing section of its customers.

Portfolio Management: banks manage the portfolio of their clients. It undertakes the activity to purchase and sell the shares and debentures of the clients and debits or credits the account.

Other Agency Functions: under this bank act as a representative of its clients for other institutions. It acts as an executor, trustee, administrators, advisers etc. of the client.

Utility Functions of Bank

- Issuing letters of credit, traveller's cheque, etc.
- Undertaking safe custody of valuables, important documents and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange dealings
- Underwriting of shares and debentures
- Dealing in foreign exchanges
- Social Welfare programmes
- Project reports
- Standing guarantee on behalf of its customers, etc.

UNIT - II

Types of Deposits – Passbook - Negotiable Instruments – Cheques - Definition – Difference between Cheque and Bill of Exchange - Endorsement, Crossing, Marking - Material Alteration

DEPOSITS

It's important to know where you can save your money. As the rule goes, high-risk on your capital can result in a higher return while investing money in low-risk instruments would result in lower interest.

Banks, including Bank of Baroda offer a host of instruments that are what can be termed as low on risk and medium to low on return.

We shall now look at the various instruments that are available to a customer to deposit their money with the bank and earn returns.

Types of Deposits

A primary function for a bank is to mobilise public money. They do so in the form of deposits. There are two types of deposit accounts that you can open in a bank. They are time deposits and demand deposits.

Time Deposits

A Time Deposit also known as a Term Deposit is a deposit which has a fixed tenure and earns interest for the customer. The tenure varies for each instrument and may even change from bank to bank.

The most widely used name for time deposits is Fixed Deposits. The common feature among all Time deposits is that they cannot be withdrawn prematurely. One should thus plan their deposits according to their requirement for money going forward.

The more the money resides in the bank of a term deposit the more interest it earns. Banks pay higher interest in longer-term deposits than on shorter ones.

Fixed Deposits earn higher interest than a Savings Account because the former gives Banks leg room to lend to people who need the money for roughly the same time limit. For example, a one year fixed deposit in a bank can allow the bank to lend money to a person who requires a personal loan for one year period.

Commercial banks have over the years made Fixed Deposits more attractive by offering various frills like overdraft facility, zero cost credit cards, nomination facility, safe deposit lockers, internet banking among others.

Recurring Deposits

In this case, a fixed amount, as decided by the depositor, is deposited at regular intervals till the end of the tenure. The accumulated interest and the principal is given back to the depositor at the end of the tenure. The tenure of a recurring deposit can be anything from six months to 120 months.

Demand Deposits

As the name suggested, you can withdraw this deposit on demand. Such funds are held in accounts where it is easier to withdraw money either by going to the bank or an ATM savings and Current accounts are the two types of commonly used Demand Deposits account,
In such type of deposits, the risk is low but so is the return. However, there is one more factor that this type of deposit has and that is liquidity since money can be withdrawn at a moment's notice.

The reason for the existence of such accounts is to provide the customer convenience of meeting his daily requirement of funds. It does not serve the purpose of 'investment' or 'wealth creation'.

TYPES OF ACCOUNTS

Saving Account

These are interest-bearing accounts where the rate of interest depends on the bank where it is deposited. Further, there are restrictions in terms of the number of times money can be withdrawn from this account. These restrictions are also imposed by the bank and may vary between two banks. The depositor can withdraw his money by going to the bank and use the withdrawal slip or use his cheque book or go to an ATM and use his card. Money can also be transferred to someone else by using the cheque facility or using an electronic mode of transfer.

Current Account

This type of account is generally operated by companies and firms. These are the non-interest-bearing deposit and serve the purpose of providing liquidity. Since there are many transactions in these accounts, the cost of managing them is high. Hence banks ask the depositors to maintain a minimum deposit. Current accounts have overdraft facility which the banks provide the customers to meet their short-term liquidity mismatch.

Meaning of Bank Pass Book:

Passbook or Bank Statement is a copy of the account of the customer as it appears in the bank's books. When a customer deposits money and cheques into his bank account or withdraws money, he records these transactions in the bank column of his cashbook immediately.

Correspondingly, the bank records them in the customer's account maintained in its books. Then they are copied in a passbook and given to the customer. With the computerization of banking operations, bank statements (in lieu of passbook) are issued to the customers periodically.

Thus passbook is a record of the banking transactions of a customer with a bank. All entries made by a customer in his cashbook (bank column) must be entered by the bank in the passbook.

Hence, the balances as per bank column of the cashbook must agree with the balance as per passbook. Of course the balances will be equal and opposite in nature. For example, if the cash book shows a debit balance of Rs.5000, then the passbook must show a credit balance of Rs.5000 and vice versa. But in most cases, these two balances may disagree on account of various reasons.

Negotiable Instruments

Negotiable Instruments are written contracts whose benefit could be passed on from its original holder to a new holder. In other words, negotiable instruments are documents which promise payment to the assignee (the person whom it is assigned to/given to) or a specified person. These instruments are transferable signed documents which promises to pay the bearer/holder the sum of money when demanded or at any time in the future. As mentioned above, these instruments are transferable. The final holder takes the funds and can use them as per his requirements. That means, once an instrument is transferred, holder of such instrument obtains a full legal title to such instrument.

Types of Negotiable Instruments

Promissory notes

A promissory note refers to a written promise to its holder by an entity or an individual to pay a certain sum of money by a pre-decided date. In other words, Promissory notes show the amount which someone owes to you or you owe to someone together with the interest rate and also the date of payment.

For example, A purchases from B INR 10,000 worth of goods. In case A is not able to pay for the purchases in cash, or doesn't want to do so, he could give B a promissory note. It is A's promise to pay B either on a specified date or on demand. In another possibility, A might have a promissory note which is issued by C. He could endorse this note and give it to B and clear of his dues this way.

However, the seller isn't bound to accept the promissory note. The reputation of a buyer is of great importance to a seller in deciding whether to accept the promissory note or not

Bill of Exchange

Bills of exchange refer to a legally binding, written document which instructs a party to pay a predetermined sum of money to the second(another) party. Some of the bills might state that money is due on a specified date in the future, or they might state that the payment is due on demand.

A bill of exchange is used in transactions pertaining to goods as well as services. It is signed by a party who owes money (called the payer) and given to a party entitled to receive money (called the payee or seller), and thus, this could be used for fulfilling the contract for payment. However, a seller could also endorse a bill of exchange and give it to someone else, thus passing such payment to some other party.

It is to be noted that when the bill of exchange is issued by the financial institutions, it's usually referred to as a bank draft. And if it is issued by an individual, it is usually referred to as a trade draft.

