

TYPES OF BORROWERS & TYPES OF CREDIT FACILITIES

Core Functions of a Bank

A bank performs two **primary functions**:

Function	Explanation
1. Accepting Deposits	Banks accept public deposits in various types of accounts (Savings, Current, Fixed Deposit, etc.).
2. Lending & Investing	Banks lend money to individuals and businesses for profit or invest in securities.

All transactions related to deposits and loans are recorded in accounts maintained in the bank's books.

Who Can Open a Bank Account?

Banks allow various types of customers to open accounts:

Customer Type	Examples
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Individuals ?	Single Account Holders
Joint Account Holders ?	Husband & Wife, Partners
Hindu Undivided Family (HUF) ?	Family Business Accounts
Trusts & Executors ?	Charity & Estate Executors
Agents & Attorneys ?	Power of Attorney Holders
Partnership Firms ?	Small & Medium Businesses
Limited Companies ?	Corporates & Startups
Clubs & Societies ?	NGOs, Educational Institutions

? **Before opening an account, the bank ensures the customer has the legal capacity** to enter into a contract.

? **Example:**

- A **minor cannot open a loan account** but may have a **deposit account** with conditions.
- A **business firm must provide legal documents** to prove its existence.

Legal Aspects of Banking Contracts

A banking contract must have two essential elements:

Essential Element	Explanation
1 Capacity to Contract	The customer must have the legal ability to enter into a contract.
2 Enforcement of Contract	The contract should be legally enforceable in case of disputes.

Legal Basis: Section 11 of the Indian Contract Act, 1872

A person is competent to contract if:

- They have attained the age of majority.
- They are of sound mind.
- They are not disqualified by law.

Example:

- A **mentally unsound person** cannot take a bank loan because they lack **contractual capacity**.
- A **minor** cannot take a loan, but they can have a **deposit account** with a **guardian's permission**.

🔗 Lending Considerations & Borrower Types 🔗

Before lending, banks **evaluate the borrower's legal status** and **loan risks**.

<input type="checkbox"/> Borrower Type	<input type="checkbox"/> Key Considerations Before Lending
Individuals 🔗	Verify income, job stability, CIBIL score .
HUF (Hindu Undivided Family) 🔗	Loan should be for business purpose only .
Partnership Firms 🔗	Verify partnership deed & authority of partners .
Trusts & Executors 🔗	Ensure trust deed allows borrowing .
Limited Companies 🔗	Check Memorandum of Association (MoA) for borrowing power .

Clubs & Societies ?

Loan must be for the organization's purpose only.

? Security & Legal Considerations in Lending ?

Before granting a loan, the bank must verify:

<input type="checkbox"/> Factor	<input type="checkbox"/> Why It's Important?
Authority of Borrower ?	Can they legally take a loan?
Nature of Security ?	Is the collateral valid & legally enforceable?
Industry Regulations ?	Does the business require special licenses?

? Example:

- A fireworks manufacturer needs a loan? The bank ensures **they** have proper licenses.
- A real estate company applies for a loan? The bank checks **land** ownership documents.

📌 Importance of Contract Enforcement 📌

If a borrower **fails to meet obligations**, the bank can take legal action to recover money.

📌 What happens if a loan is not repaid?

- The **bank issues a notice** to the borrower.
- If unpaid, the bank **can seize the collateral** (if secured).
- The **borrower's assets can be auctioned**.
- In extreme cases, the bank may **file a legal suit**.

📌 3.2 INDIVIDUAL - ELIGIBILITY & LENDING CONSIDERATIONS 📌

📌 Who Can Borrow from a Bank?

