TYPES OF BORROWERS & TYPES OF CREDIT FACILITIES

Bank's Precautions When Lending to Limited Companies

1 Examination of Documents

Document	Purpose
Certificate of Incorporation	Confirms company's legal existence.
Memorandum of Association (MOA)	Defines **company's objectives & borrowing powers**.
Articles of Association (AOA)	Defines **internal management & director authority**.
Board Resolution for Borrowing	Ensures **loan is properly authorized by directors**.

Example:

- **A bank refuses a loan to XYZ Ltd.** because **its MOA does not permit financial lending business.**

2 Borrowing Powers & Ultra Vires Borrowing

A company can borrow only if permitted in its MOA.
Ultra vires borrowing (beyond powers) is legally unenforceable.

Ultra Vires Borrowing by Company ✖

- **Loan cannot be enforced** against the company.

Ultra Vires Borrowing by Directors ✖

- **Directors may be held personally liable** if borrowing exceeds their authority.

Example:

- **ABC Ltd. borrows ₹5 crore for an unapproved business activity.**
- The **bank may not be able to recover funds** if the loan is ultra vires the company's MOA.

3 ROC Registration of Loan Charges

Banks must register their security interest (charge) with the Registrar of Companies (ROC).

Example:

- A **bank lends ₹50 crore to a manufacturing company** secured by machinery.
- If **the charge is not registered with ROC**, **another creditor could claim priority over the machinery.**

? 4? Certified Copy of Board Resolution ?

A **bank should insist on a Board Resolution authorizing the loan**, containing:

? **Loan details & security offered.**
? **Authorized signatories for documentation.**
? **Quorum requirements for board meetings.**

? **Example:**

- **A company's director signs a ₹10 crore loan agreement without Board approval.**
- The **loan may be challenged in court as unauthorized.**

Summary Table

Company Types & Banking Considerations

Company Type	Key Feature	Banking Risk	Loan Considerations
OPC	Single shareholder	Limited risk	Easier lending than sole proprietorship
Small Company	Turnover < ₹20 Cr.	Low risk	Compliance benefits
Holding Company	Controls another company	Depends on subsidiary's financial health	Cross-company guarantees common
Dormant Company	No major transactions	Higher risk	Loans usually not granted
Section 8 Company	Non-Profit Entity	Restricted use of funds	Loan must align with objectives

Conclusion

✔ Banks must carefully analyze company documents & borrowing powers.

� **Ultra vires borrowing (beyond MOA powers) is unenforceable.**
� **Registering loan security with ROC ensures legal protection.**
� **Small companies & OPCs provide structured alternatives to proprietorships.**

� **Real-World Application:**

- **Banks prefer lending to OPCs over sole proprietorships** due to **structured governance & limited liability.**

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� 3.10 REGISTRATION OF CHARGES UNDER THE COMPANIES ACT �

� What is a Charge?

� A **charge is a security interest created over a company's assets** in favor of a lender to secure a loan.
� **Banks & financial institutions require companies to register charges on assets** to ensure priority in loan recovery.

Key Point:

- **If a charge is not registered, the lender becomes an unsecured creditor in liquidation.**
- **Registered charges give banks legal protection for secured lending.**

Example:

- **XYZ Ltd. takes a ₹10 crore loan secured by machinery**.
- If **XYZ Ltd. defaults**, the **bank can claim machinery for repayment—only if the charge is registered**.

Section 77(1) of the Companies Act, 2013

All charges must be registered with the Registrar of Companies (ROC) within 30 days of creation.

If registration is not done within 30 days:

- **Additional 30 days grace period (total 60 days) → Company must apply in Form CHG-10** with late fees.
- **Beyond 60 days:** Company must **seek extension from the Central Government under Section 87**.

? If the charge is not registered within 60 days:

- **Other creditors or liquidators may claim priority over the charged asset.**
- **The lender will be treated as an unsecured creditor.**

? Example:

- **ABC Ltd. creates a charge on land but forgets to register it**.
- If **ABC Ltd. goes bankrupt**, **the bank has no priority claim on the land**.

? How to Register a Charge?

? Forms for Charge Registration ?

