SNS COLLEGE OF TECHNOLOGY, CBE .

19BAE709 FINANCIAL MARKETS AND SERVICES

Presented by

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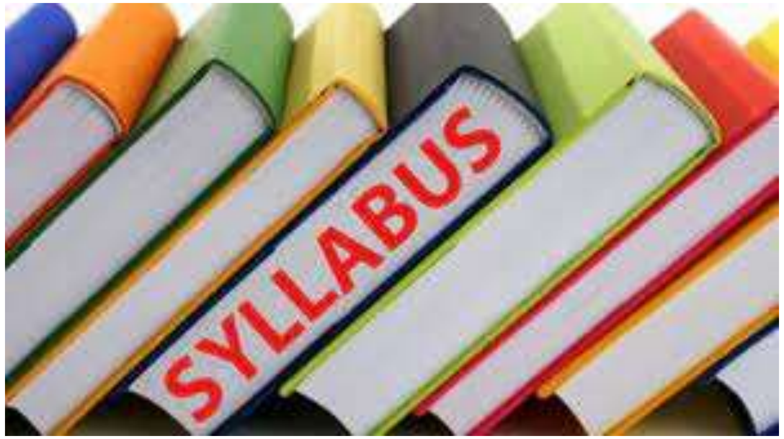
1[st] Indian *Institution* to Implement Design Thinking Curriculum

Redesigning Common Mind and Business Towards Excellence

UNIT-I

COMMERCIAL BANKING SERVICES

Loans - Personal Loans, Commercial Loans and Mortgage Loans; Bank Cards - Credit Cards, Debit Cards, ATMs, EFT, Overdraft and Notary.



Topic for Today

Meaning of Organisation & Needs for Existence

tions of Financial System

Comprising of network of commercial banks, NBFC’s, development banks.

- Provision of liquidity eg: useful for production of goods & services
- Mobilisation of Savings eg: Investment and consumption
- Size transformation function
- Maturity transformation function
- Risk transformation function

ification of financial Assets

- Marketable Assets

  Easily transferred without hindrance

  eg: shares of listed companies, govt securities, bonds of public sector

- Non - Marketable Assets

  Cannot be transferred easily

  eg: Bank deposits, provident funds, Insurance policies

FINANCIAL SYSTEM & ECONOMIC DEVELOPMENT

- Mobilisation of savings
- Promoting investments
- Encouraging investment in financial assets
- Encouraging Entrepreneurial talents
- Providing financial services
- Developing backward areas

- The RBI controls the monetary and other banking policies of the Indian government. The Reserve Bank of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934.
- RBI Situated in mumbai since 1937
- The Reserve Bank is fully owned and operated by the Government of India.

r Functions of RBI

- Monetary Authority
- Formulating and implementing the national monetary policy.
- Maintaining price stability
- Regulatory and Supervisory
- Foreign Exchange Management
- Protect investors interest and provide economic

Classification of financial Markets

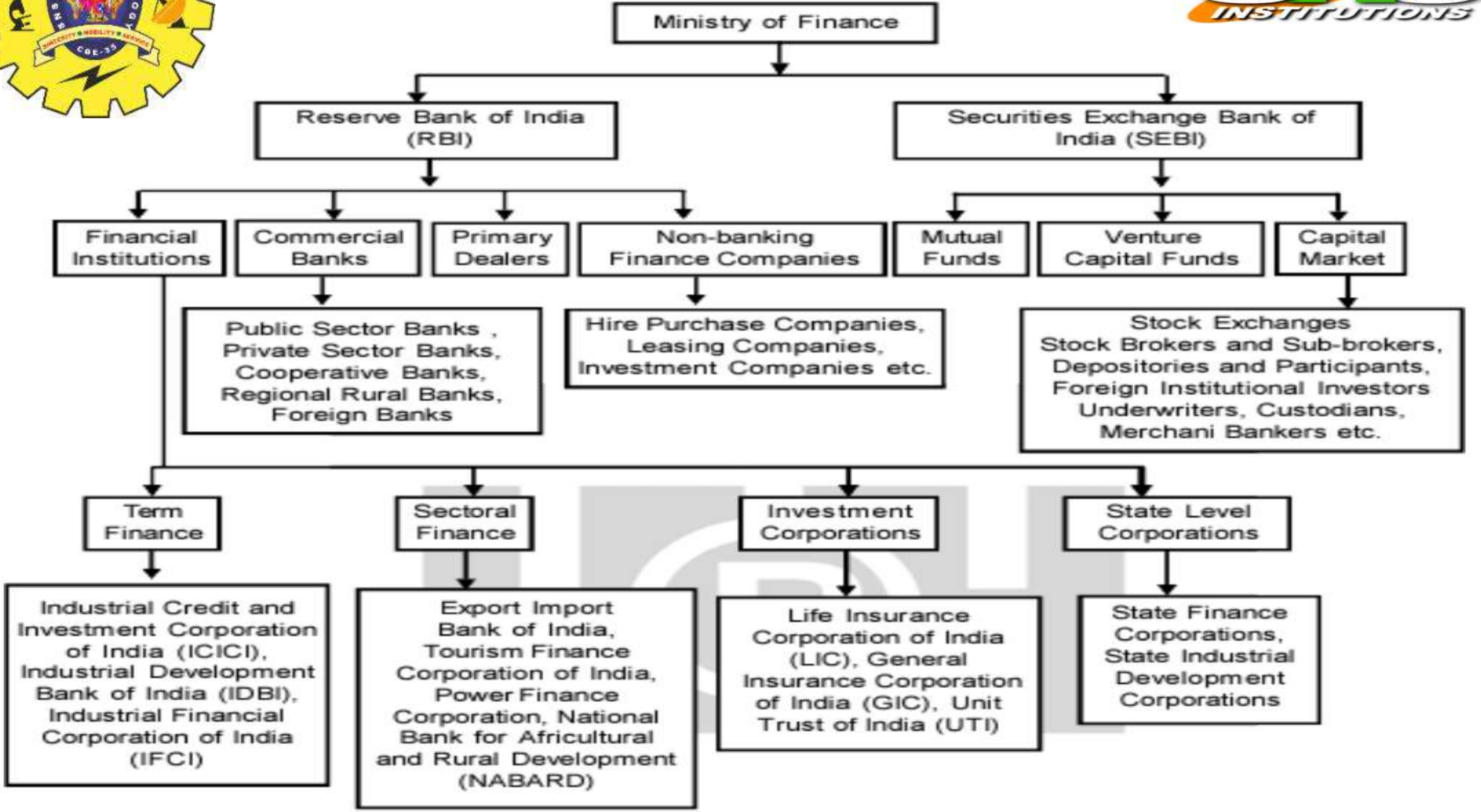
- Unorganised Markets

  Number of money lenders, who lend money to the public

  eg: NBFC'S
- Organised Sector

  Standardised rules and regulations governing their financial dealings

  eg: Public Sector banks


Ministry of Finance
Reserve Bank of India (RBI)
Securities Exchange Bank of India (SEBI)
Financial Institutions
Commercial Banks
Primary Dealers
Non-banking Finance Companies
Mutual Funds
Venture Capital Funds
Capital Market
Public Sector Banks , Private Sector Banks, Cooperative Banks, Regional Rural Banks, Foreign Banks
Hire Purchase Companies, Leasing Companies, Investment Companies etc.
Stock Exchanges Stock Brokers and Sub-brokers, Depositories and Participants, Foreign Institutional Investors Underwriters, Custodians, Merchani Bankers etc.
Term Finance
Sectoral Finance
Investment Corporations
State Level Corporations
Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI)
Export Import Bank of India, Tourism Finance Corporation of India, Power Finance Corporation, National Bank for Africultural and Rural Development (NABARD)
Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), Unit Trust of India (UTI)
State Finance Corporations, State Industrial Development Corporations

Markets

Services

Financial

Financial Markets – Meaning

Financial markets, from the name itself, are a type of market place that provides an avenue for the sale and purchase of assets such as bonds, stocks, foreign exchange, and derivatives.

Financial Services – Meaning

- Financial services is a broad range of more specific activities such as banking, investing, and insurance.

Financial Markets – Definition

Financial Markets include any place or system that provides buyers and sellers the means to trade financial instruments, including bonds, equities, the various international currencies, and derivatives.

Bank rate and Repo Rate

- Bank rate is **the rate charged by the central bank for lending funds to commercial banks**.
  - Bank rates influence lending rates of commercial banks. Higher bank rate will translate to higher lending rates by the banks.
- Repo Rate: It is **the interest rate at which the central bank of a country lends money to commercial banks**.
  - The central bank in India i.e. the Reserve Bank of India (RBI) uses repo rate to regulate liquidity in the economy.

Loans – Meaning

A loan is a sum of money that one or more individuals or companies borrow from banks or other financial institutions so as to financially manage planned or unplanned events. In doing so, the borrower incurs a debt, which he has to pay back with interest and within a given period of time.

- Parties involved – recipient and lender
- Must agree on terms of loan
- Loans can be given to individuals, corporations and govt’s.

Classification of Loans

1. Secured and Unsecured loans
2. Open – ended and Close – ended loans
3. Conventional loans

Secured Loans

- A secured loan is one that is backed by some form of collateral.
- Most financial institutions require borrowers to present their title deeds or other documents that show ownership of an asset, until they repay the loans in full
- Most people apply for secured loans when they want to borrow large sums of money.
- Lenders hold the recipients' assets as a form of guarantee.
- Lower interest rates, strict borrowing limits, and long repayment periods.

eg: Mortgage loans

Unsecured Loans

- Borrower does not have to offer any asset as collateral.
- Lenders are very thorough when assessing the borrower's financial status.
- Estimate the recipient's capacity for repayment and decide whether to award the loan or not.
  - Eg: Credit card purchases

Open – Ended

- Individual has the freedom to borrow over and over
- Depending on an individual's financial wants, he may choose to use all or just a portion of his credit limit.
- A credit limit is the highest sum of money that one can borrow at any point.
- Every time this person pays for an item with his credit card, the remaining available credit decreases.

  - Eg: Credit cards and lines of credits.

Close – Ended

- Individuals are not allowed to borrow again until they have repaid them.
- As one makes repayments of the closed-end loan, the loan balance decreases.
- If the borrower wants more money, he needs to apply for another loan from scratch.
- The process entails presenting documents to prove that they are credit-worthy and waiting for approval.
  - Eg: Student Loan

Conventional – Loans

- The term is often used when applying for a mortgage.
- It refers to a loan that is not insured by government agencies such as FHA (Federal Housing Administration)
  - Criteria
    - Credit Score and Credit History
    - Income
    - Monthly Obligations

Steps For Applying For Loan

- Application
- CIBIL Score Check – Credit Information Report (**Credit Information Bureau (India) Limited**)
  - Range between 300 to 900 (denoting maximum)
  - 750 or > in your credit report
- Submitting the necessary documents eg: proof of identity, income proof, and other certificates
- Loan Approval – Verification

Types of Loan

- Personal loan
- Commercial loan
- Mortgage loan

Personal Loan

- Personal loans are provided to meet the personal needs of the borrower. You can use the money from this type of loan in any way you see fit.
- The interest rates for this type of loan are on the higher side compared to the other types of loans.
  - Eg:You can pay off your previous debts, buy some expensive accessories for yourself, and plan a great trip with your family.

Home Loan: Buying a house needs a lot of money and it is not always possible to have that much money at once.

- Loan for constructing a house
- Loan for repairing and remodeling your existing home
- Loan for purchasing a land

Education Loan:

- These loans offer a better support in terms of study opportunities to students are financially weak.
- Students looking to pursue higher education can avail education loan from any bank in India
- Once they secure a job, they need to repay the money from their payment.

Gold Loan:

- fastest and easiest one to get is the gold loan.
- This type of loan was very popular back in the days when the rates of gold were rising exponentially

Vehicle Loan:

- Vehicle loans help you fulfill your dream of owning a car or bike. Almost all banks provide this type of loan. It a secured loan means if the borrower doesn’t pay the installments in time, the bank has the right to take back the vehicle.

Agricultural Loan:

- Banks provide this types of loans to assist farmers and their needs
- low interest rates
- farmers to buy seeds, equipment for farming, tractors, insecticides etc. to generate a better yield.
  - The repayment of the loan can be made after the yielding and selling of crops.

Commercial Loans

Loan that is extended to businesses by a financial institution. Commercial loans are generally used to purchase long-term assets or to help fund day-to-day operational costs.

- It is unfeasible for small and mid-sized businesses to access equity and bond markets for financing due to regulatory hurdles, associated costs, and the time required to secure the funds
- Generally required for – acquiring assets, purchasing supplies, meeting daily operational costs, paying payroll, etc

General process

- Pre-approval (Qualifying process)
- Loan application
- Review of the loan application package
- Loan underwriter/Loan committee
- Term sheet
- Loan package and closing documents

Types of Commercial Loan

- Term Loan
- Bank Overdraft Facility
- Letter of Credit
- Bank Guarantee
- Lease Finance
- SME Collateral free loan
- Construction Equipment loans
- SME Credit Card
- Commercial Vehicle Loans

Mortgage Loans

A mortgage is a loan – provided by a mortgage lender or a bank – that enables an individual to purchase a home or property. While it's possible to take out loans to cover the entire cost of a home, it's more common to secure a loan for about 80% of the home's value.

- The loan must be paid back over time.
- Acts as collateral on the money an individual is lent to purchase the home.

Types of Mortgage Loans

Fixed-Rate Mortgages

- Fixed-rate mortgages provide borrowers with an established interest rate over a set term of typically 15, 20, or 30 years.
- With a fixed interest rate, the shorter the term over which the borrower pays, the higher the monthly payment and vice versa

Adjustable-Rate Mortgages or Variable

- Adjustable-rate mortgages (ARMs) come with interest rates that can – and usually, do – change over the life of the loan.

Bank Cards

- Credit cards give you access to a line of credit issued by a bank, while debit cards deduct money directly from your bank account
  - A credit card is a card issued by a financial institution, typically a bank, and it enables the cardholder to borrow funds from that institution.
  - Cardholders agree to pay the money back with interest, according to the institution's terms.
    - Standard cards
    - Premium cards
    - Balance transfer cards

Continued….

- A debit card is a payment card that makes payments by deducting money directly from a consumer's checking account, rather than on loan from a bank.
    - Standard debit cards
    - Electronic benefits transfer (EBT) cards

ATM – Automated Teller Machine

- It is an electronic device that is used by only bank customers to process account transactions.
- The users access their accounts through a special type of plastic card that is encoded with user information on a magnetic strip.
- The strip contains an identification code that is transmitted to the bank's central computer by modem.

EFT – Electronic Fund Transfer

- Involves the movement of money from one bank account to another digitally.
- Transfers take place independently without any involvement of bank employees.
- Digital transaction does not require heaps of documentation.
- EFT has now become a predominant method of transfer of funds.

How does EFT Work?

- EFT payment process starts when the sender initiates a transfer
- Payment request channels through a series of digital networks originating from a payment terminal over the internet.

Types

- National Electronic Funds Transfer or NEFT
- RTGS or Real Time Gross Settlement
- IMPS or Immediate Payment Service (IMPS)
- UPI Money Transfer is also enabled by EFT.

Overdraft

- Overdraft is a financial instrument in which the money can be withdrawn from the current or savings account, even if the account balance goes below zero.
- It is a type of extension of monetary limit offered by banks and that money is said to be ‘overdrawn’.
- Overdraft limit is assigned for each customer depending on their relationship with the bank.
- Banks do charge interest rates on the money withdrawn in form of overdraft.
- As per the RBI regulations, current accounts and cash credit accounts are eligible for a maximum of Rs. 50,000 overdraft per week

Pros and Cons

Helps in managing the cash flow of business	**Higher interest rate**
Fulfills urgent cash crunch requirements	Offered only to bank account holders
Interest is paid only on the utilized amount	The sanctioned limit depends upon the applicant's financials
Can be withdrawn at short notice	Short-term borrowing – revises every year
No collateral required by banks	Not suitable for long-term finance

Notary

- A notary, also called a notary public, is a person authorized to witness the signing of legal documents, usually concerned with deeds, estates, licenses, power of attorney, affidavits, and trusts.
- Legal documents are notarized to ensure that transactions are properly executed and to deter fraud.
- Notaries are appointed by a government authority, such as a court or state governments, or by a regulatory body, such as a faculty of notaries public.

Credit rating

- A credit rating is **a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a financial obligation.**
- Credit ratings determine whether a borrower is approved for credit as well as the interest rate at which it will be repaid.
  - **Credit Rating Information Services of India Limited (CRISIL)**
  - **Investment Information and Credit Rating Agency of India Limited (ICRA)**
  - **Credit Analysis and Research limited (CARE)**

References

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