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Loan systems, financial ranking and fiscal positioning: Evidence from India

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Abstract
This paper examines the financial ranking and performance of banks by taking one bank as a sample case. We evaluate performance of bank through fiscal reserves it posses, its monetary arrangement, its liquidity and its competence to get used to transformation in the market in which it operates. The study provides some important insights about banks liquidity and its ability to change cash flows in future circumstance
Keywords – Bank liquidity, financial ranking, fiscal positioning, India

1. Introduction

The project is carried out in the bank with an objective of knowing the various terms in the bank as well as to get practical knowledge from bank. Let's have a look towards the intro and meaning, features and function of bank.

A bank is a financial intermediary and appears in several related basic forms:

- A central bank issues money on behalf of a government, and regulates the money supply
- A commercial bank accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses on the worlds open financial markets.
- A saving bank, also known as a building society in Britain is only allowed to borrow and save from members of a financial cooperative.

1.1. Origin of the word

The word bank was borrowed in Middle English from Middle French Banque, from old Italian banca, from old high German banc, bank" bench, counter". Benches were used as a desks or exchange counters during the renaissance by Florentine bankers, who used to make their transactions a top across desks covered by green table clothes.

1.2. Definition

The definition of a bank varies from country to country. Under English common law, a banker is defined as a person who carries on the business of banking, which is specified as:

- Conducting current accounts for his customers
- Paying cheques drawn on him and
- Collecting cheques for his customers.

Banks often start as microcredit or saving clubs which become formalized, first as credit unions and later saving banks which transform them from co-operative to limited liability companies. A fuller description of these forms appears below.

Banking is generally a highly regulated industry, and government restrictions on financial activities by banks have varied over time and location.

1.3. Economic Function

The economic function of banks includes:

1. Issue of money, in the form of banknotes and current accounts subject to cheque or payment at the customer's order. These claims on bank can act as money because they negotiable or repayable on demand and hence valued at par. They are effectively transferable by mere delivery, in the case of bank notes, or by drawing a cheque that the payee may bank or cash.
2. Netting and settlement of payments-banks act as both collection and paying agents for customers, participating in interbank clearing and settlement system to collect, present be present with and pay payment instrument. This enable banks to economize on reserve held for settlement of payments, since inward and outward payments offset each other. It also enables the offsetting of payment flows between geographical areas, reducing the cost of settlement between them.

3. Credit intermediation-banks borrow and lend back to back on their own account as middle men.
4. Credit quality improvement-banks lend money to ordinary commercial and personal borrowers (ordinary credit quality), but are high quality borrowers. The improvement comes from diversification of the bank's assets and capital which provides a buffer to absorb losses without defaulting on its obligation. However, banknotes and deposits are generally unsecured; if the bank gets into difficulty and pledges assets as security; to raise the funding it needs to continue to operate, this puts the note holders and depositors in an economically subordinated position.
5. Maturity transformation-banks borrow more on demand debt and short term debt, but provide more long term loans. In other words, they borrow short and lend long. With a stronger credit quality than most other borrowers, banks can do this by aggregating issues (e.g. accepting deposits and issuing banknotes) and redemptions (withdrawals and redemptions of banknotes), maintaining reserves of cash, investing in marketable securities that can be readily converted to cash if needed, and raising replacement funding as needed from various sources (e.g. wholesale cash markets and securities markets).

2. Literature Review

In the banking literature, the problem of NPLs has been revisited in several theoretical and empirical studies. A synoptic review of the literature brings to the fore insights into the determinants of NPL across countries. A considered view is that banks' lending policy could have crucial influence on non-performing loans (Reddy, 2004). Reddy (2004) critically examined various issues pertaining to terms of credit of Indian banks. In this context, it was viewed that 'the element of power has no bearing on the illegal activity. A default is not entirely an irrational decision. Rather a defaulter takes into account probabilistic assessment of various costs and benefits of his decision'. Mohan (2004) emphasized on key lending terms of credit, such as maturity and interest-terms of loans to corporate sector. The Indian viewpoint alluding to the concepts of 'credit culture' owing to Reddy (2004) and 'lazy banking' owing to Mohan (2003a) has an international perspective since several studies in the banking literature agree that banks' lending policy is a major driver of non-performing loans (McGoven, 1998)

2.1. Company profile

The dawn of twentieth century witnesses the birth of a banking enterprise par excellence-UNION BANK OF INDIA-that was flagged off by none other than Father of the Nation, Mahatma Gandhi. Since that the golden moment, Union Bank of India has this far unflinchingly traveled the arduous road to successful banking, a journey that spans 88 years. We at Union Mahatma"We should have the ability to carry on a big bank, to manage efficiently crore rupees in the course of our national activities. Though we have not many banks amongst us, it does not follow that we are not capable of efficiently managing crore and tens of crore of rupees."

