Q52

Consider the following statements : Statement-I : Syndicated lending spreads the risk of borrower default across multiple lenders. Statement-II : The syndicated loan can be a fixed amount/lump sum of funds, but cannot be a credit line. Which one of the following is correct in respect of the above statements ? (a) Both Statement-I and Statement-II are correct and Statement- II explains Statement-I (b) Both Statement-I and Statement-II are correct, but Statement-II does not explain Statement-I (c) Statement-I is correct, but Statement-II is incorrect (d) Statement-I is incorrect, but Statement-II is correct Official key: C.

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Explanation

(a)

- **Both correct and II explains I. Statement-II is false:** a syndicate can include a revolving credit line.

(b)

Both correct but II does not explain I. II is still the false limb.

(c) Official key

I correct, II incorrect. Risk is spread across lenders; the facility need not be a lump sum only.

(d)

I incorrect, II correct. Syndicated lending does spread default risk.

Summary

The Commission later dropped this item, so there is no official key to mark. Still walk the options. Syndicated lending does spread borrower-default risk across banks. A syndicated facility can be a term loan or a revolving credit line - Statement-II over-claims. Coaching keys (c); WRAP does not stamp Official key on a withdrawn row.

Related possible facts

These can be asked in a future Prelims paper.

Syndicated loan
One facility funded by a group of lenders under a common agreement.

Revolving credit

A line the borrower can draw, repay and redraw up to a limit.