

Principles of Banking (E.M) - ICOM Part 2 Principles of Banking Chapter 7 Short Questions Preparation

Q1. What is the principles of advancing loan.

Ans 1: 1- Principle of security 2- Principle of safety

Ans 2: 3- Principle of liquidity 4- Principle of diversity

Ans 3: 5- Principle of income 6- Principle of repayment

Q2. What precautions should be kept in mind by the bank while advancing loans.

Ans 1: 1- Reasonable sale price 2- Safety of loan 3- Diversification of loan.

Ans 2: 4- Increase in value 5- Durability 6- Liquidity

Q3. What are the qualities of a good security.

Ans 1: Un disputed, increase in price, Sources of income, Durability

Ans 2: Low storage cost, Easy saleable, liquidity.

Q4. What is the unsecured loans.

Ans 1: The loans which are not granted against certain valuables as security are called unsecured loans.

Q5. What are the important terms of loans.

Ans 1: Lien: According to section 171 of contract act 1872, lien means the legal or equitable right of lender on the borrower's property, which has been kept as security against a certain loan.

Ans 2: Pledge: According to section 172 of contract act 1872, pledge is actual delivery or right as well as the possession of the good to the bank against certain loan. The ownership of the property remains with the pledger. In case of non payment the banker serves a notice.

Ans 3: Hypothecation: In case of hypothecation goods are made available as security for the bank debts without transferring them to the lender. It means the possession and ownership of goods remain with the borrower.

Ans 4: Mortgage: Mortgage is written agreement between borrower and the lender for obtaining loan against immovable

property.

Q6. What is meant by employment of bank funds?

Ans 1: 1- By advancing loans 2- By direct investment

Ans 2: 3- By purchase of shares and debentures.

Q7. Define Security

Ans 1: when a bank or any financial institution advances loan to a party, it takes some valuable as security against debt.

Q8. Define specific guarantee.

Ans 1: This kind of guarantee is provided for the repayment of a particular loan only.

Q9. What are secured loans.

Ans 1: The loans which are granted against certain valuables as security are called secured loans.

Q10. Define continuous guarantee.

Ans 1: In such type of guarantee the guarantor promises to repay all the loans taken by the borrower from time to time.