📌 Banks can lend to all eligible individuals who are:

- **Majors (18+ years old)**
- **Of sound mind**
- **Legally competent to contract**

📌 Banks should NOT lend to:

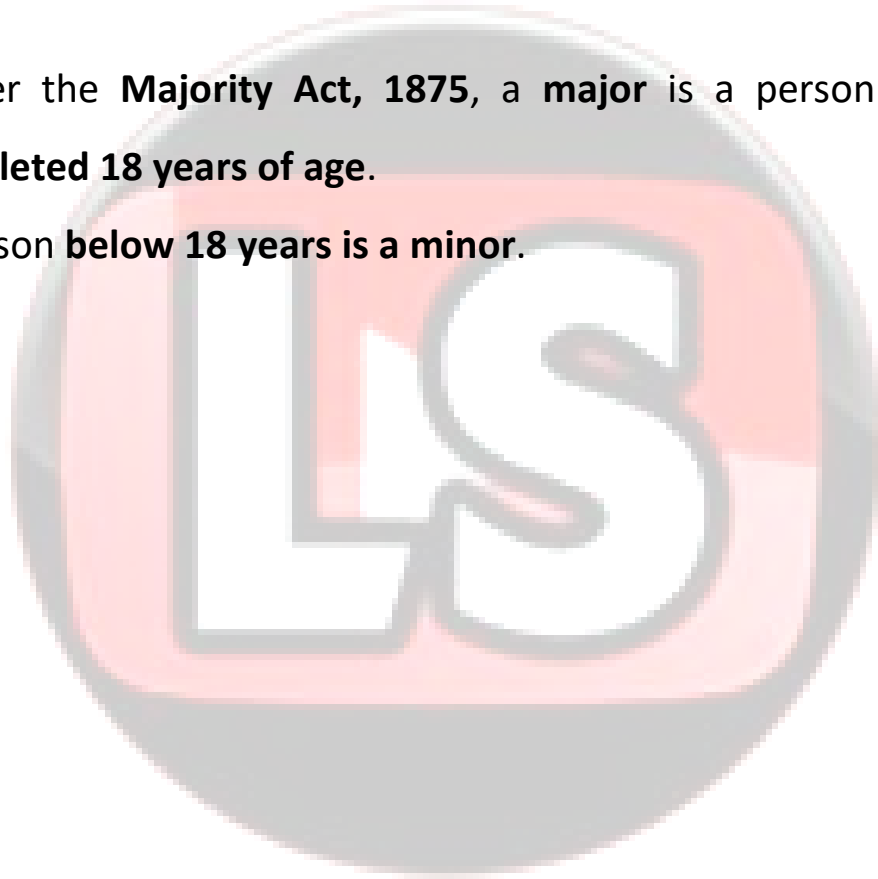
- **Minors** (except in specific legal cases)
- **Persons of unsound mind**

- Undischarged insolvents

❓ (A) MAJOR (Adults Above 18 Years) ❓❓

❓ Definition of Major

- As per the **Majority Act, 1875**, a **major** is a person who **has completed 18 years of age**.
- A person **below 18 years** is a **minor**.



Key Considerations for Lending to a Major

Factor	Bank's Responsibility
1. Sound Mind ✓	Ensure the borrower is not mentally unstable .
2. No Insolvency ✗	Avoid lending to undischarged insolvents .
3. No Intoxication ?	A person under alcohol influence cannot enter a contract.
4. Individual Liability ?	A borrower must sign in their personal capacity .
5. Security Verification ?	Check the validity of collateral assets before lending .

(B) MINOR (Below 18 Years) ?

Who is a Minor?

- A **person below 18 years** is considered a **minor**.
- A **minor CANNOT enter into a contract**, as per **Indian Contract Act, 1872**.

- A contract with a **minor is VOID ab initio** (invalid from the beginning).

❓ Can a Minor Take a Loan? ✕

❓ **NO**, a minor cannot take a loan directly.

❓ **YES**, a minor can receive a loan through a guardian (with legal approval).

❓ Exceptions: When Can a Bank Lend to a Minor?

❓ Circumstance	❓ Legal Condition
1❓ For Necessities ✓	Loan allowed for education, food, clothing, shelter, or medical treatment (Sec. 68 of the Indian Contract Act).
2❓ Guardian Borrowing ❓❓❓	A legally appointed guardian can borrow on behalf of the minor.
3❓ Court-Appointed Guardian ❓	Loans can be taken by a guardian appointed under the Guardians and Wards Act, 1890.

