



## **CORRESPONDENCE WITH BANKS**

### **11.1 Bank – Meaning**

### **11.2 Functions of Commercial Bank**

### **11.3 Precautions to be taken by a Secretary**

### **11.4 Circumstances under which a Secretary has to enter into correspondence with banks**

### **11.5 Specimen letters**

### **11.6 Distinction**

## **INTRODUCTION :**

Bank is a Financial Institution. Bank is one of the important aids to trade. Bank plays an important role in the economic development of the country by providing financial services.

The primary functions of commercial banks include – Accepting deposits and lending funds. Correspondence with banks is essential for every business organization.

### **11.1 Meaning and Definitions :**

#### **Meaning of Bank :**

A bank is a Financial Institution, in which those people who have idle or surplus cash, deposit it in the bank and those who require funds (Loan), borrow from banks.

Banks promote saving habit among the people and channelize these savings into profitable investments.

#### **Definitions of Bank :**

- 1) Cairns Cross: “A Bank is an institution which deal in money and credit”.
- 2) Sec.5(1)(b) of the Banking Regulation Act, 1949  
“Banking means accepting for the purpose of lending or investment of deposits of money from the people repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.”
- 3) Section 5(c) of the Banking Regulation Act, 1949 defines a Banking Company as any company which transacts the business of banking in India.

From the above definitions, we can say that, a bank is an institution which receives money as deposits and lends money in different forms.

## 11.2 Functions of Commercial Bank :

**The commercial bank performs two types of functions namely :** A) Primary functions  
B) Secondary Functions

### A) Primary Functions :

The primary functions of a bank include – 1) Accepting Deposits 2) Lending Money

#### 1) Accepting Deposits :

Accepting deposits from the public is the basic or primary function of commercial bank. The bank pays interest on deposits at a lower rate and charges interest on loan at a higher rate. The difference between these two rates of interest is the profit of the bank.

People who have surplus funds and savings, deposit the amount with the banks in different types of deposits.

**The bank accepts two types of deposits from the public :**

#### I) Demand Deposits :

The deposits which are repayable on demand are called Demand Deposits.

The banks accept the demand deposits in the following forms :

##### a) Savings Deposits :

To encourage saving habit among the people, bank allows depositors to open savings account. There are certain restrictions on the frequency and the amount of withdrawals from savings bank account.

E-statement is available on demand. Pass book is issued to the depositor.

##### b) Current Deposits :

This account is normally opened by business person, firms or companies. There is no limit on the amount or number of withdrawals. Generally, interest is not payable on this account.

Overdraft facility is given only to current depositors, after following the prescribed procedures of the bank.

#### II) Time Deposits :

The deposits which are not repayable on demand are called 'Time Deposits.' These deposits are repayable after a specific period.

The banks accept the Time deposits in the following forms :

##### a) Fixed Deposits :

Fixed Deposits are the deposits received for a fixed period. It carries specified rate of interest, which depends on the period of deposits. The rate of interest is high for fixed deposits. Interest is paid either on periodic basis or on maturity of deposits. Fixed Deposit Receipt (F.D.R.) is issued to the depositor. Loan facility is also given against fixed deposit.

##### b) Recurring Deposits :

In order to encourage customers to make regular savings, banks receive deposits in the form of Recurring Deposits. A customer is required to deposit a fixed sum of money for a specified period of time. The money is deposited periodically. Rate of interest is more than Savings Deposits. Pass book is issued to the depositor. E-Statement is issued on demand.

## **2) Lending Money :**

Out of the deposits accepted, after keeping certain cash reserves, commercial banks grant loans and advances to the needy borrowers.

Commercial banks accept deposits at a lower rate of interest and gives it as loans and advances at a higher rate of interest.

Generally, banks grant loans and advances to the borrowers in the following forms-

### **I) Loans :**

A loan granted for a specific time period against personal security, gold and silver and other movable and immovable assets is called term loan. It is credited in borrowers account.

#### **Types of Term Loans are as under :**

##### **a) Short Term Loans:**

These loans are provided for the period of not more than one year. The rate of interest is higher than call loans and lower than medium term loans. It is required by businessmen in order to fulfill their requirements of working capital.

