Key notes for Financial services for Internal 2

Part a

1. A housing finance is refers to finance provided to individuals or group of individuals including co-operative societies for purchase/build house or houses. The R.B.I. has states that banks are free to decide the guidelines on accepts such as age of dwelling units, repayment schedules,margin and security with the approved of their board. Housing Finance Retail Banking.
2. **Underwriting in fixed price offers:**

Underwriting is an optional for a fixed price offer. Therefore, if an issuer accompany feels the the issue is strong enough to sell on its merits, it may decide to take the risk and opt for not underwriting it. In such case, the company only pays brokerage for marketing its securities to investors and saves on underwriting commission. The underwriting decision is normally taken on consultation with the lead manager who has a good understanding of the market.

3. **Income tax implicatio**ns:
To Rs. 30,000 in case of loans taken prior to Mar 01, 1999). The interest payable for the pre claimed while computing the income from house property. (The deduction stands reduced interest payable on the home loan towards purchase / construction of house property can be As per Sec 24(b) of the Income Tax Act, 1961 a deduction up to Rs. 1,50,000 towards the total acquisition or pre - construction period would be deductible in five equal annual instalments commencing from the year in which the house has been acquired or constructed.

Part b

4. **Reverse mortgage loan.**
A type of mortgage in which a homeowner can borrow money against the value of his or her home. No repayment of the mortgage (principal or interest) is required until the borrower dies or the home is sold. After accounting for the initial mortgage amount, the rate at which interest accrues, the length of the loan and rate of home price appreciation, the transaction is structured so that the loan amount will not exceed the value of the home over the life of the loan. **Reverse Mortgage Benefits**. With a **reverse mortgage**, seniors have a valuable tool available to them that can be utilized as part of **their** strategy in financial planning for retirement. There are many features of **reverse mortgage** loans that can **benefit** seniors who are looking to supplement **their** retirement income.

5. **Role of Non- Banking Financial Companies**
(1). Promoters Utilization of Savings:
Non- Banking Financial Companies play an important role in promoting the utilization of savings among public. NBFC‟s are able to reach certain deposit segments such as unorganized
sector and small borrowers were commercial bank cannot reach. These companies encourage savings and promote careful spending of money without much wastage. They offer attractive schemes to suit needs of various sections of the society. They also attract idle money by offering
attractive rates of interest. Idle money means the money which public keep aside, but which is

not used. It is surplus money.

(2). Provides easy, timely and unusual credit:

NBFC‟s provide easy and timely credit to those who need it. The formalities and procedures in case of NBFC‟s are also very less. NBFC‟s also provides unusual credit means the credit which is not usually provided by banks such as credit for marriage expenses, religious functions, etc.

The NBFC‟s are open to all. Every one whether rich or poor can use them according to their needs.

(3). Financial Supermarket:

NBFC‟s play an important role of a financial supermarket. NBFC‟s create a financial supermarket for customers by offering a variety of services. Now, NBFC‟s are providing a variety of services such as mutual funds, counseling, merchant banking, etc. apart from their traditional services. Most of the NBFC‟s reduce their risks by expanding their range of products and activities.

(4). 4). Investing funds in productive purposes:

NBFC‟s invest the small savings in productive purposes. Productive purposes mean they invest the savings of people in businesses which have the ability to earn good amount of returns. For

example – In case of leasing companies lease equipment to industrialists, the industrialists can carry on their production with less capital and the leasing company can also earn good amount of profit.

(5). Provide Housing Finance:

NBFC‟s, mainly the Housing Finance companies provide housing finance on easy term and conditions. They play an important role in fulfilling the basic human need of housing finance. Housing Finance is generally needed by middle class and lower middle class people. Hence, NBFC‟s are blessing for them.

(6). Provide Investment Advice:

NBFC‟s, mainly investment companies provide advice relating to wise investment of funds as well as how to spread the risk by investing in different securities. They protect the small investors by investing their funds in different securities. They provide valuable services to investors by choosing the right kind of securities which will help them in gaining maximum rate of returns. Hence, NBFC‟s plays an important role by providing sound and wise investment advice.

(7). Increase the Standard of living:

NBFC‟s play an important role in increasing the standard of living in India. People with lesser means are not able to take the benefit of various goods which were once considered as luxury but now necessity, such as consumer durables like Television, Refrigerators, Air Conditioners, Kitchen equipments, etc. NBFC‟s increase the Standard of living by providing consumer goods on easy installment basis. NBFC‟s also facilitate the improvement in transport facilities through hire- purchase finance, etc. Improved and increased transport facilities help in movement of goods from one place to another and availability of goods increase the standard of living of the society.

(8). Accept Deposits in Various Forms:

NBFC‟s accept deposits forms convenient to public. Generally, they receive deposits from public by way of depositor a loaner in any form. In turn the NBFC‟s issue debentures, units‟ certificates, savings certificates, units, etc. to the public.

6. **Characteristics of forfaiting**:
• Converts Deferred Payment Exports into cash transactions, providing liquidity and cash flow to Exporter.
• Absolves Exporter from Cross-border political or conversion risk associated with Export Receivables.
• Finance available upto 100% (as against 75-80% under conventional credit) without recourse. Acts as additional source of funding and hence does not have impact on Exporter‟s borrowing limits. It does not reflect as debt in Exporter‟s Balance Sheet.
• Provides Fixed Rate Finance and hence risk of interest rate fluctuation does not arise.

