

* Advancing of Loans.

It gives loan and advances particularly to businessmen and entrepreneurs and these by earn interest.

* In fact, this is the main sources of income of the bank.

* A bank keeps certain portion of the deposits with itself as reserve and lends the balance to borrowers, as loans and advances in the following form -

(i) Cash credit -

An eligible borrower is first sanctioned a credit limit and within that limit he is allowed to withdraw a certain amount on a given security.

* The withdrawing power depends upon the borrower's current assets, the stock statement of which is submitted

by him to bank as the basis of security.

* Interest is charged by the bank on the drawn or utilized portion of credit (loans).

(ii) Demand loans -

A loan which can be recalled on demand is called demand loan.

* There is no stated maturity. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrow.