



SNS College of Technology

Coimbatore - 35



19BAE711 – Working Capital Management

Unit V - Working Capital Financing

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Design Thinker





Guest the topic

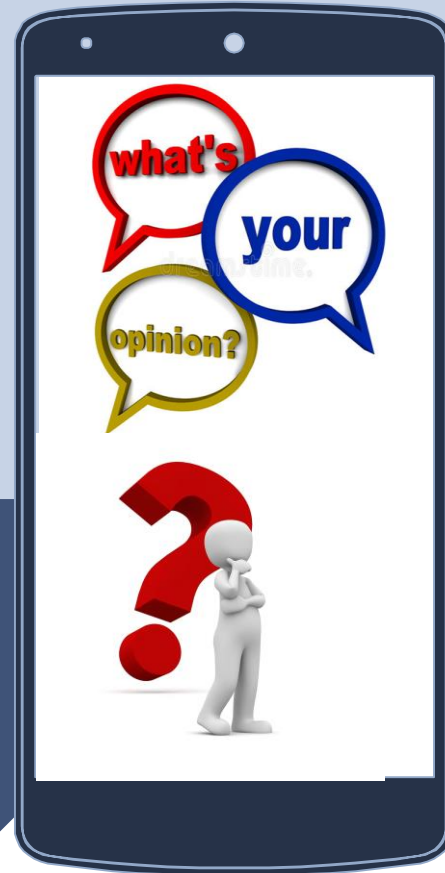




Recall

- Commercial paper
- Types
- Terms used
- Pros and Cons





What is Credit?

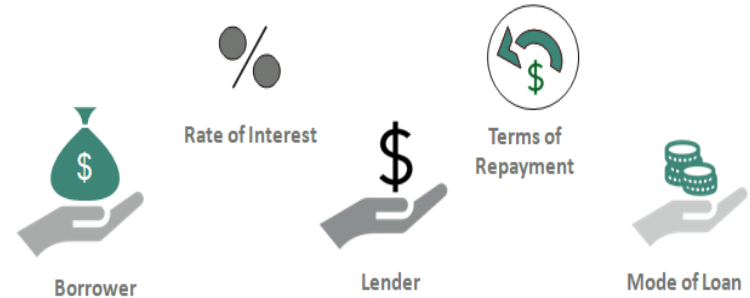


Bank Credit



- Bank credit is the amount of credit available to a business or individual from a banking institution in the form of loans.
- Bank credit, therefore, is the total amount of money a person or business can borrow from a bank or other financial institution.

Bank Credit





Types of Bank Credit

- Classification Based on Borrower: Loan for Personal Purpose & Loan for Business or Profession Purposes
- Classification Based on Security: Secured Loan & Unsecured Loan
- Classification Based on Duration: Short Term Loans & Long Term Loans





Purposes



- Educational Loans
- Housing Loans
- Vehicle Loans
- Vendor Financing
- Letter of Credit Facility





Advantages

- The loan is not repayable on demand. Terms of repayment and interest rate are pre-decided; hence, cashflows can be managed better.
- It helps businesses and individuals when there is a need for funds.
- Interest payments can be negotiated and paid only for a certain period, and during the balance, the borrower will pay only the principal.
- The cost of debt is lower than the cost of equity ; hence the appropriate proportion of debt in the portfolio enhances returns to equity shareholders by leveraging the cost of debt





Disadvantages

- A borrower may have to surrender ownership of an asset if installments are not paid in time.
- Bank charges one-time processing fees that need to be paid upfront.
- There is a prepayment penalty if the borrower pays the loan in advance.
- Companies should maintain the right debt-equity ratio. If there is a significant reliance on loans by the Companies, it will be difficult to pay interest in the event of a crisis.





Summary

- Bank Credit
- Types
- Purpose
- Advantages
- Disadvantages

SUMMARY





Assessment

Credit card loan is part of short term loan

Ans: Yes





Reference

- <https://www.investopedia.com/terms/b/bank-credit.asp#:~:text=Bank%20credit%2C%20therefore%2C%20is%20the,lend%20by%20the%20banking%20institution>
- <https://www.wallstreetmojo.com/bank-credit/>



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*Thank
you*