☐ Form No.	☐ Purpose
CHG-1 ?	**Register or modify a charge**
CHG-4 ?	**Satisfaction of a registered charge**
CHG-5 ✓	**Notice of satisfaction of charge**
CHG-10 ?	**Application for charge registration extension**

� **Example:**

- A **bank registers a charge on a company's warehouse** using **Form CHG-1**.
- **Once the loan is repaid**, the charge is removed using **Form CHG-4**.

� Section 78: Charge Holder's Right to Register a Charge

� If **a company fails to register a charge**, the **lender can apply directly to ROC**.
� The **ROC will notify the company** and allow **14 days for objections**.
� If **no objections are received, the charge is registered** in favor of the lender.

� **Example:**

- **XYZ Bank loans ₹5 crore to ABC Ltd. but ABC Ltd. does not register the charge.**
- **XYZ Bank can apply to the ROC under Section 78 to register the charge itself.**

� Section 87: Extension for Charge Registration �

� **If charge registration exceeds 60 days, the company must apply to the Central Government.**

� The **government may allow registration if the delay was accidental or unavoidable.**

� **Pre-existing creditor claims on the asset will take priority over late-registered charges.**

� **Example:**

- **ABC Ltd. delays charge registration beyond 60 days.**
- **The ROC may allow late registration but prioritize other secured creditors who registered earlier.**

� **Effect of Non-Registration of a Charge** �

� **Failure to register a charge has serious consequences:**

� **Consequence**	� **Impact on Bank/Lender**
1� Charge Becomes Void �	The **lender loses security rights on the asset.**
2� Becomes Unsecured Creditor ❌	The **bank ranks pari passu with unsecured creditors** in liquidation.
3� Loss of Recovery Priority �	Other **secured creditors take priority over non-registered charges.**
4� Legal Disputes & Delays �	The lender **may have to go to court for debt recovery.**

Example:

- **ABC Ltd. takes a ₹5 crore loan from two banks.**
- **Bank A registers its charge, but Bank B forgets to register.**
- If **ABC Ltd. goes bankrupt, Bank A gets priority over assets, and Bank B may lose recovery rights**.

Precautions Banks Must Take Before Lending

Precaution	**Why It's Important?**
1️⃣ Verify Borrowing Limits	Ensure the company **borrows within the limits set in its MOA & AOA**.
2️⃣ Obtain Board Resolution ✅	**Check board approval under Section 180(1)(c) of Companies Act, 2013**.
3️⃣ Ensure Charge Registration	The **bank must register the charge within 30 days**.
4️⃣ Monitor Registration Process	If the company does not register, **the bank should apply directly under Section 78**.
5️⃣ Check for Prior Charges	Ensure **no existing charges take priority over new loans**.

Example:

- Before **granting a ₹20 crore loan to XYZ Ltd., the bank checks**:
  - **If XYZ Ltd. has exceeded its borrowing limits**.
  - **If the charge is properly registered**.

▯ Summary Table ▯

▯ Factor	▯ Requirement/Consequence
Charge Creation ▯	Must be registered with **ROC within 30 days**.
Late Registration ▯	Allowed **within 60 days with additional fees (Form CHG-10)**.
Beyond 60 Days ▯	Requires **Central Government approval (Section 87)**.
Charge Holder's Right ▯	**Lenders can register the charge under Section 78** if the company fails to do so.
Non-Registration Consequences ❌	**Bank loses secured creditor status; charge becomes void.**

Charge Registration & Banking Implications

▯ Conclusion ▯

▯ **Banks must ensure all charges are registered within 30 days to secure their lending rights.**

▯ **Failure to register makes the bank an unsecured creditor in case of**

liquidation.

� Banks can register charges directly with ROC if the company fails to do so (Section 78).

� Borrowing beyond the company's MOA limits is legally unenforceable.

� Real-World Application:

- **Banks monitor corporate loan accounts to ensure all charges are registered** and updated to avoid risk exposure.

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� 3.11 LIMITED LIABILITY PARTNERSHIP (LLP) & BANKING CONSIDERATIONS �

� What is a Limited Liability Partnership (LLP)?

� LLP is a corporate business entity that combines features of both a partnership & a company.

� Introduced under the LLP Act, 2008, it provides **limited liability to**

partners while allowing flexibility in operations.
� **Unlike traditional partnerships, LLP is a separate legal entity**, meaning it can **sue and be sued in its own name**.