##### **b) Medium Term Loans :**

These loans are provided by commercial banks for the period from 1-year up to 5 years. The rate of interest charged by bank is higher than short term loans and lower than the long term loans.

##### **c) Long Term Loans :**

When Commercial Banks give loans for a period of more than 5 years, they are referred as Long Term Loans. The rate of interest charged by the Commercial Banks is highest as compared to other types of loans. It is required for growth and development of the business.

### **II) Advances :**

An advance is a credit facility provided by the bank to its customers. It differs from loans, in the sense that, Loans may be granted for longer period, but advances are normally given for a shorter period. The purpose of granting advances is to meet day-to-day requirements of a business. Interest is charged only on the amount withdrawn and not on the amount sanctioned.

#### **Types of Advances :**

##### **a) Overdraft :**

Overdraft is a credit facility granted by bank to current account holders. Under overdraft facility the bank allows its customer to overdraw an amount, upto a particular limit, i.e. to withdraw more than the amount of credit balance in his current Account. The collateral securities usually accepted for overdraft facility are-Shares, Government Securities, F.D.R., L.I.C. Policy, etc. Rate of interest charged by commercial bank for Overdraft is low.

##### **b) Cash Credit :**

A separate cash credit Account is to be opened to avail this facility. Securities like stock of raw material, finished goods etc. are required to avail this facility. Under Cash Credit facility, a bank allows the borrower to withdraw amount upto a specific limit. It is a

separate account where bank credits the sanctioned amount. The borrower can withdraw the amount as and when he needs. Interest is charged on the amount actually withdrawn.

**c) Discounting of Bills :**

A bill of exchange is a Negotiable Instrument. Banks can provide short-term finance by discounting bills, i.e. provide financial assistance before due date of bill.

**Bill of Exchange :** *It is a written unconditional order by Seller (drawer) to the Buyer (drawee) to pay a certain sum of money on a future fixed date for payment of goods or services received.*

**B) Secondary Functions:**

The secondary Functions of a bank can be divided into two parts:-

**1) Agency Functions:** Banks perform various functions on behalf of their

Customers or account holders such as :

- a) Collection of cheques and bills
- b) Collection of Dividend, Interest and Salary
- c) Payment of Rent, Insurance premium, Electricity Bill etc.
- d) Purchase and sale of Securities (Banks play role as Depository participant i.e.D.P.)
- e) Remittances (transfer) of money.
- f) Fulfill standing instructions of depositors
- g) Act as trustees, executor of will and attorney.
- h) Act as Banker to the issue, Lead Manager, etc. for Companies.

**2) Utility Functions :**

The commercial banks also provide following general utility services as :

- a) Safe deposit vaults (Locker Facility)
- b) Letter of Credit
- c) Dealing in Foreign Exchange
- d) A.T.M., Credit cards, Debit cards.
- e) Financial position status Report
- f) Buying and selling of Securities.
- g) Travellers cheque
- i) R.T.G.S. (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer) NACH (National Automated Clearing House) and ECS (Electronic Clearing Service)

**11.3 PRECAUTIONS TO BE TAKEN BY THE SECRETARY WHILE CORRESPONDING WITH BANKS :**

The following precautions must be taken by the Secretary while corresponding with banks.

**1) Prompt reply :**

In any correspondence prompt reply is very important. The replies to the bank are to be sent without any delay.

**2) Brevity/conciseness :**

Correspondence with the banks must be brief and to the point. A letter should not be lengthy. Unnecessary details should be avoided.

**3) Courtesy :**

The letter to the bank should be polite. Secretary should not use any harsh or rude words while corresponding with the banker.

**4) Clarity :**

Clarity is required to avoid misunderstanding with the banker. The Secretary must provide true, factual, update and clear information about his organization to the banker.

**5) Accuracy :**

The Secretary should provide accurate information. The facts and figures in the bank correspondence must be accurate.

**6) Secrecy :**

The Secretary must keep secrecy while corresponding with the Bank and not disclose any confidential matter of the Company.

**7) Legal procedure :**

The Secretary must keep in mind legality of content in correspondence with the bank. While corresponding with the banker in different circumstances, Secretary should enclose necessary documents along with the letter.

