

BHARAT SCHOOL OF BANKING

Line of Credit (LoC)

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What do we get from the term?

To what **extent** (i.e., line) we can get **loan / advance** (i.e., credit). Of course, **LoC** are generally given to the **corporate** for **business purpose** (though, often we hear news about **government** giving **Rs. XXX Line of Credit** to ZZZ country for development)

Note that this is **generally** given to **corporate** for business, on their **Cash Credit (CC)Accounts** (already discussed about CC in my previous post. Please refer that)

General Procedure

Banks **analyze** the **audited Balance sheet** of the prospective borrower (businessman) to appraise their needs and checking their **capacity** to absorb the **credit**. The **borrowers** need to furnish their **financial details** in the form of **Credit Monitoring Arrangement (CMA) data** to the **bankers** and file an application for **loan**.

This **application** is then processed by the **bank** and a suitable **Line of Credit (LoC)** (limit) is allowed to the **borrower**.

The **overall limit (LoC)** is structured into various types of **facilities** or **accounts** - each with its **own limit** under the overall LoC (meaning, several accounts, which to be formed, have their own limit, which **collectively** is under overall LoC).

The **borrower** is then asked to **surrender** the **security** or **title** to the **bank** (as **collateral**) and open **suitable accounts** (mostly **Cash Credit Accounts**, with different **underlying securities**) with the **bank**.

Thereafter, the **borrower** can **operate** these **accounts** within the **limit**, i.e., **Line of Credit**.

Note - Don't confuse **Line of Credit** with **Letter of Credit**, which is a different concept (refer to previous post on Letter of Credit)