**WEEK 7 Date:………………………**

**TOPIC: COMMERCIAL BANKS**

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2. Functions of Commercial banks

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4. Procedures for collecting advances from banks etc

**COMMERCIAL BANKS**

A commercial bank is a financial institution which accept deposits and other valuables from the public for safe-keeping lend money to people and firms and perform other auxiliary services with the sole aim of making profit.

A commercial bank is owned by private individual organizations or government. It is a limited liability company.

**CHARACTERISTICS OF COMMERCIAL BANKS**

1. They are limited liability companies

2. They are established and owned by individuals, organizations or governments.

3. The motive for its establishment is profit making

4. Commercial banks are incorporated under CAMA (1990)

5. They transact business with private individuals organizations and governments

6. They are members of the money market

**FUNCTIONS OF COMMERCIAL BANKS**

a. Accepting deposits from customers

b. Lending to customers - .i.e. they grant loans and overdrafts to their customers

c. Acting as an agent for payment

d. Discounting bills of exchange

e. Safekeeping of valuables e.g. wills, jewelleries, certificates etc.

f. Offering advise to customers

g. Acting as executors or trustees

h. Acting as referees/granting of performance bonds

i. Issuing, buying and selling of securities e.g. shares

j. Issuing of letter of credit

k. Acceptance and discounting of bills of exchange

l. Buying and selling of foreign currencies

m. Funds transfers e.g. credit transfer services

n. Lending money to importers and exporters

o. Issuance of travelers cheques

p. Acting as agents to both importers and exporters.

q. Transfer and handling of vitals business documents

**TYPES OF BANK ACCOUNTS**

There are three types of accounts which customers can open in a bank. These are:

**1. Current Account:** This is an account on which cheques are drawn. It is also called Demand Deposit.

**Features of Current Account.**

a. Money can be withdrawn at anytime without notice to the bank.

b. Money can be withdrawn as many times as possible in a month.

c. Withdrawals are made through cheques

d. Deposits are made through pay in – slip or tellers.

e. The bank issue bank statement (statement of account) periodically to the customer.

f. No interest is paid to current account holder

g. The bank charges some commission for services rendered to customers. This is called commission on turnover **(COT).**

h. Other people can withdraw money from the account on behalf of the customers.

**2. Saving Account: -** This account is opened by low income earners who are small savers.

**Features of Saving Accounts**

a. Money can only be withdrawn occasionally

b. The bank pays interest to the account holder

c. Holders are issued with pass books

d. Only the account holder can withdrawn from the account

**3. Fixed Deposit Account (Time Deposits):-** Here, money is saved in the bank for a specific period of time to earn interest. Holders are entitled to higher interest than savings account. The bank issues a receipt or deposits account passbook and also pays interest to the owners. The bank must be given between seven to fourteen days notice before money can be withdrawn.

**PROCEDURES FOR OPENING A CURRENT ACCOUNT**

1. The customer will collect and fill an application form.

2. Two referees, who are customers of banks must be provided to recommend the applicant.

3. Two referees, who are customers of banks must be provided to recommend the applicant.

4. The customer will submit his complete particulars (information) to the bank showing his personal details – this is to enable the bank to authenticate his identity.

5. The bank will issue him with a pay – in – slip booklet.

6. He will be issued an account number.

7. He will pay in an initial deposits

8. A cheque book will be given to him

**BANK ADVANCES (COMMERCIAL BANKS CREDIT FACILITIES)**

Bank advances may be made by way of

a. Loans

b. Overdrafts

c. Discounting of bills of exchange

In the above instances, a bank will usually advances the money only against security or collateral.

**CHARACTERISTICS OF A GOOD BANKING SECURITY**

The security deposited by a customer to cover a bankers advances should be

a. Durable

b. Transferable with little expenses and inconveniencies i.e. readily saleable

c. Capable of easy and accurate valuation

d. Easily realizable i.e. easy to convert to cash.

e. Sate in value

f. Has a value that is greater than the value of the loan

g. Free from any legal claims by other parties.

**TYPES OF SECURITIES TAKEN BY BANKERS**

1. Stock and Shares – e.g. ‘gilt edged’ and blue chip’ securities.

2. Land Buildings

3. Life Assurance Policies

4. Documents of titles to goods e.g. bill of lading

5. Guarantees

6. Indemnity

7. Deposit Account/Cash collaterals

8. Fixed and floating changes on assets of the business.

**Factors that a bank manager consider before granting loans or advances to customers.**

1. The amount of the loan

2. The type of account the customer operates

3. The past financial dealings of the customer with the bank

4. The purpose for which the loan is required

5. The collateral security offered by the customer

6. The period or tenor of the loan

7. Government policy on bank lending

8. The ability repay/viability of the project

9. The financial reports (accounts) of the customer.

**DIFFERENCE BETWEEN LOAN AND OVERDRAFT**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Loan** | **Overdraft** |
| 1. | Tenor (Durations) | Long term/medium | Short – term |
| 2. | Repayment | Instalmentally as per agreement | Repayable on demand |
| 3. | Type of Account | Loan Account | Current Account |
| 4. | Balance | Relatively stable and always a debit balance | Fluctuating; may swings from debit to credit and vice – versa |
| 5. | Interest charged by the bank | On the full amount of the loan | Only on that part of the overdraft facility utilized by the customer. |
| 6. | Availability | To any type of account | Only to customers having current accounts. |

**REVIEW QUESTIONS**

1. Describe five ways by which commercial banks aid foreign trade.

2. Describe to Kola, a new recruit in your office, the steps he may take to open a current account.

3. Explain any six factors whish a bank manager would take unto consideration in evaluating an application for a loan.

**WEEKEND ASSIGNMENT**

1. If a customer is allowed N1000 overdraft and he receives a bank statement showing an overdraft of N100. This means that he (a) Cannot draw more cheques (b) Is owed N100 by the bank (c) Owes the bank at least N900 (d) Owes the bank N100 only.

2. Which of the following is a loan, carrying a fixed rate of interest and secured on the assets of a company (a) Mortgage debenture (b) Naked debentures (c) Preference shares (d) Deferred shares

3. To a commercial bank deposits are (a) Liabilities (b) Assets (c) Capital (d) Cash at hand

4. Discounting a bill of exchange means the bill is (a) Cashed over the counter (b) Sold on the stock exchange (c) Bought for less than its face value (d) Sold to the highest bidder

5. Banks issue cheque books to customers holding\_\_\_\_\_\_\_\_\_ account (a) Deposit (b) Fixed deposit (c) Current (d) Savings

**THEORY**

1. State two features of savings account

2. Mention three collateral securities acceptable to banks o secure an advance

**READING ASSIGNMENT**

1. Essential Commerce for SSS by O. A Longe Page 80 – 86

2. Comprehensive Commerce for SSS by J. U. Anyaele Page 180 – 186.

**GENERAL EVALUATION QUESTIONS**

1. Explain five reasons why tariffs are imposed on imports
2. State five functions performed by the Customs Authorities
3. Give six reasons why manufacturers pre-package their products
4. Explain five factors that adversely affect the growth of Commerce in West Africa
5. Mention and explain five ways by which the Central Bank regulates the activities of commercial banks