**11.4 CIRCUMSTANCES UNDER WHICH A SECRETARY HAS TO ENTER INTO CORRESPONDENCE WITH BANKS :**

The following are some of the circumstances under which the Secretary enters into correspondence with the banks–

- 1) Letter for opening a Current Account with the Bank
- 2) Letter requesting a bank to stop payment of cheque
- 3) Letter requesting a bank for granting overdraft facility
- 4) Letter requesting a bank to issue letter of credit

## 11.5 SPECIMEN LETTERS :

### 1. Letter for opening a current Account with the bank.

The decision of opening a current Account is taken in a board meeting by passing a resolution. The board instructs the Secretary for opening current Account. The Secretary has to write letter to the bank accordingly and enclose necessary documents.

**PLATINUM COMPANY LTD.**

Registered office 35,Platinum House,  
J.M.Road, Nariman Point, Mumbai-400 021  
CIN – L30309 MH2017PLC123075

Phone : 022-12111972  
Fax : 022-35029191

Website –www.Platinum limited.com.  
Email-Platinum30@gmail.com

Ref-P/BK/07/18-19

5<sup>th</sup> June, 2018

The Bank Manager,  
Bank of Maharashtra,  
30,J.M. Road, Nariman Point,  
Mumbai-400 021.

**Sub- Opening of a Current Account**

Dear Sir,

This is to request you to open a Current Account in the name of our company i.e. Platinum Company Limited.

The Board of Directors of the company has passed a resolution to this effect in their meeting held on 27<sup>th</sup> May.2018. Please find enclosed herewith the following documents for the purpose of opening Current Account of our company :

- 1) The Current Account Opening Form duly filled, signed and dated
- 2) Certified copy of Certificate of Incorporation of the Company
- 3) Certified copies of the Memorandum and the Articles of Association of the company
- 4) Certified copy of list of present Directors of the company
- 5) Specimen signature card containing signatures of two Directors Mr.Yash and Ms.Yukta and the Company Secretary
- 6) Certified copy of Board Resolution dated 27<sup>th</sup> May, 2018
- 7) Duly filled up pay in slip along with ₹.3000/- (Rupees Three Thousand only) in cash as initial deposit
- 8) Copies of PAN and TAN card

Thanking you,

Yours faithfully,  
For Platinum Company Ltd.  
Sign  
Company Secretary

**Encl - As above**

## 2. Letter requesting a bank to stop payment of cheque.

Company issues cheques to various parties in settlement of their dues. These cheques are sent by post or by hand delivery. There is a possibility of misplacement of cheque or loss of cheque in transit.

Therefore, it is necessary to inform the bank about the loss of cheque with the instruction to stop payment of such cheque. In these circumstances, the Secretary must mention all details of cheque such as cheque number, name of the party in whose favour the cheque is issued, date of cheque and amount of cheque etc. in the letter.

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Phone : 022-12111972  
Fax : 022-35029191

Website –www.Platinum limited.Com.  
Email-Platinum30@gmail.com

Ref-P/BK/08/18-19  
The Bank Manager,  
Bank of Maharashtra,  
30,J.M. Road, Nariman Point,  
Mumbai-400 021.

12<sup>th</sup> February, 2018

**Sub : Stop Payment of Cheque No.017913.**

Ref- Our Current Account No.1555

Dear Sir,

We request you to stop payment of the cheque No.017913 dated 5<sup>th</sup> February, 2018 of ₹ 1,50,000/- issued by the company, from Current Account No.1555 in favour of M/s.N.J. Industries, Pune.

The said cheque is reported lost by the party. As a precautionary measure, we request you to stop payment of the said cheque.

Inconvenience caused to you is regretted.

Thanking you,

Yours faithfully,  
For Platinum Company Ltd.

Sign  
Company Secretary

### 3. Letter requesting a bank for granting overdraft facility.

It is a widely prevailing method of providing short term credit facility which a bank extends to its Current Account holders. The banker allows a Current Account holder, to withdraw more than the balance available in the Current Account for a short period. The bank fixes overdraft limit against securities.

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Email-Platinum30@gmail.com

Ref-P/BK/09/18-19

5<sup>th</sup> July, 2018

The Bank Manager,  
Bank of Maharashtra,  
30,J.M. Road, Nariman Point,  
Mumbai-400 021.