📌 Example:

- A father takes an education loan for his child – LEGALLY VALID ✓
- A minor applies for a personal loan – LOAN REJECTED ✗

📌 Who Can Borrow for a Minor?

☐ Religion	☐ Who Can Act as a Guardian?
Hindus 📌	Father; in absence, Mother (Hindu Minority and Guardianship Act, 1956)
Muslims 📌	Only Father (Mohammedan Law)
Christians Parsees 📌	& Court-Appointed Guardian

📖 (C) PURDAHNASHIN WOMEN (Women in Seclusion) 📌📌

- 📌 A **Purdahnashin woman** (who observes seclusion) **can take a loan**.
- 📌 However, she may **claim undue influence** later, making the contract **legally weak**.

? Bank's Precautions While Lending to a Purdahnashin Woman

? Bank should witness transactions in the presence of a **trusted third-party** (preferably a lady).

? **All transactions should be recorded** to prevent future legal disputes.

? **Collateral security should be insisted upon.**

? (D) ILLITERATE PERSON (Cannot Read or Write) ?

? **Illiterate persons can enter contracts** but sign with a **thumb impression.**

? Bank's Precautions While Lending to an Illiterate Person

? **Read out and explain documents** before obtaining their thumb impression.

? **An independent witness should verify** that the contract was explained properly.

? **A statement confirming the explanation should be attached.**

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❓ **(E) MINOR'S INVOLVEMENT IN NEGOTIABLE INSTRUMENTS (Sec. 26 of the Negotiable Instruments Act, 1881)** ❓

❓ **A minor can sign a cheque or promissory note, but it won't bind them legally.**

❓ **Other parties to the instrument remain liable.**

❓ **A minor cannot be a full partner in a firm, but can enjoy partnership benefits.**

❓ **3.3 AGENT - ROLE, RIGHTS, DUTIES, & LEGAL CONSIDERATIONS** ❓

❓ **Who is an Agent?** ❓

❓ **An agent is a person employed by another (Principal) to act on their behalf.**

❓ **The relationship between the agent and principal is governed by Chapter X of the Indian Contract Act, 1872.**

❓ **Section 182 of the Indian Contract Act defines Agent and Principal.**

Types of Agent's Authority in Banking

Authority Type	Definition	Example
Express Authority	Specifically given in writing or orally by the principal.	Bank appoints an agent to manage investments.
Implied Authority	Not expressly given, but inferred from conduct or trade customs.	A shop manager deposits money in the bank for the owner.
Emergency Authority	The agent can act beyond instructions in emergencies to protect the principal's property.	A shipping agent sells perishable goods to prevent loss due to delay.

Rights of an Agent

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☐ An agent has several rights under an agency contract:

☐ Right	☐ Explanation
1☐ Right to Remuneration ☐	The agent is entitled to payment unless they commit misconduct.
2☐ Right to Retention ☐	The agent can retain money received for the principal to cover expenses.
3☐ Right to Lien ☐	If unpaid, the agent can hold the principal's property until payment is made.
4☐ Right to Indemnity ☐	The principal must compensate the agent for lawful actions.
5☐ Right to Compensation ☐	If the principal's incompetence causes loss , the agent must be compensated.

☐ Duties of an Agent ☐

☐ An agent must fulfill these obligations:

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<input type="checkbox"/> Duty	<input type="checkbox"/> Explanation
1? Carry Out Business ?	Follow the principal's instructions.
2? Exercise Diligence ?	Perform tasks carefully and skillfully.
3? Maintain Communication ?	Keep the principal informed.
4? Provide Accounts ?	Maintain proper financial records .
5? Avoid Conflict of Interest ?	Do not act against the principal's interests.
6? No Secret Profits ?	Cannot make extra money secretly.
7? Remit Collected Funds ?	Must transfer collected money to the principal.
8? No Delegation ✕	Cannot assign duties to another person without permission.

? Example:

- A real estate agent receives ₹5 lakh advance for an apartment sale.
- They must **transfer this amount to the property owner**.