

BHARAT SCHOOL OF BANKING

Lending Money - Cash Credit and Overdraft

Lending money is one of the **two major** activities of any **bank**. Banks **accept deposits** from public for safe keeping and **pay interest** to them. They then **lend** this money to earn **interest** on this money. In a way, the **banks** act as **intermediaries** between the people who **have** the money to **lend** and those who **need** the money to **carry out** business transactions.

Spread – The **difference** between the **rate** at which the **interest** is **paid** on **deposits** and is **charged** on **loans**, is called the “**spread**”.

Lending Activity – Commodities, Debts, Financial instruments, Real Estate, Automobiles, Consumer durable goods, Documents of title.

Apart from the above categories, the **Banks** also **lend** to people on the basis of their **perceived personal worth**. Such **loans** are called **clean** and the banks are understandably cagey about extending such loans. The **credit card** arms of the various banks, however, fill up this void.

- a. **CASH CREDIT (CC) ACCOUNT** – This account is the **primary** method in which **banks** lend money against the **security** of commodities and **debt**. It runs like a **current account** except that the money that can be **withdrawn** is **not restricted** to the amount **deposited** in the account. Instead, the **account holder** is permitted to **withdraw** a certain sum called “**limit**” or “**credit facility**” in **excess** of the amount **deposited** in the account.

Cash Credits are, in theory, **payable on demand**. These are, therefore, counter part of **Demand Deposits** of the banks.

- b. **OVERDRAFT (OD)** – The word “**overdraft**” means the act of **overdrawing** from a bank account. In other words, the **account holder** withdraws **more money** from a bank account that has been deposited in it.

Now try to understand about the **differences** between these two -

The **primary** differences between **cash credit** and **over draft** is how they are **secured** and whether the money is **lent out** of a **separate account**.

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	Cash Credit (CC)	Over Draft (OD)
User	More commonly offered for businesses than individuals	Can be used for any purpose, individual or business
Security	Security can be a tangible asset , such as stock , raw materials , or some other commodity	Allowed against a host of other securities including financial instruments , like shares , units of MFs , surrender value of LIC policy and debentures etc. Some ODs are even granted against the perceived "worth" of an individual , known as clean ODs .
Credit Limit	A certain percentage of the value of the commodities / debts pledged by the a/c holder	Acts more like a traditional loan . Money is lent as with a cash credit account , but a wider range of collateral can be used to secure the credit .