� **Key Point:**

- **LLPs protect partners from personal liability beyond their agreed contributions.**
- **They are preferred for professional firms, startups, & small businesses.**

� **Example:**

- **XYZ LLP takes a loan of ₹5 crore.**
- If the **firm fails to repay, only LLP assets can be used for recovery, not partners' personal assets**.

� Key Features of LLP �

� Feature	� LLP Structure
1� Legal Status	**Separate Legal Entity**
2� Minimum Partners	**At least 2 partners**
3� Maximum Partners	**No limit (but Rule 10 of Companies Act restricts LLPs to 50 members)**

Feature	LLP Structure
4️⃣ Liability	**Limited to agreed contribution**
5️⃣ Registration	**Mandatory under the LLP Act, 2008**
6️⃣ Taxation	**Treated like a partnership for tax purposes**
7️⃣ Governing Body	**Registrar of Companies (ROC) under the Central Government**
8️⃣ Perpetual Succession	**Exists until formally dissolved**

Example:

- **ABC LLP continues to exist even if one of its partners resigns or passes away.**

LLP vs. Partnership Firm vs. Private Limited Company

Factor	LLP (Limited Liability Partnership)	Partnership Firm	Private Limited Company
Governing Law	LLP Act, 2008	Indian Partnership Act, 1932	Companies Act, 2013
Legal Identity	Separate from partners	Not separate	Separate from shareholders

Factor	LLP (Limited Liability Partnership)	Partnership Firm	Private Limited Company
Minimum Members	2	2	2
Maximum Members	No limit (practically 50)	50	200
Liability	Limited to agreed contribution	Unlimited	Limited to shareholding
Perpetual Existence	Yes	No	Yes
Common Seal	Optional	No	Optional
Can Sue & Be Sued?	Yes	Only if registered	Yes
Registration Requirement	**Compulsory**	**Optional**	**Compulsory**

Example:

- **If a partner in a traditional partnership commits fraud, all partners are liable. In LLP, only the responsible partner faces liability.**

? Precautions While Granting Credit to LLPs ?

? **LLPs provide limited liability, which can be a risk for banks.**
? **Banks must ensure loan security measures** to protect their financial interests.

? Key Banking Precautions

Precaution	**Why It's Important?**
1? Verify LLP Agreement ?	This defines **partner liabilities & financial obligations**.
2? Obtain Borrowing Resolution ✅	The LLP must **pass a resolution for loan approval**.
3? Check for Common Seal ?	If applicable, documents **should bear LLP's common seal or authorized partner's signature**.
4? Personal Guarantee of Partners ?	Banks **may require key partners to give personal guarantees** for added security.
5? Mortgage of Personal Assets ?	Since LLP partners **are not personally liable**, banks **may request personal assets as collateral**.
6? Monitor Encumbrances on LLP Assets ?	Unlike companies, **LLPs do not register charges with ROC**, making verification harder.
7? Examine Financials & ROC Filings ?	**Check LLP's annual returns, profit statements & asset records** before approving credit.

? Example:

- **A bank lends ₹10 crore to XYZ LLP.**
- To **secure its loan, it requires personal guarantees from majority-holding partners.**

? Challenges for Banks in Lending to LLPs ?

? Unlike companies, LLPs do not register charges with ROC, making it harder to track encumbrances on assets.

? Potential Banking Challenges & Solutions

Challenge	Risk for Bank	Solution
1? LLP Assets May Already Be Encumbered ?	Banks cannot check encumbrances in ROC records.	**Obtain legal search reports on LLP's assets.**
2? Partners' Personal Liability is Limited ?	Banks **cannot hold partners personally liable beyond their contribution**.	**Take personal guarantees from key partners.**
3? Difficulty in Recovering Loans ?	LLPs **can dissolve & exit easily**.	**Secure loans with mortgages or fixed asset pledges.**

□ Challenge	□ Risk for Bank	□ Solution
4□ No Automatic Charge Registration □	Unlike companies, LLPs **do not have a charge registration mechanism.**	**Create a legal charge document & register in CERSAI (Central Registry of Securitization Asset Reconstruction and Security Interest).**

□ Example:

- **XYZ LLP takes multiple loans from different banks.**
- Since **there's no central charge registration, each bank may not know about the others' claims.**

□ Summary Table □

LLP & Banking Considerations

□ Factor	□ Key Feature	□ Banking Consideration
Legal Identity □	**Separate from partners**	**Can sue & be sued in its own name**
Minimum Partners □	**2**	**No partner is personally liable beyond contribution**

Factor	Key Feature	Banking Consideration
Maximum Partners	No limit (practically 50 as per Rule 10 of Companies Act)	Binding every partner personally is difficult
Liability	Limited to contribution	Banks prefer personal guarantees from key partners
Charge Registration	Not required under ROC	Banks must independently verify LLP asset encumbrances
Borrowing Resolution	Mandatory	Must be obtained before sanctioning a loan

Conclusion

LLPs offer a structured business format with limited liability, making them a preferred choice for businesses.