A bill of exchange primarily acts as a promissory note in the international trade; the exporter or seller, in the transaction addresses a bill of exchange to an importer or buyer. A third party, usually the banks, is a party to several bills of exchange acting as a guarantee for these payments. It helps in reducing any risk which is part and parcel of any transaction.

Cheques

A cheque refers to an instrument in writing which contains an unconditional order, addressed to a banker and is signed by a person who has deposited his money with the banker. This order, requires the banker to pay a certain sum of money on demand only to to the bearer of cheque (person holding the cheque) or to any other person who is specifically to be paid as per instructions given.

Cheques could be a good way of paying different kinds of bills. Although the usage of cheques is declining over the years due to online banking, individuals still use cheques for paying for loans, college fees, car EMIs, etc. Cheques are also a good way of keeping track of all the transactions on paper. On the other side, cheques are comparatively a slow method of payment and might take some time to be processed.

The Negotiable Instruments (Amendment) Bill, 2017

The Negotiable Instruments (Amendment) Bill, 2017 has been introduced in the Lok Sabha earlier this year on Jan 2nd, 2018. The bill seeks for amending the existing Act. The bill defines the promissory note, bill of exchange, and cheques. The bill also specifies the penalties for dishonor of cheques and various other violations related to negotiable instruments.

As per a recent circular, up to INR 10,000 along with interest at the rate of 6%-9% would have to be paid by an individual for cheques being dishonored.

The Bill also inserts a provision for allowing the court to order for an interim compensation to people whose cheques have bounced due to a dishonouring party (individuals/entities at fault). S

Types Of Cheques

A cheque is a document you can issue to your bank, directing it to pay the specified sum mentioned in digits as well as words to the person whose name is borne on the cheque.

Cheques are also called negotiable instruments. In banking terms, a negotiable instrument is a document that promises its bearer a payment of the specified amount either on furnishing the document to the banker or by a given date.

The issuing party is called the drawer of the cheque, and the one it is issued to or put simply, whose name is mentioned on the cheque is the drawee.

Types of Cheques

How many types of cheques are in use depends on elements like who is the issuer and who is the drawee. Based on these essentials, we explore the different types of cheques in India.

1. Bearer Cheque

A bearer cheque is the one in which the payment is made to the person bearing or carrying the cheque. These cheques are transferable by delivery, that is, if you are carrying the cheque to the bank, you can be issued the payment to. The banks need no other authorisation from the issuer to be allowed to make the payment.

How can you identify a bearer cheque? You know it is a bearer cheque when you see the words ‘or bearer’ printed on them.

2. Order Cheque

In these cheques, the words ‘or bearer’ is cancelled. Such cheques can only be issued to the person whose name is mentioned on the cheque, and the bank will do its background check to authenticate the cheque bearer’s identity before releasing the payment

3. Crossed Cheque

You may have observed cheques with two sloping parallel lines with the words 'a/c payee' written on the top left. That is a crossed cheque. The lines ensure that irrespective of who presents the cheque, the payment will only be made to the individual whose name is written on the cheque, in other words, the a/c payee along with his/her account number. These cheques are relatively safe because they can be encashed only at the drawee's bank.

4. Open cheque

An open cheque is basically an uncrossed cheque. This cheque can be encashed at any bank, and the payment can be made to the person bearing the cheque. This cheque is transferable from the original payee (the original recipient of the payment) to another payee too. The issuer needs to put his signature on both the front and back of the cheque.

5. Post-Dated Cheque

These types of cheques bear a later date of being encashed. Even if the bearer presents this cheque to the bank immediately after getting it, the bank will only process the payment on the date mentioned in the cheque. This cheque stands valid past the mentioned date, but not before.

6. Stale Cheque

A cheque past its validity, three months after the date of being issued, is called a stale cheque.

7. Traveller's Cheque

Foreigners on vacations carry traveller's cheques instead of carrying hard cash, which can be cumbersome. These cheques are issued to them by one bank and can be encashed in the form of currency at a bank located in another location or country. Traveller's cheques do not expire and can be used for future trips.

8. Self Cheque

You can identify self cheques by the word 'self' written in the drawee column. Self cheques can only be drawn at the issuer's bank.

9. Banker's Cheque

A bank is the issuer of these types of cheques. The bank issues these cheques on behalf of an account holder to make a remittance to another person in the same city. Here the specified amount is debited from the account of the customer, and then, the cheque is issued by the bank. This is the reason banker's cheques are called non-negotiable instruments as there is no room for banks to dishonour these cheques. They are valid for three months. They can be revalidated provided specific conditions are met.

Bill of Exchange

Definition

A bill of exchange is a negotiable instrument, contains an unconditional order, directing the drawee to pay a certain sum of money to payee addressed in the instrument. The bill is made and signed by the drawer and accepted by the drawee. It contains a pre-determined date on which the payment is to be made to the payee. It can be payable on demand when the bill is discounted with the bank. The parties to the bill of exchange must be certain.

There are three parties involved in the bill of exchange, they are:

- **Drawer**: The maker of the bill of exchange.
- **Drawee**: A person on whom the bill is drawn, i.e., the person who gives acceptance to make payment to the payee.
- **Payee**: The person who gets the payment.

There are three days of grace allowed to the drawee, to make payment to the payee, when it becomes due. You might wonder about the days of grace, let's understand it with an example: A bill is drawn on 5-10-2014 in the name of X, to make payment to Y after 3 months. The bill will become due on 5-01-2015 while the date of maturity is 8-01-2015 because of 3 days of grace are added to it. The following are the types of bill of exchange:

- Inland Bill
- Foreign Bill
- Time Bill
- Demand Bill
- Trade Bill
- Accommodation Bill

Key Differences Between Cheque and Bill of Exchange

1. An instrument used to make payments, that can be just transferred by hand delivery is known as the cheque. An acknowledgment prepared by the creditor to show the indebtedness of the debtor who accepts it for payment is known as a bill of exchange.

2. A Cheque is defined in section 6 while Bill of Exchange is specified in section 5 of the Negotiable Instrument Act, 1881

3. The drawer and payee are always different in the case of a cheque. In general, drawer and payee are the same persons in the case of a bill of exchange.
4. The stamp is not required in cheque. Conversely, a bill of exchange must be stamped.
5. A cheque is payable to the bearer on demand. As opposed to the bill of exchange, it cannot be made payable to the bearer on demand.
6. The cheque can be crossed, but a Bill of Exchange cannot be crossed.
7. There is no days of grace allowed in cheque, as the amount is paid at the time of presentment of the cheque. Three days of grace are allowed in the bill of exchange.
8. A cheque does not need acceptance whereas a bill needs to be accepted by the drawee.

