

Tutorial Notes

Class: B.Com (Prog.) Semester VI (DSE3)

Subject: Banking & Insurance.

Topic: Loans and Advances.

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Difference between Loans and Advances

A loan and advance is a financial facility provided by the banks and financial institutions to help their customers in financial need.

Finance is a life blood for any type of business or a particular need. So when one is not able to get a full amount of money by his own. He can use this type of financial services provided by a bank.

Loan

- A loan is an amount lent by the lender to the borrower for a definite purpose for a particular time period.
- So a loan is one kind of debt provided by a bank to fulfil the long term requirement of a borrower.
- A lender charges a fixed rate of interest applicable to the loan amount borrowed.
- A loan credit on the basis of borrower's income, credit history, financial transactions etc.
- A loan may be granted against any type of security like collateral security, mortgage asset, pledge etc. and it is called a secured loan, while nothing is put as security it is called unsecured loan.
- An interest is generally paid on a monthly basis.
- A loan is generally repaid in equal monthly installments or the repayment of full amount when the expiry of loan ends along with interest payable on the loan. It depends upon the borrower which option to choose to repay a loan.

Advances

- An advance is a credit facility provided to the big corporations to fulfil their daily needs like salary and wages, admin expenses, material expenses etc.
- A businesses use this credit facility to run a day to day operations smoothly.
- Advances are for the short term like for one year.
- Banks or financial institutions charge a low-interest rate and that is why it is cheaper and convenient for businesses to use it.

Difference between loan and advances

Basic	Loan	Advances
Meaning	When a fund is borrowed by an entity or business corporation or an individual from another entity, repayable after a specific period carrying interest rate is known as loans.	When a fund is provided by the bank to a business corporation or an entity for a specific purpose to be repayable after a short duration is known as advances.
Nature	A loan by nature is a debt.	Advances are by nature a credit facility.
Time duration	Loans are generally for a long term.	Advances are for short term, maximum for one year only.
Collateral security	A loan is may be secured against collateral security on not.	Advances are facilitated only against primary security or ant type of guarantee.
Legal formalities	There are legal formalities while granting a loan.	There is low legal formalities as compared to the loan.
Example	Auto loan, Personal loan, Education loan, Home loan etc.	Short term loan, Overdraft facility, Cash credit, Bill purchased etc.