

This difference is the main source of income of banks.

- Banks provide housing loans, vehicle loans, farm loans, education loans, personal loans etc. to meet the specific requirements of borrowers.

❖ **Debt Trap**

It is a situation in which a person is caught in the vicious cycle of debts. He/she takes loans for meeting his/her requirements and on being unable to pay back the loan, takes a fresh loan to repay the old loan. This leaves him/her indebted all through his/her life.

❖ **Collateral**

It is an asset owned by the borrower such as land, building, vehicle, livestock etc., which is kept with the bank as a guarantee against a loan until the loan is repaid. In case of failure in repaying the loan, the bank would have the right to sell the collateral to recover the loan amount.

❖ **Terms of Credit**

- Interest rate
- Collateral security
- Mode of payment

❖ **Loans from Cooperatives**

- Cooperative societies are small scale organizations formed by people themselves.
- The members of cooperatives pool their resources in the account of the cooperative and then extend loans to those in need.
- Cooperatives also take loan from banks.
- There are several types of cooperatives such as *krishak* cooperatives, weaver's cooperatives, industrial workers' cooperatives etc.

❖ **Formal Sector Loans**

- These consist of loans from banks and cooperatives
- These loans are supervised by the RBI
- The terms of credit are fixed
- Rate of interest is not very high
- It comprises 52% of the total loans given in the country

❖ **Informal Sector Loans**

- These consist of loans from moneylenders, landlords, traders, relatives and friends etc.
- They are not under the control of the RBI
- The rates of interests are exorbitant
- It comprises 48% of the credit in the country
- It is mostly taken by poor rural households

❖ **Self-Help Groups**

SHGs are small groups of people who pool their savings and lend money to those members who are in urgent need of money. It usually consists of 15–20 members. The rate of