

# Difference Between Overdraft and Loan



. When a customer wants to borrow money from the bank, a customer can avail the facility of an overdraft or loan in need.

## Overdraft

- An overdraft is one kind of facility provided by the banks to its customer.
- In an overdraft facility, a bank has permitted to withdraw the money to do the transactions.
- When the balance of an account holder goes below zero, a customer can use this facility.
- An overdraft limit is drawn by the bank it means a bank decides up to which limit an amount to give as an overdraft.
- In overdraft, a time limit by which an amount must be debited to the bank and that is also decided by the bank.
- To avail an overdraft facility, the client must have a current account in the bank.
- An overdraft facility depends on the customer's credit, eligibility and transactions a bank charges an interest on that.
- When the negative balance exceeds the agreed conditions, a higher rate of interest is applied.

## Loan

- A Loan is a money which can be borrowed from a bank or any financial institutions.
- So, a loan is fixed amount of credit given to the client by the bank for a pre-determined period.
- A loan is always for some specific amount, time and for a specific interest rate.
- A loan is repaid in instalments along with the interest applicable in a future.
- If a customer fulfils the eligibility criteria then only a loan will pass.
- A loan is given against some security provided by the customer to the bank, a security may be a property, gold, etc.
- If in case a creditor fails to pay the money a debtor can use this security to cover the loan amount.
- A loan is a lending of money by the bank to an individual or an entity.
- A loan is one kind of debt given to the customer for a certain period of time.
- A loan is an agreement between the bank and a customer to repay it in future

## Difference Between Overdraft and Loan

Overdraft	Loan
An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero.	So, a loan is fixed amount of credit given to the client by the bank for a pre-determined period.
An overdraft facility is provided by the banks.	A loan is borrowed by the customer from the bank.
An overdraft is for a short period of time.	A loan is for a longer period of time.
An overdraft facility is generally used by the company to run their day to day transactions.	A loan is borrowed by both an individual and business entity also for long term purpose.
An interest is just charged on the amount overdrawn.	In a loan, an interest is charged on the whole amount.

In overdraft, an interest is payable by depositing money in bank account.	In a loan, a repayment is done by EMIs.
An interest is calculated on a daily basis.	An interest is calculated on monthly basis.

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