

BORROWINGS



Image from Pixabay

What is the difference between income and credit?

Every credit or a loan needs to be paid back. It is not to be treated as money earned or income. When we earn the money from salary or wages, etc. it is our income whereas credit or loan is not our income. On the other hand, repayment of the instalments of credit is the expense.

When do we borrow?

We borrow money when our expenditure is more than our income or when there are emergencies. We also borrow when we need money for undertaking some business activities.

Should we always borrow whenever short of money?

Do not borrow for meeting consumption expenses like celebrating birthdays, lavish wedding, buying jewellery or costly consumer durables. If we have to spend money on these items, spend it from our income or accumulated savings. Use our current income or savings for consumption expenses. If we are forced by circumstances to borrow for consumption, first assess how much we can repay out of our current income. Consumption expenses do not give any income, then how will we repay the loan? On the other hand, we would be borrowing again and again from different sources for repaying earlier loans and would fall into the debt trap.

Why it is advisable to borrow only for income generating activities?

It has to be kept in mind that when we take a loan, it has to be repaid back with the interest. So, while borrowing, we should always assess our repaying capacity. When we borrow for undertaking some business activities it will enhance our income, then we can repay the loan out of income generated, e.g., when we borrow €1000 from a bank to buy seeds, which will give us crop that can be sold for, €10000, we can repay €1000+ €100 as interest, i.e., €1100 to the bank and the remaining amount of €8900 is our additional income. We should borrow for an activity which gives earnings more than the amount of interest payable, otherwise we may have to borrow again to repay earlier loans. Borrow for undertaking an activity which enhances your income. Why borrow within limits? Any loan taken by us has to be repaid back with the interest. Make sure we are earning enough to pay back the loan. A simple way to check is look at our income, expenses and saving every month. The saving should be more than our monthly instalment of repayment of loan.

Why take a loan from a bank when informal sources like money lenders are readily available in the town/village?

Bank is a better source of finance than money lenders and other informal sources even if, at times, it may take little longer to borrow from them. It is a safe, reliable, transparent institution which can help us by lending money on suitable terms. Banks are regulated by Central bank of Slovakia. Best thing is that banks charge lesser interest than informal sources, such as relatives, friends, moneylenders,

zalozna, etc. Besides, banks create full documentation of the loan before disbursing loan amount. In case of dispute, Grievance Redressal Mechanism is also available.



Image from Pixabay

What is the Grievance Redressal Mechanism of banks?

Banks are regulated entities. Every bank has a Grievance Redressal Officer, the details of which is published in all branches and also on their website. In case of any dispute, we can file our complaint with the Grievance Redressal Officer of that bank. In case we are not satisfied with the resolution of the dispute by them, we can file our complaint with the Banking Ombudsman of the Slovak bank association.

There is no grievance redressal mechanism in case of informal sources as they are not regulated entities. That is why there is lack of transparency in the terms and conditions and also in the record of transactions in case of informal sources.

Why banks may at times take little longer time in giving loans as compared to Money Lenders?

The banks collect deposits from public and lend this depositors' money as loans to the people who need it. In order to protect the depositors' money, they are expected to ensure the proper utilization of the money by the borrower. Hence banks undertake detailed scrutiny of the loan proposals before sanctioning the loans. Though it may take a longer time, the benefit to the borrowers is that they cannot be cheated since everything is documented. It is actually in the interest of the depositors as well as the borrowers.

What are the types of loans offered by the banks?

Banks give loans for various purposes like housing, education, agriculture and related activities, starting a business enterprise, consumption loans, etc. Thus, banks meet all types of loan requirements.

How can I get a loan from a bank?

We have to submit a loan application to the bank indicating the purpose. The bank will verify the details, evaluate our repaying capacity and then sanction us the loan which we will have to repay along with the interest in instalments as indicated by the bank.

What is the cost of borrowing from banks?

The interest charged on the money borrowed is the cost of borrowing. Understand the interest cost we are paying on our loan. Banks normally notify the interest rate per year. Frequency of compounding is also important in the price of a loan. Unlike other informal sources who do not tell us the real cost of borrowing, the interest rates and other charges levied by banks for various purposes are displayed to the public and it is uniform for all customers/purposes. Banks publicly declare how much they charge and they charge uniformly to similar customers for similar purposes again unlike other sources.



Image from Pixabay

Do we have to offer some guarantee for the loan?

This depends upon the type and purpose of loan we take. Generally, for small loans no guarantee will be necessary. But for higher amounts we will have to offer some guarantee. This can be in the form of the asset which we will be creating with our bank loan or in the form of other collateral securities like land, house etc., depending upon the type of loan.

Why should we repay the loan?

The banks use depositors' money for lending. If we do not repay, the financial condition of the banks would become weak. It will affect the bank's capacity to repay the depositors' money in time. If all the bank borrowers do this, in such an eventuality, money deposited by us and our relatives in the bank might be at risk. Further, the bank needs the money to be paid back by us to lend it to yet another person. Additionally, only if we repay, loans will be sanctioned to us in future.

What if we do not repay the loan taken from the bank?

In case we do not repay the loan, the bank will have the right to take possession of the security we have offered as guarantee for the loan and can initiate legal proceedings against us for recovering the loan amount along with the interest.