**Sub- Grant of overdraft facility.**

Ref- Current Account No.1555

Dear Sir,

Our company has a Current Account with your bank since last 5 years (Current A/C.No.1555)

The Board of Directors in its meeting held on 3<sup>rd</sup> July,2018 has decided to request you to grant overdraft facility of ₹ 5 Lakhs for a period of 3 months, from August to October 2018.

We are the Manufacturer of computer peripherals. We have received a large export order, for which we need working capital for a short period.

We request you to accept security of fixed deposits worth ₹ 5 Lakhs with your bank.

An early reply will be appreciated.

Thanking you,

Yours faithfully,  
For Platinum Company Ltd.

Sign  
Company Secretary



#### 4. Letter requesting a bank to issue letter of credit.

A letter of credit is a payment or method, generally used for an International trade transactions. Letter of credit is issued by a bank on behalf of its client promising to pay certain amount of money to the seller in case the buyer fails to pay it. This letter is given by buyer to the seller.

**PLATINUM COMPANY LTD.**

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J.M.Road, Nariman Point, Mumbai-400 020  
CIN – L30309 MH2017PLC123075

Phone : 022-12111972

Website –www.Platinum limited.Com.

Fax : 022-35029191

Email-Platinum30@gmail.com

Ref-P/BK/10/18-19

30<sup>th</sup> April, 2018

The Bank Manager,  
Bank of Maharashtra,  
30,J.M. Road, Nariman Point,  
Mumbai-400 020.

**Sub- Issue of Letter of Credit**

Ref- Our Current Account No.1555

Dear Sir,

We are pleased to inform you that, we want to import photo copying machines and printers from Japan.

As per the quotation received from Canon Photo Copies of Japan, we have placed an order for importing two photo copying machines and printers for 80,00,000 Yen.

The above mentioned company of Japan requested us to send a Letter of Credit for the said amount as per the terms and conditions of the contract.

As security, we are submitting Fixed Deposit Receipt of Rs. Fifty lacs with your bank.

I request you to issue us a Letter of Credit in favour of the said company of Japan for 80,00,000 Yen. We are willing to offer other required security for this purpose.

Kindly issue a letter of credit as early as possible.

Thanking you,

Yours faithfully,  
For Platinum Company Ltd.

Sign  
Company Secretary

## 11.6 Distinction between

### 1. Current Account and Savings Account

| Sr. No. | Points             | Current Account  | Savings Account   |
|---------|--------------------|--|---|
| 1)      | Meaning            | Current Account is that account which is opened by businessman and others who have regular banking transactions. | Savings Account is that account which is opened by individuals in order to save a part of their income. |
| 2)      | Withdrawals        | Depositors or Customers can withdraw money from bank by cheques.   | Depositors or Customers can withdraw money from bank either by cheques or by Withdrawal Slip.           |
| 3)      | Facilities         | The bank gives a Passbook, Cheque book, Statement of account and pay-in-slip book to the Current Account holder. | The bank gives a Passbook, Chequebook, and pay-in-slip book to the Saving Account holder.               |
| 4)      | Rate of Interest   | Normally, interest is not given on Current Account or it may be given at a nominal rate.                         | The rate of interest is higher than Current Account.  |
| 5)      | Overdraft facility | Overdraft facility is given to Current Account holder.   | No Overdraft facility is given to Savings Account holder.   |
| 6)      | Suitability        | It is suitable for traders, businessmen, firms and institutions.   | It is suitable for salary earners and fixed income group.   |

### 2. Fixed Deposit Account and Recurring Account

| Sr. No. | Points           | Fixed Deposit Account   | Recurring Deposit Account  |
|---------|------------------|---|--|
| 1)      | Meaning          | Fixed Deposit Account is that account where a fixed sum of money is deposited for a fixed period. | Recurring Deposit Account is that account where depositors can regularly deposit fixed amount for a specific period. |
| 2)      | Facilities       | The bank gives a Fixed Deposit Receipt to the Depositor.  | The bank gives a Pass book and Pay-in-Slip book.   |
| 3)      | Rate of Interest | Interest rate is higher. Longer the period, higher will be the rate of interest.                  | The rate of interest is higher than Savings Account but less than Fixed Deposit Account.                             |
| 4)      | Suitability      | It is suitable for any person with surplus income.  | It is suitable for fixed income group.   |