Banks must secure loans by obtaining personal guarantees, mortgages, & carefully reviewing LLP financials.

Unlike companies, LLPs do not register charges with ROC, making due diligence more complex for banks.

Encumbrances on LLP assets should be independently verified before loan approval.

Real-World Application:

- **Banks require extra security measures (personal guarantees, asset pledges) when lending to LLPs.**
- **CERSAI registration is recommended to protect banks from fraudulent asset pledges.**

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3.12 OTHER ENTITIES & 3.13 TYPES OF CREDIT FACILITIES

3.12 OTHER ENTITIES: SOCIETIES, ASSOCIATIONS & TRUSTS

Societies, Associations, & Trusts are non-commercial entities that may require banking services, including loans & credit facilities.
Banks must verify whether these entities have the legal authority to borrow & mortgage assets.
Key documents to check:

- **Bye-laws** (governing rules of the entity)
- **Resolutions for borrowing**
- **Regulatory approvals (if applicable)**

� **Key Point:**

- **Only authorized persons can borrow & pledge assets on behalf of the entity.**

� **Example:**

- A **Registered Trust wants a ₹2 crore loan for infrastructure**.
- The **bank verifies its bye-laws & board resolution before sanctioning the loan**.

� 3.13 TYPES OF CREDIT FACILITIES �

� **Banks provide two types of credit facilities:**

Type of Credit	**Description**
1� Fund-Based Credit	**Direct financing**, where banks provide actual funds to borrowers.
2� Non-Fund-Based Credit	**Banks issue financial guarantees (without direct disbursement of funds), such as LCs & bank guarantees.**

? Fund-Based Credit Facilities ?

1? Cash Credit (CC) System ?

? **Most common form of working capital finance.**
? **A flexible credit limit** is given to the borrower for day-to-day operations.
? **Limit based on Drawing Power (DP), calculated periodically** based on stock & receivables.

? **Key Features:**

- **Interest is charged only on the amount actually used**.
- **Operates like a current account**, with deposits & withdrawals.
- **Security: Typically backed by stocks, raw materials, finished goods, or receivables.**

? **Example:**

- **ABC Ltd. has a ₹5 crore CC limit.**
- **It withdraws ₹3 crore in January, deposits ₹1 crore in February.**
- **Interest is charged only on ₹2 crore (₹3 crore - ₹1 crore).**

? **Advantages of Cash Credit:**

- **Flexibility** – Borrowers use funds as needed.

- **Lower interest costs** – Interest applies only to utilized funds.

❌**Disadvantages of Cash Credit:**

- **Funds diversion risk** – Borrowers may use funds for non-business purposes.
- **Difficult to track end-use** – Banks rely on indirect monitoring (e.g., comparing sales vs. account deposits).

� **Example:**

- **XYZ Ltd. gets ₹2 crore CC limit.**
- **Instead of buying raw materials, it uses ₹50 lakh for personal investment.**
- **This misuse increases default risk for the bank.**

2� Overdrafts (OD) & Overdrawals �

� **A facility allowing a customer to withdraw more than their account balance.**

� **OD limits can be secured (against shares, FD, etc.) or unsecured.**

� **Temporary ODs may be granted for urgent needs at the bank's discretion.**

? Key Features:

- **Interest is charged only on the utilized amount.**
- **Repaid at the borrower's convenience (subject to terms).**
- **Common for businesses & high-net-worth individuals (HNWIs).**

? Example:

- **ABC Traders has ₹1 lakh in its current account but issues a ₹5 lakh cheque.**
- **The bank allows a ₹4 lakh overdraft to clear the cheque.**

? Secured OD:

- Backed by **collateral** (e.g., Fixed Deposit, shares, property).

? Unsecured OD:

- **Based on the customer's creditworthiness** (riskier for banks).