Endorsement

The act of a person who is a holder of a negotiable instrument in signing his or her name on the back of that instrument, thereby transferring title or ownership is an endorsement. An endorsement may be in favour of another individual or legal entity. An endorsement provides a transfer of the property to that other individual or legal entity. The person to whom the instrument is endorsed is called the endorsee. The person making the endorsement is the endorser. Let us discuss the Endorsement of Instruments here in detail.

Endorsement of Instruments

Types of Endorsement

- **Blank Endorsement** – Where the endorser *signs* his name only, and it becomes payable to bearer.
- **Special Endorsement** – Where the endorser puts his sign and writes the name of the person who will receive the payment.
- **Restrictive Endorsement** – Which restricts further negotiation.

- **Partial Endorsement** – Which allows transferring to the endorsee a part only of the amount payable on the instrument.

- **Conditional Endorsement** – Where the fulfilment of some conditions is required.

1. **Blank Endorsement or General Endorsement**

An endorsement is blank or general where the endorser signs his name only, and it becomes payable to bearer. Thus, where a bill is payable to "Ram or order", and he writes on its back "Ram", it is an endorsement in blank by Ram and the property in the *bill* can pass by a mere *presentation*.

We can convert a blank endorsement into an endorsement in full. We can do so by writing above the endorser's signature, a direction to pay the *instrument* to another person or his *order*.

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2. Special or Full Endorsement

An endorsement "in full" or a special endorsement is one where the endorser puts his signature on the instrument as well as writes the name of a person to whom order the payment is to be made.

A bill made payable to Ram or order, and endorsed "pay to the order of Shyam" would be specially endorsed and Shyam endorses it further. We can turn a blank endorsement into a special one by adding an order making the bill payable to the transferee.

3. Restrictive Endorsement

An endorsement is restrictive which restricts the further negotiation of an instrument.

Example of restrictive endorsement: “Pay to Mrs. Geeta only” or “Pay to Mrs Geeta for my use” or “Pay to Mrs Geeta on account of Reeta” or “Pay to Mrs. Geeta or order for collection”.

4. Partial Endorsement

An endorsement partial is one which allows transferring to the endorsee a part only of the amount payable on the instrument. This does not operate as a negotiation of the instrument.

Example: Mr. Mohan holds a bill for Rs. 5,000 and endorses it as “Pay Sohan or order Rs. 2500”. The endorsement is partial and invalid.

5. Conditional or Qualified Endorsement

Where the endorser puts his signature under such writing which makes the transfer of title subject to fulfilment of some conditions of the happening of some events, it is a conditional endorsement.

Negotiation Back

Where an endorser negotiates an instrument and again becomes its holder, we know it as negotiation back to that endorser. After negotiation back, none of the intermediary endorsees are then liable to him.

Crossing a Cheque

A crossing is an instruction to the paying banker to pay the amount of cheque to a particular banker and not over the counter. The crossing of the cheque secures the payment to a banker.

It also traces the person so receiving the amount of cheque. Addition of words ‘Not negotiable’ or ‘Account Payee only’ is necessary to restrain the negotiability of the cheque. The crossing of a cheque ensures security and protection to the holder.

However, we can negotiate a crossed bearer cheque by delivery and a crossed order cheque by endorsement and delivery.

Types of Cheque Crossing (Sections 123-131 A):

- General Crossing – cheque bears across its face an addition of two parallel transverse lines.
- Special Crossing – cheque bears across its face an addition of the banker's name.
- Restrictive Crossing – It directs the collecting banker that he needs to credit the amount of cheque only to the account of the payee.
- Non-Negotiable Crossing – It is when the words 'Not Negotiable' are written between the two parallel transverse lines.

General Cheque Crossing

In general crossing, the cheque bears across its face an addition of two parallel transverse lines and/or the addition of words 'and Co.' or 'not negotiable' between them.

In the case of general crossing on the cheque, the paying banker will pay money to any *banker*. For the purpose of general crossing two *transverse parallel lines* at the corner of the cheque are necessary.

Thus, in this case, the holder of the cheque or the payee will receive the payment only through a bank account and not over the counter. The words 'and Co.' have no *significance* as such.

But, the words 'not negotiable' are significant as they restrict the negotiability and thus, in the case of *transfer*, the transferee will not give a title better than that of a transferor.

Special Cheque Crossing

In special crossing, the cheque bears across its face an addition of the banker's name, with or without the words 'not negotiable'.

In this case, the paying banker will pay the amount of cheque only to the banker whose name appears in the crossing or to his collecting agent.

Thus, the paying banker will honor the cheque only when it is ordered through the bank mentioned in the crossing or its agent bank.

However, in special crossing two parallel transverse lines are not essential but the name of the banker is most important.

Restrictive Cheque Crossing or Account Payee's Crossing

This type of crossing restricts the negotiability of the cheque. It directs the collecting banker that he needs to *credit* the amount of cheque only to the account of the payee, or the party named or his agent.

Where the collecting banker credits the proceeds of a cheque bearing such crossing to any other account, he shall be guilty of negligence.

Also, he will not be eligible for the *protection* to the collecting banker under section 131 of the Act.

However, such crossing will have no effect on the paying banker. This is so because it is not his duty to determine that the cheque is collected for the account of the payee.

Marked cheque: A cheque need not be presented for acceptance. Therefore the drawee of the cheque i.e., the banker, is under liability, to the person in whose favour the cheque is drawn. The banker, however, will be liable to his customer (drawer), if he wrongly refuses to honour the cheque. In such a case, action can be taken by the customer against the banker for the loss of his reputation. In certain cases, however , a cheque is marked or certified by the banker on whom it is drawn as "good for payment'. Such a certification of marking is strictly not equivalent to an acceptance but is very similar to it and protects the person to whom the cheque is issued against the cheque being refused for payment subsequently by Banking in India, as a rule, do not mark or certify cheque in this manner. Bankers in India, are not liable even if a bank has marked a cheque as "good for payment" (Bank of Baroda vs. Punjab National Bank Ltd.).

MATERIAL ALTERATION

Any alteration in the original state of a cheque such as date, amount, payee's name, changing the word 'order' to bearer appearing after payee's name or in endorsement is called material alteration. All material alteration must have drawer's approval with his full signature (not initials) where the alterations are made. One of the mandatory features of the CTS-2010 cheque format, prescribed by RBI, is that No changes / corrections should be carried out on the cheques (other than for date validation purposes, if required). For any change in the payee's name, courtesy amount (amount

in figures) or legal amount (amount in words), etc., fresh cheque forms should be used by customers. This would help banks to identify and control fraudulent alterations.
Effects of material alteration:

The material alteration of a cheque renders such instrument void and same cannot be enforced against any person who was a party to such instrument at the time of material alteration and did not give his/her approval to it.

