

## Formal Sector Loans

- Rate of interest charged is low
- collateral must be given for loan.
- It's compliance and supervised by RBI
- more paper documents required and time consuming
- ex: bank, cooperatives

## Informal Sector Loans

- Rate of interest charged is high
- ready to give loans with collateral free.
- no organisations to supervise them.
- less paper documents required and less time consuming
- Ex - Moneylender, friends

2. Why should credit at a reasonable rates be available for all?

Ans: Credit at reasonable rates should be available for all, so that the poor people can benefit from the cheaper loans.

3. Should there be a supervisor such as the RBI, that looks into the loan activities of informal lenders? Why would its task be quite difficult?

Ans: There should be a supervisor for checking the loan activities of informal lenders. However, its task is quite difficult because many people have diff. kind of business on their own. They are also not registered with the govt.

4. Why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households?

Ans: Richer households have greater capacity to repay compared to poorer households. It is higher because they have better position to provide collateral and other necessary documents. They can exert pressure than poor.