? Legal Case:

- In **Bank of Maharashtra v. United Construction Co.**, the court ruled that an **overdraft without explicit sanction still constitutes a loan.**

3? Loan System (Demand Loans & Term Loans) ?

? Demand Loans

- **Short-term loans repayable on demand.**
- **Common for bridge financing.**

📌 Term Loans

- **For long-term capital investments** (e.g., machinery, land, buildings).
- **Repaid in EMIs (monthly/quarterly installments).**
- **Collateral-backed, reducing risk for banks.**

📌 Example:

- **XYZ Ltd. gets a ₹5 crore term loan for new machinery, repayable over 5 years.**

4️⃣ Purchase & Discounting of Bills 📜

📌 Helps businesses convert receivables into immediate cash.
📌 Banks buy trade bills at a discount, providing liquidity.

📌 Example:

- **ABC Ltd. sells goods worth ₹10 lakh on credit.**
- **Instead of waiting 90 days for payment, it sells the bill to the bank for ₹9.5 lakh.**
- **The bank collects the full ₹10 lakh from the buyer after 90 days.**

? Risk for Banks:

- **If the buyer defaults, the bank may lose money.**

? Non-Fund-Based Credit Facilities ?

1? Letters of Credit (LCs) ?

? A bank guarantee that ensures the seller gets paid upon meeting agreed conditions.
? Common in international & domestic trade.

? Types of LCs:

- **Sight LC:** Payment on presentation of documents.
- **Usance LC:** Payment after a specified period (e.g., 90 days).

? Example:

- **XYZ Ltd. imports machinery from Germany.**
- **Its bank issues an LC to the supplier's bank, ensuring payment on delivery.**

? Benefits:

- **Reduces payment risk for suppliers.**
- **Helps buyers negotiate better credit terms.**

❌**Risk for Banks:**

- If the buyer **fails to pay**, the **bank must honor the LC**.

2⃣ Bank Guarantees (BG) ⃣

⃣ A bank commits to paying a beneficiary if the applicant fails to meet obligations.

⃣ Used in government contracts, real estate, etc.

⃣ Types of BGs:

- **Performance Guarantee:** Ensures contract execution.
- **Financial Guarantee:** Ensures financial obligations are met.

⃣ Example:

- **XYZ Ltd. gets a ₹2 crore BG for a construction project.**
- **If it fails to complete the project, the bank pays the beneficiary.**

⃣ Benefits:

- **Assures sellers/service providers of payment security.**
- **Boosts business credibility.**

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❌Risk for Banks:

- If **the applicant defaults**, the **bank must cover the guarantee amount**.

? Summary Table ?

Fund-Based vs. Non-Fund-Based Credit

□ Type	□ Fund-Based Credit	□ Non-Fund-Based Credit
1? Purpose	Direct funding	Guarantee-based (no direct funds disbursed initially)
2? Examples	Cash Credit, Overdrafts, Loans	Letters of Credit, Bank Guarantees
3? Interest?	Yes, on utilized funds	No, but fees apply
4? Risk for Bank	Borrower default risk	Contingent liability risk
5? Collateral Required?	Yes (in most cases)	Depends on creditworthiness

? Conclusion ?

? Banks offer diverse credit options, including flexible working capital finance (CC/OD) & structured long-term loans.

� LCs & BGs support trade & contract execution without immediate fund disbursement.
� Fund-based loans carry borrower default risk, while non-fund-based facilities involve contingent liabilities.
� Proper documentation, security, & borrower assessment are crucial for managing banking risks.

� Real-World Application:

- **Banks customize credit facilities based on business needs, ensuring liquidity & risk mitigation.**

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� 3.13 LOAN SYSTEM & BILL DISCOUNTING IN BANKING �

� 3. Loan System �

� A structured form of credit where funds are provided for a specific purpose & tenure.
� Repayable in fixed installments (monthly, quarterly, etc.).
� Used for one-time purchases (e.g., buying machinery, vehicles,

property).

? New loans require fresh approval & documentation.

? Key Features:

- **Borrower repays in fixed EMIs over a set period.**
- **Once disbursed, no further withdrawals allowed.**
- **Loan renewal requires fresh documentation & approval.**

? Example:

- **ABC Ltd. takes a ₹10 crore loan for machinery.**
- **Repayment is in 5-year monthly EMIs of ₹20 lakh.**

? Advantages of Loan System:

- **Encourages financial discipline** – Fixed repayment schedule.
- **Better fund management for banks** – Predictable repayment structure.