The following are not considered as material alteration under N.I.Act:

- filling up of incomplete instrument (sec 20)
- Conversion of blank endorsement into a special endorsement (section 49).
- Qualifying or limiting an acceptance (section 86)
- Crossing of a cheque by holder (section 125)

UNIT – III

Loans and Advances - Principles of sound lending – Secured and unsecured Advance - Forms of Advance

LOAN

The amount lent by the lender to the borrower for a specific purpose like the construction of the building, capital requirements, purchase of machinery and so on, for a particular period of time is known as Loan. In general, loans are granted by the banks and financial institutions. It is an obligation which needs to be repaid back after the expiry of the stipulated period. The loan carries an interest rate on the debt advanced. Before advancing loans, the lending institution checks the credit report of the customer, to know about his credibility, financial position and capacity to pay. Loan is classified in the following categories:

I. On the basis of Security:

• **Secured Loan:** The loan which is backed by securities is Secured Loan.

• **Unsecured Loan:** The loan on which no asset is pledged as security is Unsecured Loan.

II. On the basis of Repayment:

• **Demand Loan:** The loan which is repaid on demand of the lender is Demand Loan.

• **Time Loan:** Loan, which is repaid in full at a future specified date is Time Loan.

• **Instalment Loan**: Loans which are to be repaid in evenly distributed monthly instalments is Installment Loan.

III. On the basis of Purpose:

• Home Loan

• Car Loan

• Education Loan

• Commercial Loan

• Industrial Loan

Advances

Advances are the source of finance, which is provided by the banks to the companies to meet the short-term financial requirement. It is a credit facility which should be repaid within one year as per the terms, conditions and norms issued by

Reserve Bank of India for lending and also by the schemes of the concerned bank. They are granted against securities which are as under:

• **Priamary Security**: Hypothecation of Debtors, Stock Pro-notes, etc

Collateral Security: Mortgage of land and buildings, machinery, etc.

• **Guarantees:** Guarantees given by partners, directors or promoters, etc.

The following are the forms of bank advances:

- **Short term loans**: Advance in which the entire amount is provided to the borrower at one time.
- **Overdraft**: A facility provided by the bank in which the customer can overdraw money from his account up to a specified limit.
- **Cash Credit**: A facility granted by the bank in which the customer can advance money up to a certain limit against the asset pledged.
- **Bills Purchased**: An advance facility provided by the bank against the security of bills.

Principles of Sound Lending

Bank performs different functions. Lending of money to different kinds of borrowers is one of the most important functions of commercial bank. A major portion of its fund is used for this purpose and this is also the major sources of bank's income. However, lending is not without risk. The borrowers of a bank range from individuals to partnership, companies, institutions, societies etc. The nature of their activities, the location of business, financial stability, earning and repaying capacity, purpose of advance, securities all differ and their degree of risks also differ. Therefore, a banker must take proper precaution in this process. Some of the important considerations to be kept in mind by a banker in this respect are discussed below:

1. **Safety**: Safety means that the borrower should be able to repay the loan and interest in time at regular intervals without default. Banks are trustee of public money. Bank's deposits are always payable on demand. Bank has to maintain trust of depositor forever. As such the first and foremost principle of lending is to ensure safety of funds lent. Further, it is just not the capacity of the borrower to repay but also his willingness to repay. The former depends on his tangible assets and the success of his business. The latter depends on the borrower's character. Now the question is how to ensure safety of lending? To ensure the safety of lending the following factors may be considered:

Five Cs	**Five Ps**	**Five Ms**	**Five Rs**
1. Character	1. Person	1. Man	1. Reliability
2. Capacity	2. Purpose	2. management	2. Responsibility
3. Capital	3. Product	3. Money	3. Resources
4. Condition	4. Place	4. Materials	4. Respectability
5. Collateral	5. Profit	5. Market	5. Returns

2. **Liquidity**: The term liquidity refers to the extent of availability of funds with the

banker for providing credit to borrowers. It is to be seen that money lent is not going to be locked up for a long time. The money should return to the bank as per the repayment schedule. This schedule that is drawn up by the banker has to adhere to the requirement that at any point of time he banker should possess liquidity to meet the withdrawals of the depositors. It is to be kept in mind that various deposits have various maturities and some of it would also be payable on demand. A bank's inability to meet the demand of its depositors can lead to a run on the bankwhich is a threat to its basic survival. Hence the banker has to always monitor the cash flows and carry out the exercise of ensuring liquidity with the borrower as this in turn means liquidity with the banker. Further, liquidity would also refer to the quality of assets, which should be easily convertible into cash without any loss of value. Thus the concept of liquidity entails the banker to look for easy salability and absence of risk of loss on sale of asset, which has been taken as collateral.

3. Purpose: The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment. Loans may be required for productive purposes, trading purposes, agriculture, transport, self-employment etc. If a loan is required for a non-productive or speculative purpose, the banker should be very much cautious in entertaining such proposals. It is very difficult to ensure that the loan has been utilized for the purpose for which it was sanctioned. Banker should take follow-up measures to ensure end use of fund exactly for the same purpose for which it is borrowed.

4. **Profitability**: Banks are not charitable institutions. All banks are profit-earning institutions. The ultimate objective of lending is to earn profits. Banks receive interest on loans and advances lent, and they pay interest to their depositors. This difference between the receipts and payments will be the bank's gross profit. Banks further incur various expenses as any organizationdoes. After accounting for all such expenses and provisions, banks have to earn reasonableamount as net profit (NIM) so that dividends can be paid to its shareholders. The trust and confidence level of the customer and investor will be high with a bank that has a good track record of profits and dividend rates. Hence it is important that whatever the business the bank engages itself with, the business be profitable enough not just to cover its costs but to ensure generation of surplus funds or margin. It is prudent for the banker to consider overall profitability of the entire business that is undertaken rather than the profitability against each component of business or service offered. Security: The security offered by a borrower for an advance is as like as the insurance to the banker. It serves as the safety valve for an unforeseen emergency. So another principle of sound lending is the security of lending. Security offered against loan may be various. It may be a plot of land, building, flat, insurance policies; term deposits etc. There may even be cases where there is no security at all. The banker must realize that is it only a cushion to fall back upon in case of need. The security and its adequacy alone should not form the sole consideration for judging the viability of a loan proposal. Nevertheless, the security if accepted must be adequate and readily marketable, easy to handle and free from encumbrance. It is the duty of the banker to check the nature of the security and assess whether it is adequate for the loan granted.

Diversification: A prudent banker always tries to select the borrower very carefully and takes tangible assets as security to safeguard his interests. While this is no doubt an adequate measure, there are other unforeseen contingencies against which the banker has to guard himself. Further if the bank lends large amounts to a single industry or borrower, then the default by that customer can affect the banking industry as a whole and will affect the basic survival of the industry. To safeguard his interest against all such risks, the banker follows the principle of diversification of risks based on the famous maxim 'never keep all the eggs in one basket'. By lending funds to different sectors, a bank can save itself from the slump in some sectors by way of prosperity in the others. Banks have to lend to a large number of industries and borrowers so that the risk gets diversified

National Interest: Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. Bank has a significant role in the economic development process of a country. They should keep in mind the national development plan/program while going for lending but maintaining safety, liquidity and profitability.

SECURED AND UNSECURED ADVANCE& LOAN

There are two different types of loans: secured loans and unsecured loans. Understanding the differences between the two is an important step in achieving financial literacy, and can have a long-term effect on your financial health.Basically, a secured loan requires borrowers to offer collateral, while an unsecured loan does not. This difference affects your interest rate, borrowing limit, and repayment terms.There are pros and cons to choosing a secured vs an unsecured loan, which is why we have highlighted the differences for you here:

Secured Loan

Secured loans are protected by an asset. The item purchased, such as a home or a car, can be used as collateral. The lender will hold the deed or title until the loan is paid in full. Other items can be used to back a loan too. This includes stocks, bonds, or personal property.

Secured loans are the most common way to borrow large amounts of money. A lender is only going to loan a large sum with a promise that it will be repaid. Putting your home on the line is a way to make sure you will do all you can to repay the loan.Secured loans are not just for new purchases. Secured loans can also be home equity loans or home equity lines of credit. These are based on the current value of your home minus the amount still owed. These loans use your home as collateralA secured loan means you are providing security that your loan will be repaid. The risk is if you can't repay a secured loan, the lender can sell your collateral to pay off the loan.

Advantages of Secured Loans:

• Lower Rates

• Higher Borrowing Limits

• Longer Repayment Terms

Examples of Secured Loans:

• **Mortgage** – A mortgage is a loan to pay for a home. Your monthly mortgage payments will consist of the principal and interest, plus taxes and insurance.

• **Home Equity Line of Credit –** A home equity loan or line of credit (HELOC) allows you to borrow money using your home's equity as collateral.

• **Auto Loan –** An auto loan is an auto financing option you can obtain through the dealer, a bank, or credit union.

• Boat Loan – A boat loan is a loan to pay for a boat. Similar to an auto loan, a boat loan involves a monthly payment and interest rate that is determined by a variety of factors.

• **Recreational Vehicle Loan** – A recreational vehicle loan is a loan to pay for a motorhome. It may Unsecured LoanUnsecured loans are the reverse of secured loans. They include things like credit cards, student loans, or personal (signature) loans. Lenders take more of a risk by making this loan, because there is no asset to recover in case of default. This is why the interest rates are higher. If you're turned down for unsecured credit, you may still be able to obtain secured loans. But you must have something of value that can be used as collateral.An unsecured lender believes that you can repay the loan because of your financial resources. You will be judged based on the **five C's of credit:**

• Character – can include credit score, employment history, and references

• Capacity – income and current debt

• Capital – money in savings or investment accounts

• Collateral – personal assets offered as collateral, like a home or car

• Conditions – the terms of the loan

These are yardsticks used to assess a borrower's ability to repay the debt, and can include the borrower's situation as well as general economic factors.Note that the five C's of credit are different for personal loans vs. business loans.

Examples of Unsecured Loans:

• **Credit Cards** – There are different types of credit cards, but general credit cards bill once a month and charge interest if you do not pay the balance in full.

• **Personal (Signature) Loans** – These loans can be used for many purposes, and can vary from a few hundred to tens of thousands of dollars.

• **Personal Lines of Credit** – Similar to a credit card, a personal line of credit has an approved limit that you can use as needed. You can use this line of credit for almost anything, and you are only charged interest on the amount you spend.

Forms of advances in commercial banking are;

▪ Cash credit,

▪ Overdraft,

▪ Loans,

▪ Demand loan vs term loan,

▪ Secured vs unsecured loan,

▪ Participation loan or consortium loan,

▪ Purchasing and discounting bills.

These types of advances are explained below.

Cash Credit

Cash Credit is an arrangement by which the customer is allowed to borrow money up to a certain limit known as the 'cash credit limit'.Usually, the borrower is required to provide security in the form of a pledge or hypothecation of tangible securities. Sometimes, this facility is also provided against personal security.

This is a permanent arrangement and the customer need not draw the sanctioned amount at once but draw the amount as and when required.He can put back any surplus amount which he may find with him. Thus cash credit is an active and running account to which deposits and withdrawals may be affected frequently.Interest is charged only for the amount withdrawn and not for the whole amount approved. If the customer does not use the cash limit to the foil extent, a commitment charge is made by the bank. This charge is imposed on the un-utilized portion of cash credit only.

Overdraft

The Economist defines an overdraft as "a credit facility that allows borrowers to draw upon it (up to a specified limit) as and when they need to. Borrowers pay only for what they use".Overdraft is an arrangement between a banker and his customer by which the latter is allowed to withdraw over and above his credit balance in the current account up to an agreed limit. This is only a temporary accommodation usually granted against security.The borrower is permitted to draw and repay any number of times, provided the total amount overdrawn does not exceed the agreed limit. The interest is charged only for the amount drawn and not for the whole amount sanctioned.

A cash credit differs from an overdraft in one respect. Cash credit is used for long-term by businesses in doing regular business whereas overdraft is made occasionally and for short duration.Banks sometimes grant unsecured overdrafts for small amounts to customers having a current account with them. Such customers may be government employees with fixed income or traders.Temporary overdrafts are permitted only where a reliable source of funds is available to a borrower for repayment.

Loans

Oxford Dictionary of Finance and Banking defines bank loan as “a specified sum of money lent by a bank to a customer, usually for a specified time, at a specified rate of interest”.The loans may be repaid in installments or at the expiry of a certain period. The loan may be made with or without security.A loan once repaid in full or in part cannot be withdrawn again by the customer. In case a borrower wants a further loan, he has to arrange for a fresh loan.

Demand Loan Vs Term Loan

The loan may be a demand loan or a term loan.A demand loan is payable on demand. It is for a short period and usually granted to meet the working capital needs of the borrower. Term loans may be medium-term or long-term. Medium-term loans are granted for a period ranging from one year to five years for vehicles, tools, and equipment.Long-term loans are granted for capital expenditures such as the purchase of land, construction of factory building, purchase of new machinery and modernization of plant.

Secured Vs Unsecured Loan

According to section 5(e) of the Bank Companies Act, 1991, “Secured loan or advance means such a loan or advance as made against the security assets, market value of which is not at any means less than the amount of such loan or advance and unsecured loan or advance is that loan or advance or part of it does not require sanctioning against the security”.

