



---

## RECENT CONCEPT & PRINCIPLES OF GOOD LENDING

---

**Dr. Ashok D. Adhav**

**(Associate Professor)**

**M.P.A.S.C. College, Panvel, Dist- Raigad,  
State-Maharashtra**

---

### **ABSTRACT:**

*Banks makes loans and advance to traders, businessmen and industrialist against the security of some assets or on the basis of the personal security of the borrower. Lending money to different kinds of borrowers is one of the most important functions of a bank. Lending is a risky business. To do this business of lending successfully and profitably a banker has to follow certain principles.*

*Lending money to different kinds of borrower is one of the most important functions of a bank. Lending risky business therefore, banks have to follow a cautious policy and sound lending principals in the matter of lending. A sound credit is one where timely repayment is assured. This largely depends on the earning power of the business and repaying capacity of the borrower. So great emphasis is laid on the productivity of the loan.*

**Key Word:- Lending, Safety, Liquidity, Profitability, Security.**

### **INTRODUCTION:**

Banks makes loans and advance to traders, businessmen and industrialist against the security of some assets or on the basis of the personal security of the borrower. Lending money to different kinds of borrowers is one of the most important functions of a bank. Lending is a risky business. To do this business of lending successfully and profitably a banker has to follow certain principles.

**PRINCIPALS OF GOOD LENDING:**

- 1) Safety
- 2) Liquidity
- 3) Profitability
- 4) Security
- 5) Purpose of loan
- 6) Sources of payment
- 7) Productivity of the Loan

**1. Safety:**

The very survival of a banker depends on the safety of his loans and advances. To maintain a banking concern in a sound condition, it is very essential that the safety of its advances to customers should be its first principles. Safety depends upon.

- a) The security offers by the borrower.
- b) The repaying capacity
- c) Willingness of the debtor to repay the loan.

**2. Liquidity:**

The banker, while making advances, must see to it that the money lent is not locked up for long time. The liquidity of a bank are repayable on demand or at short notice.

So a bank should confine its lending to short term against marketable security.

**3. Profitability:**

Like every other business activity, banks are profit oriented. A bank invest its funds in many ways to earn income. A banker should employ his funds in such a way that they will bring him adequate return.

**4. Security:**

Customer may offer different kinds of security. For the sake of safety he should ensure that the securities are adequate, marketable and free from encumbrances. Securities which could be marketed easily, quickly.

**5. Purpose of the loan:**

Before sanctioning loans a banker should enquire about the purpose for which it is needed. Borrowings for productive purpose are readily allowed by banks. So that repayment will be prompt.

**6. Sources of Repayment:**

Before giving financial accommodation a banker should consider the sources from which repayment is promised.

**7) Productivity of the Loan:**

Today a bank is not exclusively a financial institution but is alive to the needs of the people. It has a strong social objective and social conscience.

A sound credit is one where timely repayment is assured. This largely depends on the earning power of the business unit and the repaying capacity of the borrower so great emphasis is laid on the productivity of the loan.

**CONCLUSION & SUGGESTION:**

Lending money to different kinds of borrower is one of the most important functions of a bank. Lending risky business therefore, banks have to follow a cautious policy and sound lending principles in the matter of lending. A sound credit is one where timely repayment is assured. This

largely depends on the earning power of the business and repaying capacity of the borrower. So great emphasis is laid on the productivity of the loan.

**REFERENCES:**

1. Dr. P.K. Srivastav (2000) Banking Theory and Practice, Himalaya Publishing House Mumbai
2. Gordon and Natrajan (2002) Banking Theory, Law and practice Himalaya Publishing House Mumbai
3. S. K. Mishra & V.K. Puri (1997) Indian Economy, Himalaya Publishing House Mumbai
4. P.N. Varshney (2009) Banking Law and Practice, Sultan Chand & Son's New Delhi