### 3. Loan and Overdraft

| Sr. No. | Points      | Loan   | Overdraft   |
|---------|-------------|--|---|
| 1)      | Meaning     | It is an arrangement under which a certain amount is advanced for a certain fixed period.    | It is an arrangement under which the current account holder is allowed to overdraw in excess of the balance from Current Account. |
| 2)      | Eligibility | Any account holder i.e. Current, Savings, Fixed, Recurring can get a Loan.                   | Only Current account holders can get overdraft facility.  |
| 3)      | Duration    | It is for long period.   | It is for short period.   |
| 4)      | Purpose     | The Purpose is to meet long term requirements.   | The Purpose is to meet short term working capital requirements.   |
| 5)      | Repayment   | Amount of Loan with interest is to be repaid in installments or in lump sum on the due date. | Amount of overdraft is adjusted against the balance of deposits in the current account.   |
| 6)      | Security    | Some valuable assets are to be given as security.  | Overdraft is sanctioned against hypothecation of stock, pledge of Fixed Deposit Receipts.   |



**Activity :** Visit a bank and collect the Form of opening a bank account and find-out the details to be filled and the documents needed to open an account.

#### SUMMARY

- A Bank is one of the important Financial Institution in the business sector. It helps the company in various economic transactions.
- It is an institution where money is lent, borrowed, exchanged, issued, deposited and remitted. Banks play an important role in the economic development of any country.
- The Secretary has to correspond with the bank. There are several occasions or circumstances, where the Secretary has to correspond with the bank such as- Opening Current Account, stop payment of Cheque, Granting overdraft facility, requesting a bank to issue Letter of Credit etc.
- The Secretary has to be polite, precise and accurate while writing letters to the bank.



## EXERCISE

**Q.1 A. Select the correct answer from the options given below and rewrite the statements.**

- 1) A company usually opens ..... account in a bank.  
a) Current      b) Saving      c) Recurring
- 2) Bank is a ..... institution.  
a) financial      b) social      c) cultural
- 3) The appointment of banker is usually made by the ..... .  
a) Board of Directors      b) Secretary      c) Chairman
- 4) Resolution for opening Bank Account is passed in the ..... meeting.  
a) Board      b) Statutory      c) Annual General
- 5) Bank provides overdraft facility to ..... account holder.  
a) Current      b) Saving      c) Fixed Deposit
- 6) ..... is used for depositing cash into a bank account.  
a) Pay-in-slip      b) Withdrawal slip      c) Cheque
- 7) Borrowing/Accepting and lending money are considered as ..... functions of bank.  
a) Primary      b) Secondary      c) Agency
- 8) Withdrawals are not permitted from the ..... deposit account.  
a) Fixed      b) Current      c) Savings
- 9) ..... account is suitable to salaried people.  
a) Savings      b) Current      c) Fixed
- 10) Generally Interest is not paid on ..... deposit account.  
a) Current      b) Saving      c) Fixed
- 11) A deposit which is kept for fixed period in bank is called ..... deposit.  
a) Fixed      b) Current      c) Recurring

**B. Match the pairs.**

| Group 'A' |                       | Group 'B' |  |
|-----------|-----------------------|-----------|--|
| a)        | Lost cheque           | 1)        | Board of Directors                       |
| b)        | Appointment of Banker | 2)        | Higher rate of interest                  |
| c)        | Cash credit           | 3)        | Used for depositing cash and cheque      |
| d)        | Fixed Deposit Account | 4)        | Stop Payment                             |
| e)        | Savings Account       | 5)        | Restrictions on withdrawals              |
| f)        | Pay-in-slip           | 6)        | Separate Account                         |
| g)        | Overdraft facility    | 7)        | Current Account                          |
|           |                       | 8)        | Recurring Account                        |
|           |                       | 9)        | Shareholders                             |
|           |                       | 10)       | No interest is paid                      |
|           |                       | 11)       | Used for withdrawing amount from account |
|           |                       | 12)       | Long term credit facility                |
|           |                       | 13)       | No restrictions on withdrawals           |
|           |                       | 14)       | Dealing in foreign exchange              |

**C. Write a word or a term or a phrase which can substitute each of the following statements.**

- 1) A slip used for depositing cash and cheque in the Bank account.
- 2) Permission to withdraw excess amount from Current Account.
- 3) Separate loan account under which the short term loan facility given by bank to the business.
- 4) The short term credit facility given by bank to current account holder.
- 5) The account which is generally opened by business organization.
- 6) Request of Secretary to the bank not to make the payment of cheque.
- 7) The type of account for which higher rate of interest is paid to bank depositors.
- 8) The slip which is used for withdrawing money from Savings Account.
- 9) Negotiable Instrument which can be discounted with the bank.