❌Disadvantages:

- **Inflexibility** – Borrowers must reapply for new funds.
- **Risk of over-borrowing** – Borrowers may take excess funds to avoid renegotiation later.

? Types of Loans Provided by Banks ?

☐ Loan Type	☐ Description	☐ Tenure
1? Short-Term Loans	For **working capital needs or one-time business expenses**	**Up to 1 year**
2? Term Loans	Used for **buying fixed assets (machinery, land, expansion, etc.)**	**3 to 15 years**
3? Bridge Loans	**Short-term financing until permanent funding is secured**	**Up to 1 year**
4? Composite Loans	**Combines term loans & working capital finance**	**Varies**
5? Retail Loans	Personal loans for **housing, vehicles, education, etc.**	**Up to 30 years (home loans)**

? Example:

- **XYZ Ltd. takes a ₹5 crore term loan for office expansion (repayable in 7 years).**
- **ABC Traders gets a ₹50 lakh bridge loan until its IPO funds arrive.**

� 4. Purchase & Discounting of Bills �

� A financial tool to help businesses get immediate cash against future payments (trade receivables).
� Banks "purchase" or "discount" bills of exchange & provide funds upfront.
� Useful for businesses facing cash flow mismatches.

� Key Features:

- Short-term financing (typically 30 to 180 days).
- Self-liquidating (buyer pays the bank upon bill maturity).
- Safer than unsecured working capital loans.

� Example:

- ABC Ltd. sells goods worth ₹10 lakh on a 90-day credit period.
- Instead of waiting, it sells the bill to a bank for ₹9.5 lakh.
- After 90 days, the bank collects ₹10 lakh from the buyer.

� Advantages:

- Instant liquidity for sellers.
- Credit risk shifts to the bank (if bill is accepted by a reputed buyer).

❌Disadvantages:

- **Banks charge a discounting fee.**
- **If the buyer defaults, the seller may be liable.**

? RBI Guidelines:

- **Banks must encourage bill discounting instead of funding unsecured book debts.**
- **Trade Receivables Discounting System (TReDS) introduced to assist MSMEs.**

? Drawee Bill Scheme ?

? A method of financing both purchases & sales through bill discounting.

? Ensures payment certainty & trade financing flexibility.

? Key Mechanisms:

- **Acceptance System:** Buyer's bank accepts the bill & guarantees payment.
- **Bill Discounting System:** Buyer's bank directly discounts the bill & pays the seller.

? Example:

- Supplier S sells goods to Buyer B.
- B's bank accepts a bill for ₹5 lakh, guaranteeing payment.
- S discounts the bill with his bank & gets ₹4.8 lakh upfront.

? Advantages for Participants:

Party	Advantage
Seller (Supplier)	Guaranteed payment on due date.
Buyer	Gets extended credit while ensuring supplier gets paid.
Buyer's Bank	Minimized risk as goods act as collateral.
Seller's Bank	Assured payment from buyer's bank.

? Impact on Banking:

- Ensures better working capital management.
- Banks can track buyer's creditworthiness & limit bad debts.

� Summary Table �

Loan System vs. Bill Discounting

Factor	Loan System	Bill Discounting
1� Purpose	Long-term asset purchase (fixed loans)	Short-term working capital financing
2� Tenure	Months to 30 years	30 to 180 days
3� Collateral	Often required	Not required (trade receivables used as security)
4� Risk for Bank	Borrower default risk	Buyer default risk
5� Interest Cost	Fixed EMIs (higher cost for borrower)	Discounted upfront (lower cost for borrower)
6� Liquidity for Business	Borrower repays gradually	Seller gets instant cash against credit sales

� Conclusion �

� **Loan System:** Best for structured financing of fixed assets with predictable repayment schedules.

� **Bill Discounting:** Ideal for businesses needing **short-term liquidity against credit sales**.

 Drawee Bill System: Enhances trade financing with bank acceptance & payment guarantees.

 RBI encourages bill discounting over book-debt financing for safer banking.

 Real-World Application:

- **Banks structure credit facilities based on business needs, ensuring liquidity & risk control.**
- **Companies use bill discounting to improve cash flow & trade finance operations.**