Part c

8. **Underwriting** is an agreement, entered by a company with a financial agency, in order to ensure that the public will subscribe for the entire issue of shares or debentures made by the company. The financial agency is known as the underwriter and it agrees to buy that part of the company issues which are not subscribed to by the public in consideration of a specified underwriting commission. The underwriting agreement, among others, must provide for the period during which the agreement is in force, the amount of underwriting obligations, the period within which the underwriter has to subscribe to the issue after being intimated by the issuer, the amount of commission and details of arrangements, if any, made by the underwriter for fulfilling the underwriting obligations. The underwriting commission may not exceed 5 percent on shares and 2.5 percent in case of debentures.

Types of Underwriting

▪ **Syndicate Underwriting**: - is one in which, two or more agencies or underwriters jointly underwrite an issue of securities. Such an arrangement is entered into when the total issue is beyond the resources of one underwriter or when he does not want to block up large amount of funds in one issue.

▪ **Sub-Underwriting**:- is one in which an underwriter gets a part of the issue further underwritten by another agency. This is done to diffuse the risk involved in underwriting.

▪ **Firm Underwriting**: - is one in which the underwriters apply for a block of securities.

9. **Venture Capital**

Venture is a course of proceeding associated with risk, the outcome of which is uncertain. Capital means resources to start the business

Stages in Venture Capital Financing

Seed stage Financing

The venture is still in the **idea formation stage** and its product or service is not fully developed. The usually lone founder/inventor is given a small amount of capital to come up with a working prototype. It is spent on marketing research, patent application, incorporation, and legal structuring for investors. It's rare for a venture capital firm to fund this stage. In most cases, the money must come from **the founder's own pocket**, from the & quot; 3 Fs & quot; **(Family, Friends, and Fools**), and occasionally from angel investors.

First -stage financing

The venture has finally launched and achieved initial traction. **Sales are trending upwards**. A management team is in place along with employees. The funding from this stage is used to fuel sales, reach the **breakeven point**., **increase productivity, cut unit costs**, as well as build the corporate infrastructure and distribution system. At this point the company is two to three years old.

Second -stage financing

Sales at this point are **starting to snowball**. The company is also rapidly accumulating accounts **receivable and inventory**.

Capital from this stage is used for funding expansion in all its forms from meeting increasing marketing expenses to entering new markets to financing rapidly increasing accounts receivable. Venture capital firms specializing in later stage funding enter the picture at this point.

7. Factoring is defined as "an outright purchase of credit approved accounts receivables, with the factor assuming bad debt losses."

The modern factoring involves a continuing arrangement under which a financing institution assumes the credit control/protection and collection functions for its client, purchases his receivables as they arise (with or without recourse to him for credit losses, i.e., customer's financial inability to pay), maintains the sales ledger, attends to other book-keeping duties relates to such accounts receivables and performs other auxiliary functions.

Types of Factoring:

The types of factoring are discussed below:

(i) Recourse Factoring

(ii) Non-Recourse Factoring

(iii) Advance Factoring

(iv) Confidential and Undisclosed Factoring

(v) Maturity Factoring.

(vi) Supplier Guarantee Factoring

(vii) Bank Participation Factoring

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10. Investment banking perspectives in private equity

Private equity firms, on the other hand, are groups of investors that use collected pools of capital
from wealthy individuals, pension funds, insurance companies, endowments, etc. to invest in businesses. Private equity funds make money from a) convincing capital holders to give them large pools of money and charging a % on these pools and b) generating returns on their

investments. They are investors, not advisors. The two business models do intersect. Investment banks (often through a dedicated group within the bank focused on financial sponsors) will pitch buyout ideas with the aim of convincing a PE shop to pursue a deal. Additionally, a full-service investment bank will seek to provide financing for PE deals. There is less standardization in private equity – various funds will engage their associates in different ways, but there are several functions that are fairly common, and private equity associates will participate in all these functions to some extent. They can be boiled down into four different areas:

- Fundraising
- Screening for and making investments
- Managing investments and portfolio companies
- Exit strategy

11. **Current Indian Scenario:**

The Growth of Silicon Valley Slow Growth in 1960s & early 1970s, and the First Boom Year in 1978: During the 1960s and 1970s, venture capital firms focused their investment activity primarily on starting and expanding companies. More often than not, these companies were exploiting breakthroughs in electronic, medical or data-processing technology. As a result, venture capital came to be almost synonymous with technology finance. Venture capital firms suffered a temporary downturn in 1974, when naturally wary of this new kind of investment fund.1978 was the first big year for venture capital. The industry raised Department reinterpreted ERISA legislation and thus enabled this major pool of pension fund approximately $750,000 in 1978. Highs & Lows of the 1980s: In 1978, the US Labor money to invest in alternative assets classes such as venture capital firms. Venture capital financing took off. 1983 was the boom year – the stock market went through the roof and there were over 100 initial public offerings for the first time in U.S. history. That year was also the year that many of todays largest and most prominent VC firms were founded. Due to the excess of IPOs and the inexperience of many venture capital fund managers, VC returns were very low through the 1980s. VC firm retrenched, working hard to make their portfolio companies successful. The work paid off and returns began climbing back up. The dot com boom: The late 1990s were a boom time for the globally-renowned VC firms on Sand Hill Road in the San Francisco Bay Area. A number of large IPOs had taken place, and access to "friends and family" shares was becoming a major determiner of who would benefit from any such Common investors would have had no chance to invest at the strike price in this stage.
The NASDAQ crash and technology slump that started in March 2000 shook some VC funds significantly by the resulting disastrous losses from overvalued and non-performing startups. By 2003 many firms were forced to write off companies they had funded just a few years earlier, and many funds were found "under water"; (the market value of their portfolio companies were less than the invested value).Venture capital investors sought to reducethe large commitments they had made to venture capital funds. By mid-2003, the venture capital industry would shrivel to about half its 2001 capacity. Nevertheless, PricewaterhouseCoopers Money Tree Survey shows that total venture capital investments hold steady at 2003 levels through the second
quarter of 2005.