**D. State whether the following statements are True or False.**

- 1) Joint Stock Company opens Current Account.
- 2) Generally no interest is paid by bank on Current Account.
- 3) In cash credit, customers account is credited by bank with sanctioned amount.
- 4) Board resolution is not required to open the Current Account with the bank.
- 5) Bank account of company is operated by shareholder.
- 6) Overdraft facility is granted to Savings account holders.
- 7) Bank correspondence should be brief and to the point.
- 8) It is necessary to instruct the bank to stop payment of a cheque which is lost.
- 9) Bank overdraft facility is a long term facility.
- 10) Banks grant long term loans only.

**E) Find the odd one.**

- 1) Saving Deposit, Recurring Deposit, Cash Credit, Fixed Deposit.
- 2) Over draft, Fixed Deposit, Discounting of Bills, Cash Credit.

**F) Complete the sentences.**

- 1) A financial institution which receives deposits and lends money is called as .....
- 2) Accepting deposits and lending money are the primary functions of .....
- 3) A facility under which a customer can overdraw money from his account is called as .....
- 4) Overdraft facility is given to .....

**G) Select the correct option from the bracket.**

| Group 'A'                           | Group 'B'       |
|-------------------------------------|-----------------|
| 1) Overdraft                        | -----           |
| 2) Primary Function                 | -----           |
| 3) International Trade Transactions | -----           |
| 4) -----                            | Current Account |

(Accepting Deposits, Current Account, Letter of Credit, Businessman)

**H) Answer in one sentence.**

- 1) What is a Letter of Credit?
- 2) Which facility is given to Current Account holder?
- 3) What do you mean by stop payment of cheque?

**I) Correct the underlined word and rewrite the following sentences.**

- 1) Accepting deposits is the Secondary function of Banks.
- 2) Businessman opens Fixed Deposit Account.
- 3) Under Cash Credit facility businessman / Account holder can overdraw from his account.

**Q.2 Explain the following terms/concepts.**

- 1) Bank
- 2) Demand Deposits
- 3) Time Deposits
- 4) Savings Deposits
- 5) Current Deposits
- 6) Recurring Deposits
- 7) Fixed Deposits
- 8) Loans
- 9) Advances
- 10) Cash Credit
- 11) Overdraft
- 12) Discounting of Bill
- 13) Letter of credit
- 14) Stop payment of cheque

**Q.3 Distinguish between the following.**

- 1) Current Account and Savings Account
- 2) Loan and Overdraft

- 3) Fixed Deposit and Recurring Deposit

**Q. 4 Answer in brief.**

- 1) What are the points to be kept in mind by a Secretary while corresponding with Banks?
- 2) Under what circumstances will a Secretary correspond with the Banks?
- 3) State the Agency functions of Banks.
- 4) State the Utility functions of Banks.
- 5) Explain the different types of Deposits.

**Q.5 Justify the following statements.**

- 1) The secretary has to correspond with the Banks under certain circumstances.
- 2) The secretary should observe certain precautions while corresponding with the Banks.
- 3) The Primary functions of Commercial Banks include-Accepting deposits and leading funds.
- 4) The Bank accepts two types of deposits from the public i.e. Demand and Time Deposits.
- 5) There is a difference between Loans and Advances given by the Bank.
- 6) Overdraft facility is given only to current depositors.

**Q.6 Attempt the following.**

- 1) Write a letter to bank for opening a Current Account.
- 2) Write a letter to bank to stop payment of cheque.
- 3) Write a letter requesting the banks to issue Letter of Credit.
- 4) Write a letter requesting the bank for granting Overdraft facility.

