

## A B S T R A C T

Cash flow lending and security oriented lending have been subject to various researches in different contexts in the World and the two concepts have behaved differently in different parts of the World. However, in Sri Lankan context, there is hardly any evidence to come to a conclusion on the effectiveness of these lending types. Hence, this study is focused on the effectiveness of cash flow lending, Security Oriented and a mix of these two (which is called as Mixed type of lending) against each other in Sri Lankan context. The first hypothesis of the research says that there is a significant difference between the three lending types whilst the second hypothesis is based on the argument that cash-flow lending is more effective than security oriented lending and the third hypothesis states that mixed type of lending is more effective than security oriented lending and finally the fourth hypothesis argues that cash-flow lending is more effective than mixed type of lending.

The research was carried out as a field survey using data collected on 105 loans of nine branches of National Development Bank of Sri Lanka (NDB) The primary data collected using a questionnaire sent to loan officers of the branch network of NDB. The data was analyzed using ANOVA, correlation analysis and regression analysis.

First, it was revealed that there is a significant difference at least amongst two of the lending types. Then, the findings revealed that there is a significant difference between cash flow lending and security oriented lending, and between mixed type of lending and security oriented lending. Finally, the results reveal that the mean value for effectiveness of cash flow lending is greater than that of security oriented lending and the mean value of effectiveness of mixed type of lending is greater than security oriented lending.

Therefore, the results of the study justifies that the cash flow lending is superior than security oriented lending and mixed types of lending is superior than security oriented lending.

Moreover, the study was helpful to formulate two models for effectiveness of security oriented lending and mixed type of lending. In the model for cash flow lending, the effectiveness is positively related to the past repayment and income generated from other loans and negatively related to the income generated from other products and services. In the model for mixed type of lending the effectiveness positively related to the past repayment of loans, interest mark-up generated from the loan and ability to grant another loan to the same client.