Participation Loan or Consortium Loan

Where one single loan is granted by more than one financing agency, it is termed as a participation or consortium loan.Such participation becomes necessary where either the risk involved is too large for one or more of the participating institutions to take individually or there are administrative or other difficulties in servicing and follow up of the loan.

Purchasing and Discounting Bills

Bills of exchange, as defined in the Negotiable Instruments Act, 1 SSI, is “an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay (on-demand or at a fixed or determinable future time) a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument”.Banks grant advances to their customers by discounting bills of exchange.The net amount, after deducting the amount of interest/discount from the amount of the installment, is credited in the account of the customer.In this form of lending, the interest is received by the banker in advance.Banks sometimes purchase the bills instead of discounting them.Bills which are accompanied by documents of title to goods such as bills of lading or railway receipt are purchased by the bankers.In such cases, the banker grants a loan in the form of overdraft or cash credit against the security of the bills.

UNIT – IV

Modes of charging Security - Lien - Pledge - Mortgage – Assignment - Hypothecation

• **Lien**

• Pledge

• Hypothecation

• Mortgage

• Assignment

• **Lien**: Lien means the right to retain the goods of the borrower until the debts are repaid.

• **Pledge**: Pledge is the bailment of goods as security for payment of a debt. Only movable goods can be pledged.

• **Hypothecation**: Hypothecation creates on equitable charge on movable property without possession. However, the hypothecation deed provides that the banker will have the right to take the goods hypothecated in its possession if the the need arises.

• **Mortgage**: A mortgage is a conveyance of an interest in property (land or any immovable property) for securing a debt. A legal mortgage is created by a registered deed and gives the mortgagee the right of sale in case of default of the borrower.

• **Assignment**: Assignment is transfer of ownership from one person/authority to another person/authority.

• **Set-off:** Set-off means the total or partial merging of a claim of one person against another in a counter claim by the latter against the former.

1. **Lien**

Lien is the right of a creditor to retain the properties belonging to the debtor until debt due to him is repaid. Lien gives a person only a right to retain the possession of the goods and not the power to sell unless such a right is expressly conferred by statute or by custom or by usage. A banker's lien is a general lien which is tantamount to an implied pledge. It confers upon the banker the right to sell the securities after serving reasonable notice to the borrower

1.1 Kinds of Lien

• A **particular lien** applies to one transaction or certain transactions only.

• **General lien** gives a right to a person to retain the goods not only in respect of a particular debt but also in respect of the general balance due form the owner of the goods to the person exercising the right of lien. It extends to all transactions.

Negative Lien : In case of negative lien. The possession of the security is with the debtor himself, who promises not to create any charge over them until the loan is repaid.

Banker's Lien A banker's lien is always a general lien. A banker has a right to exercise both kinds of lien. A banker's lien is treated as an implied pledge: It must be noted that a banker's lien is generally described as an implied pledge. It means that a lien not only gives a right to retain the goods but also gives a right to sell the securities and goods of the customer after giving a reasonable notice to him. When the customer does not take any steps to clear his arrears. This right of sale is normally available only in the case of pledge. That is why lien is regarded as an implied pledge.

Pledge:

Section 172 of contract Act, 1872, defines a pledge as, the 'bailment of goods as security for payment of a debt or performance of a promise." Only movable goods can be pledged. From the above definition we observe that,

1. A pledge occurs when goods are delivered for getting advance,

2. The goods pledged will be returned to the owner on repayment of the debt,

3. The goods serve as security for the debt.The person who transfers the goods is called pledger and to whom it is transferred is called the pledgee.

2.1 Essentials of pledge

Delivery of goods:

Delivery of goods is essential to complete a pledge. The delivery may be physical or symbolic. Physical delivery refers to physical transfer of goods from a pledger to the pledgee. Symbolic delivery requires no actual delivery of goods. But the possession of goods must be transferred to a pledgee. This may be done in any one of the ways:

1. Delivery of the key of the warehouse in which the goods are stored.

2. Delivery of the document of title to goods like bill of lading, Railway receipt,

Warehouse warrant etc.

3. Delivery of transferable warehouse warrant if the goods are kept in a public

warehouse.

Transfer of ownership:

The ownership of goods remains with the pledger. The possession of the goods vests with pledgee till the loan is repaid

Right in case of failure to repay: If the pledger fails to repay within the stipulated time, pledgee may,

1. sell the goods pledged after giving reasonable notice,

2. File a civil suit against the pledger for the amount due,File a suit for the sale of the goods pledged and the realization of money due to him. When the pledgee decides to exercise the right of sale, he must issue a clear, specific and reasonable notice.

Precaution and general guidelines for pledgee

1. The godown must be in good condition and well-constructed.

2. Godown must be effectively under Bank's control.

3. Name board of the bank should be placed outside and inside of the godown.

4. Letter from the party for free accesses to the godown by bank personnel (Bank's prescribed form) to be obtained.

5. Letter of disclaimer from the owner of godown is to be obtained if the godown is rented one.

6. Godown keeper and godown Chowkider are to be posted for receiving/ delivery and to ensure security of the goods.

7. Insurance of godown is to be done against all risks. Bank clause should be inserted.

8. Periodical Inspection by the authorized person of the bank

(monthly/fortnightly) should be conducted.

9. Value of stocks must be determined at landed cost/invoice cost/market

price whichever is lower as per Head office guideline (circulars).

10.Restricted item must not be accepted for pledge.

11. Deliveries and rotations of the stocks is to be made as per existing

rules/procedures and terms and conditions contained in the sanction advice.

12.Market value of the goods pledged should be ascertained frequently in order to retain proper margin and allow withdrawals within drawing power. No upward revaluation without H.O. approval.

13.Pledged goods must be stocked properly to facilitate counting and checking.

14.Stock report card on each stock mentioning Nos. of bales, bags, cases etc. must be maintained.

15.In case of chemicals, drugs and medicines the date of expiry should be written and technical personnel must be employed to ensure its quality.

In the matter of pledge banks may be cheated in one or more of the following manners:

- Pledge of spurious goods.

- Inflating the value of goods.

- Pledging the goods to more than one bank by using various entrances to the godowns.

- Fraudulent removal of goods with the connivance / due to the negligence of the bank's staff.

- Pledge of goods belonging to a third party.

Attributes of a good Tangible security

1. Marketability

2. Easy ascertainment of value

3. Stability of value

4. Storability

5. Cost and labor of supervision

6. Transportability

7. Durability

8. Ascertainment of title

9. Easy transfer of title

10.Absence of contingent liability.

11. Yield

Documents required for Pledge:

• Demand promissory note.

• Agreement for pledge.

• Letter of continuity.

• Letter of arrangement

• Insurance policy covering all risks.

• Invoice of goods pledged (for imported goods).