Union Bank of India is firmly committed to consolidating and maintaining its identity as a leading, innovative commercial Bank, with a proactive approach to the changing needs of the society. This has resulted in a wide gamut of products and services, made available to its valuable clientele in catering to the smallest of their needs. Today, with its efficient, value-added services, sustained growth, consistent profitability and development of new technologies, Union Bank has ensured complete customer delight, living up to its image of"GOOD PEOPLE TO BANK WITH", Anticipative banking- the ability to gauge the customer's needs well ahead of real-time - forms the vital ingredient in value-based services to effectively reduce the gap between expectations and deliverables.

The key to the success of any organization lie with its people. No wonder, Union Bank's unique family of about 26,000 qualified/skilled employees is and ever will be dedicated and delighted to serve the discerning customer with professionalism and wholeheartedness.

Union Bank is Public Sector Unit with 55.43% Share Capital held by the Government of India. The Bank came out with its Initial Public Offer (IPO) in August 20, 2002 and Follow on Public Offer in February 2006.Presently 44.57% of Share Capital is presently held by Institutions, Individuals and Others.

Over the years, the Bank has earned the reputation of being a techno-savvy and is a front runner among public sector banks in modern-day trends. It is one of the pioneer public sector banks, which launched Core Banking Solution in 2002.Under this solution umbrella, All Branches of the Bank have been 1135 networked ATMs, with online Tele banking facility made available to all its Core Banking Customers-individual as well as corporate. In addition to this, the versatile Internet Banking provides extensive information pertaining to accounts and facets of baking. Regular banking services apart, the customer can also avail of a variety of other value-added services like Cash Management Services, Insurance and Mutual Funds.

3. Data and Methodology

In this research article, annual data has been used from the financial statements of Union bank of India for the time period of 2008-2010. We use data to evaluate these financial statements of Union bank. Further, we calculate different descriptive statistics to compare and analyze financial data of Union bank.

4. Analysis

Table 1 presents descriptive statistics of different financial measures used to evaluate financial ranking, bank liquidity and fiscal positioning of Union bank for the period from 2008 to 2010.

Table-1: Descriptive statistics of different financial measures

1 -Total Loan to Union Home Loan			
Year	Total Loan	Home Loan	Ratio
2008	33375	9821	29.42
2009	39760	11395	38.13
2010	29877	9148	23
2 -Total Loan to Union Miles(Vehicle)			
Year	Total Loan	Union Miles	Ratio
2008	33375	1890	5.66
2009	39760	2050	5.15
2010	29877	1635	5.47
3-Total Loan to Union Education			
Year	Total Loan	Union Education	Ratio
2008	33375	3	8.98
2009	39760	8	0.02
2010	29877	530	1.77
4-Total Loan to Union Education			
Year	Total Loan	Union Mortgage	Ratio
2008	33375	1750	5.24
2009	39760	1087	2.73
2010	29877	862	2.88
5-Total Loan to Personal Loan			
Year	Total Loan	Personal Loan	Ratio
2008	33375	1780	5.33
2009	39760	1953	4.91
2010	29877	2092	7
6-Total Loan to Corporate Loan			
Year	Total Loan	Corporate Loan	Ratio
2008	33375	742	2.22
2009	39760	882	2.21
2010	29877	620	2.07
7-Total Loan to Small Business Loan			
Year	Total Loan	Small Business Loan	Ratio
2008	33375	92	0.27
2009	39760	93	0.23
2010	29877	90	0.3

5. Conclusion

Money lent by banks and financial institutions for various purposes come with a cost, which is known as the loan rate or the interest rate at which the loan is lent. In recent times there has been a spate of CCR and repo rate cuts following which interest rates on home loans have been slashed. This has been a welcome relief for potential first time home buyers who have been waiting for this to happen for a long time. All of these factors have a direct impact on the PLR, prime lending rate, which correspondingly increases or decreases the interest rates of loans. Let's take a quick look at what all these terms mean to see how they affect the loan interest rates. CRR means Cash Reserve Ratio. Bank in India are required to hold a certain proportion of their deposits in the form of cash. However actually Banks don't hold these as cash with themselves, but deposit such case with Reserve Bank of India (RBI)/ currency chests, which is considered as equivalent to holding cash with them. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI & is known as the CRR or Cash Reserve Ratio. Thus, when a bank's deposits increases by Rs.100, & if the cash reserve ratio is 9%, the banks will have to hold additional Rs 9 with RBI and Bank will be able to use only Rs 91 for investments & lending / credit purpose. Therefore, higher the ratio (i.e. CRR), the lower is the amount the banks will be able to use for lending and investment. This power of RBI to reduce the lendable amount by increasing the CRR makes it an instrument in the hands of a central bank through which it can control the amount that banks lend. Thus, it is a tool used by RBI to control.

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