

4.0 Classification of Credits

Credit can be classified on the basis of time, purpose, security, Lenders and Borrowers.

A. Classified on the basis of Time

This classifies credit into three major areas as short, medium and long-term.

A(i) Short-term Loans

The short- term loans are generally advanced to meeting annual recurring purchases like seeds, feeds, fertilizers, hired labour, expenses on herbicides, pesticides and machinery service charges. It is therefore termed “seasonal loans or production loans or crop loans” and it is usually expected that the loans (principal) and the interest would be repaid through the income received through the enterprise in which it is invested. Time limit to repay such a loan is one year or at most 18 months.

A(ii) Medium-term Loans

Are advanced for comparatively longer span assets like machines, wells threshers, sheds for livestock, shelter and farm structures, diesel engine, irrigation structure etc. The returns accrued from the use of such assets are usually spread over more than one production season. Repayment period spans between 15 months and 5 years.

A(iii) Long-term Loans

These are related to long life assets like land, farm buildings construction of permanent drainages or irrigation system etc. which require large sum of money as initial investment. Benefits generated through such assets are spread over the entire life span of the asset. Repayment period ranges from 5 years to 20 years.

B. Classification according to Purpose of the Loan

Credit could be classified based on the purpose of the loan as crop loan, poultry/dairy/piggery loan, machinery and equipment loan, forestry loan, fishery loans etc. This type of loan signifies relationship between time of usage and the rate of returns (profitability).

Sometimes loans could be classified as “production loan” or “consumption loan”

C. Classification according to Security offered

Loans can be classified as secured and unsecured loans. Security are usually advanced against tangible assets like land, livestock or any capital asset, as either medium or long term loans. Note that credit worthiness may sometimes count much more than the security offered, which if doubtful, may result in willful default.

Secured loans can be further classified on the basis of the type of security offered as:

(i) Mortgage loans

Where legal mortgage of tangible and intangible properties like land, land improvement and other infrastructures are offered.

(ii) Hypothecated loans

Where legal ownership of assets e.g. machinery and equipment, financed remains with the lender though physically possessed by the borrowers. The private lenders often ask for gold, jewelry and/or land as security reminds the borrower of his obligations towards repayment.

D. Classification according to the Lenders

Classified as Institutional and non-institutional credit.

Classification according to Borrowers

Credit can be classified on the basis of the borrower as producers, business concerns etc. Such classification has equity considerations.