- Latest stock report.

- Letter of disclaimer

- Other documents as per sanction letter.

Hypothecation:

Hypothecation creates on equitable charge on movable property without possession. The mortgage of movable property for securing loan is called Hypothecation. In other words, in case of hypothecation, a charge over movable properties like goods, raw materials, goods in progress is created. Hypothecation is a charge against property for an amount of debt where neither ownership nor possession is passed to the creditor. Though the borrower is in actual physical possession, the constructive possession remains with the Bank as per the deed of hypothecation. The borrower holds the possession not in his own right as the owner of the goods but as the agent of the Bank. Being only an equitable charge on movable property without possession, hypothecation facility is risky as clean advances. So it is granted only to parties of undoubted means with the highest integrity. Moreover, bankers insist upon for giving some sort of collateral securities.

3.1 **Features of Hypothecation:**

- Charge against a property for an amount of debt,

- Goods remains in the possession of the borrower,

- Borrower binds himself to give possession of the hypothecated goods to the Bank when called upon to do so.

- It is a floating charge.

- It is rather precarious.

Being only an equitable charge on movable property without possession, hypothecation facility is risky as clean advances. So it is granted only to parties of undoubted means with the highest integrity.

3.2 **Precaution and general guidelines for Hypothecation:**

As goods under hypothecation remains in the possession of the borrower, extra care has to be exercised to see that the bank's security is complete, adequate, safe and available at times when required. The banker should take the following precautions:

1. He must get stock statements periodically which contain a declaration by the borrower regarding his title to goods and correctness of the quality, quantity etc.

2. On the basis of the statement, he should inspect the stock and books of accounts of the borrower.

3. An undertaking from the debtor in writing, stating that he has not hypothecated the same goods to any other bank must be obtained.

4. The banker should get a letter of hypothecation containing several clauses to protect his interest under all circumstances.

5. The banker should insist on the borrower insuring the goods against the risks. He should also get it endorsed and assigned in his favour.

6. A board reading "Stock Hypothecated to X Bank" should be displayed in the place where the goods are stored. 3.3 In case of hypothecation bank may be cheated in the following ways:

• The borrower declares wrongly the capacity of the storing place.

• A false platform between the loose stocks is erected.

• The borrower creates a hollow square in the middle of stocks. Kind of fraud is generally committed by the borrowers who have either built-up confidence with the bank or where the branch managers and other officials at the branch office have been got around by such borrowers.

• Often the borrower with intention to cheat the bank resorts to dumping deteriorated/obsolete stocks in between the good stocks.

• The borrower mixes inferior quality liquids or water with good liquids and commits fraud. The device is generally adopted by parties dealing in chemicals or oils.

• The borrower stores stocks of different qualities in the godown and cheats the bank. In such cases borrowers store goods of qualities different from these declared in lodgment memos.

4.**Mortgage**

• The transferor is called a ‘mortgagor’, the transferee a ‘mortgagee’, the principal money and interest of which payment is secured for the time being are called ‘mortgage money’, and the instrument (if any) by which the transfer is effected is called a ‘mortgage deed’.

• A mortgage is a method of creating charge on immovable properties like land and building.

• Section 58 of the Transfer of Property Act 1882, define a mortgage as follows: “A mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability.”

4.1 Characteristics of a Mortgage:

In terms of the definition, the following are the characteristics of a mortgage:

1. A mortgage can be effected only on immovable property. Immovable property includes land, benefits that arise out of land and things attached to earth like trees, buildings and machinery. But a machine which is not permanently fixed to the earth and is shift able from one place to another is not considered to be immovable property. 2. A mortgage is the transfer of an interest in the specific immovable property. This means the owner transfers some of his rights only to the mortgagee. For example, the right to redeem the property mortgaged.

3. The object of transfer of interest in the property must be to secure a loan or performance of a contract which results in monetary obligation. Transfer of property for purposes other than the above will not amount to mortgage. For example, a property transferred to Liquidate prior debt will not constitute a mortgage.

4. The property to be mortgaged must be a specific one, i.e., it can be identified by its size, location, boundaries etc.

5. The actual possession of the mortgaged property is generally with the mortgager.

6. The interest in the mortgaged property is re-conveyed to the mortgager on repayment of the loan with interest due on.

7. In case, the mortgager fails to repay the loan, the mortgagee gets the right to recover the debt out of the sale proceeds of the mortgaged property.

4.2 Forms of Mortgages

Section 58 of the transfer of Property Act enumerates six kinds of mortgages:

1. Simple mortgage.

2. Mortgage by conditional sale.

3. Usufructuary mortgage.

4. English mortgage.

5. Mortgage Ly deposit of title deeds.

6. Anomalous mortgage.

4.3 Rights of Mortgager

1. Rights of Redemption

2. Accession to Mortgaged Property:

3. Right to Transfer to Third Party

4. Right to Inspection and Production of Documents

4.4 Rights of Mortgagee

1. Right to sue for mortgage money:

2. Right of sale:

3. Right of foreclosure:

4. Right of accession to property:

5. Right of possession:

4.5 Sub-Mortgage

A sub-mortgage is created when the mortgagee gives the mortgaged property as security for advance. The mortgaged security is the property of the mortgagee and so he has the right to re-mortgage for securing loans. The sub-mortgagee is placed in the position of the original mortgagee and entitled to receive the mortgage money, sue for the property and realise, the security. Therefore, a sub-mortgage is also known as ‘mortgage of mortgagee.’

Types of Mortgages in India:

1. Simple Mortgage

Here, the borrower simply mortgages the immovable asset personally to avail a loan. The lender has the right to sell mortgaged property in case of repayment failure.

2. Usufructuary Mortgage

In this, the property’s possession is transferred to the lender who can receive rents or profits from it without creating any personal liability on the borrower.

3. English Mortgage

It establishes personal liability on the borrower, and the mortgaged property is transferred to the lender on the condition that successful loan repayment will lead to recovery.

4. Mortgage By Conditional Sale

Here, a mortgagor sells his/her property with terms that it becomes effective if he/she defaults in repayment but turns void on successful repayment.

5. Mortgage By Title Deed Deposit

The borrower deposits the title deed of the property to be mortgaged with the lender against the loan to avail.

6. Anomalous Mortgage

A mortgage that doesn't come under any of the above mortgage types is an anomalous mortgag5.0 Assignment

• Assignment means transfer of any existing or future right, property or debt by one person to another person.

• The person who assigns the property is called assignor and the person to whom it is transferred is called assignee.

• Usually assignment are made of actionable claims such as book debts, insurance claims etc.

