

Debt trap is a situation in which a loan is difficult or impossible to repay, it is mainly caused due to high interest.

### # Terms of Credit:

- Terms of credit is a set of conditions under which a loan is given. It may include method of payment, rate of interest, duration of credit and other related conditions.
- Collateral (security) is an asset that the borrower owns such as land vehicle etc and uses this as a guarantee to a lender until the loan is repayed.
- If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.

In village, there may be different credit arrangement for different categories of borrowers -

- loan from Moneylenders
- loan from Traders
- loan from Banks
- loan from employers
- loan from Cooperatives

### Credit Sources in India

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#### FORMAL SECTOR

- The formal are loans from banks and cooperatives
- The Reserve Bank of India supervises the functioning of formal sources of loans.
- The RBI sees that the banks give loans not just to profit-making business and traders but also to small cultivators, small scale industry, to small borrowers etc.
- Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.

#### INFORMAL SECTOR

- The informal lenders include money-lenders, traders, employers, relatives, friends etc.
- There is no organisation which supervises the credit activities of lenders in the informal sector.
- They can lend at whatever interest rate they choose.
- There is no one to stop them from unfair means to get their money back.
- The cost to the borrower of informal loans is much higher as no record of the transactions are kept and poor are harassed.