• In banking business, a borrower may assign to the banker

i) The book debts,

ii) Money due from government department

iii) Insurance policies

5.1 Type of Assignment

Assignment may be two types

1. Legal Assignment: A legal Assignment is an absolute transfer of actionable claim. It must be in writing signed by the assignor. The assignor informs his debtor in writing intimating the assignee's names and address. The assignee also gives a notice to the debtor and seeks a confirmation of the balance due.

2. Equitable assignment: An equitable assignment is one which does not fulfill all the above requirement.In case of legal assignment, the assignee can sue in his own name. A legal assignee can also give a good discharge for the debt without the concurrence of the assignor

UNIT - V

Electronic Banking - Traditional Vs E – Banking – Types of E- Banking - Advantages – Constraints

E-Banking

Electronic banking has many names like e banking, virtual banking, online banking, or internet banking. It is simply the use of electronic and telecommunications network for delivering various banking products and services. Through e-banking, a customer can access his account and conduct many transactions using his computer or mobile phone. In this article, we will look at the importance and types of e-banking services.

Importance of e-banking

We will look at the importance of electronic banking for banks, individual customers, and businesses separately.Banks

1. Lesser transaction costs – electronic transactions are the cheapest modes of transaction

2. A reduced margin for human error – since the information is relayed electronically, there is no room for human error

3. Lesser paperwork – digital records reduce paperwork and make the process easier to handle. Also, it is environment-friendly.

4. Reduced fixed costs – A lesser need for branches which translates into a lower fixed cost.

5. More loyal customers – since e-banking services are customer-friendly, banks experience higher loyalty from its customers.

1. **Convenience** – a customer can access his account and transact from anywhere

24x7x365.

2. **Lower cost per transaction –** since the customer does not have to visit the branch for every transaction, it saves him both time and money.

3. **No geographical barriers –** In traditional banking systems, geographical distances could hamper certain banking transactions. However, with e-banking, geographical barriers are reduced.

Businesses

1. Account reviews – Business owners and designated staff members can access the accounts quickly using an online banking interface. This allows them to review the account activity and also ensure the smooth functioning of the account.

2. Better productivity – Electronic banking improves productivity. It allows the automation of regular monthly payments and a host of other features to enhance the productivity of the business.

3. Lower costs – Usually, costs in banking relationships are based on the resources utilized. If a certain business requires more assistance with wire transfers, deposits, etc., then the bank charges it higher fees. With online banking, these expenses are minimized.

4. Lesser errors – Electronic banking helps reduce errors in regular banking transactions. Bad handwriting, mistaken information, etc. can cause errors which can prove costly. Also, easy review of the account activity enhances the accuracy of financial transactions.

5**. Reduced fraud –** Electronic banking provides a digital footprint for all employees who have the right to modify banking activities. Therefore, the business has better visibility into its transactions making it difficult for any fraudsters to play mischief.

Advantages

1.Convenience

In this busy and hectic schedule it is difficult for an individual to make time to visit bank for checking their account balance, interest rates, successful transfer of money, and any other update. Banking system has developed virtual banking system for customer convenience where an individual can access their banking system anytime and anyplace.

There are many scenarios when there is banking holiday due to which your money can't be transferred. Online banking system has provides an ease by providing 24 hours and 365 days services. It resolves issues faced by the customers during traditional banking system. An individual don't need to stand in queue for any money deport and transfer.

2.Transfer service

The virtual banking system provides convenience to transfer money 24 hours in 365 days.You don't need to stick to perform any transaction within working hours as you can do as per your convenience in 24 hours.

3.Monitoring service

The customers can access their updated passbook anytime for monitor their transactions to manage their financial plans.

4.Online bills payment

You don’t need to stand in queue for paying bills as it has feature to pay any kind of bill including electricity, water supply, telephone, and other bills.

5.Quality service

Internet banking has improved the quality of services by providing them convenience to perform their transactions anytime during the day. The consumers are able to apply for loan, insurance, and any other services without visiting the banks physically which shows that the quality of e-banking is fast and effective

6.High liquidity

You can transfer money and utilize anytime which is the greatest advantage to access internet banking. You don’t need to visit banks for transferring money which can be done from anywhere without visiting to the banks physically.

7.Low cost banking service

Internet banking reduce enable to reduce operational costs with better quality of services. It provides convenience with high customer service at lower rate. The Bank charges minimal amount for operations which reflect that the e-banking services are reasonable and efficient.

8.High interest rates

Internet banking provides low interest rate on mortgage loans than banks. The operational cost is also low which helps to saving amount that is beneficial for the customers. There are various other facilities such as no minimum balance account which helps to maintain account with zero balance. It increases total disposable income of the consumers without even worry about maintaining minimum balance (Lecic-Cvetkovic, 2016).

Disadvantages

E-banking has various advantages which improves the banking system but there are disadvantages of using internet banking. These are as follows:

1.Security issues

Internet banking is completely insecure as there are many problems related to the website and data can be hacked by the hackers. It can leads to financial loss to the users. The financial information can also be stolen that can also create financial loss.

2.Lack of direct contact between customer and banking officer Online banking requires effective customer service for handling issues faced by the user. But lack of customer support creates disappointment among the customers. There are

some online payments which may not be reflected in the system due to technical issues.

It also creates insecurity among the customers. Thus the lack of support from customer service executive is a barrier in online banking.

3.Transaction problem

During online banking there are various issues faced by the user such as transferred payment is not reflected, payment failed, and other issues due to technical support.

4.Long procedure to access e-banking

In some countries, government banks are providing internet banking by filling the internet banking form then after approval you can access security password to log in. An individual need to download the App of specific banking then all credentials needs to be filled for login successfully (Sharma, 2016).

5.Training and development

The banks need to conduct training and development program for employees for providing quality online services which enhance the customer experience. It requires huge investment to train them for providing effective services.

DIFFERENCE BETWEEN TRADITIONAL BANKING AND E-BANKING PRACTICES,BANKING AWARENESS

Basis	Traditional Banking	E- Banking Practices
Global Coverage	Traditional Practice provides limited coverage.	E-Banking Practices involve global coverage while sitting at home/office.
Marketing Tool	Traditional Practice does not provide proper marketing tools.	E-Banking provides the facility of marketing of products/ schemes online easily.
Prompt Services	Traditional Practices involves process which requires more time.	E-Banking same lot of line as there is no need to stand in long queues.
Reduction of errors/ Frauds	Traditional banking practices do not provide a complete check on banking transactions.	With the system of reconciliation of inter-branch transactions, frauds and errors could be reduced.
Paperwork	Bank executives have to perform a lot of paperwork which increases	Cost and time could be reduced or everything is to be through some

	both time and cost.	interval and no need for huge paperwork.
Risk of carrying cash	In the case of traditional business, a person has to carry cash at each point of time.	E-banking provides banking without carrying cash as plastic money (ATMs, Credit cards are available)