

# CHAPTER

## IV

## CHAPTER IV

---

### *Recovery of Loans and Outstandings:*

#### **4.1 Introduction:**

Where there is monetary transaction, problems in respect of recovery of the debt or money are bound to exist. But to avoid such problem any organization run for profit earning cannot afford to strictly practice the slogan given below:

Your ask credit,  
I no pay,  
You get mad.  
I give credit,  
You no repay,  
I get mad.  
Better you get mad.  
**-- Confucius \***

The corporation which has been established with the main objective of acting as a development bank/development catalyst cannot even dream of practicing the slogan mentioned above. At the most, it can strive hard to keep the percentage of overdues at minimum level possible.

The discussion made may help the readers grasp the state of affairs relating to recovery of loans, advances by MSFC. \*(Above slogan was collected from counter of shopkeeper).

## **4.2 Brief Meaning of Recovery:**

When the borrower fails to repay the loan on the due date a notice calling upon him to repay their dues within a specified time should be given and if no response is received a reminder should be sent by registered post informing the borrower that the security asset would be auctioned and after adjusting the sale proceeds against the outstanding dues to the bank the balances, if any would be paid the borrower against this receipt.

Financial corporations, like MSFC give loans and advances to the individuals or industries for surviving the industry or doing any legal type of business. The organization gives loan facilities on time limit. That is loan is given to customers by three types;

- a. Short term loan
- b. Medium term loan
- c. Long term loan

The period of short term loan is one to two years. The period of medium term loan is five to ten years. The period of long term loans is up to twenty years or even more.

When the loan given by the corporation or any institution is not refunded by the customers within given period at that time the problem of recovery occurs. And if the corporation fails to recover his dues from customer either directly or through the court then the problem of recovery arises.

Credit is a very scarce resource particularly in a country like India, where poverty, unemployment and double digit inflation are pervasive phenomena. In a prudential economy both lending and recovery are considered to be two sides of the same coin. While inadequate and improper allocation of credit endangers the basic socio-

economic philosophy of the country, mounting of overdues of credit endangers the foundation on which the banking system rests. The timely recovery of funds lent is prerequisite for the continuous recycling of funds, which in turn has many effects on the utilization of credit. That is non repayments of loans by the borrower lead to blocking up of funds in the hands of a few and ultimately the benefits of credit cannot be passed on to a large section of people who are in the need of credit. On the other hand mounting of over dues weakens the corporate strength of the credit agencies. Sometimes, the problem of over dues threatens the liquidity position of putting the financial planning and decision making in disarray. Then once a loan is arrears, collection of such a loan becomes a difficult and an uneconomical task. Therefore, judicious paying of credit and also timely repayment of credit are very important for the healthy and effective functioning of financial corporations system.

#### **4.3 Recovery procedure of MSFC:**

When recovery problem arises then MSFC takes following some of the steps:

- a.** Postal reminders
- b.** Go on personal visits
- c.** Try to arrange payment through marketing agency.
- d.** Take help from guarantees.
- e.** Seek help from block revenue authorities
- f.** Remind the borrower through his neighbours
- g.** Send reminder through the borrowers.
- h.** One time settlement option proposed to borrower

Each of the above recovery measures may be set with a number of problems, but a concerted effort by the institute may bring fruitful results. Some of the problems faced in the recovery are:

- a. Non availability of borrower
- b. Misbehaviour of the borrower
- c. Weak explanations and presumptions by the borrower
- d. Refusal by the borrower to accept registered postal reminders.
- e. Local leaders interference
- f. Selling of hypothecated goods
- g. Borrowers demand for more loan for wasteful expenditure
- h. Inaccessible villages

Some of the following steps can be taken towards recovery:

1. Approach the borrower through governmental agencies.
2. Contacting the guarantors
3. Approaching through marketing agencies
4. Seeking the interference of influential and honest persons of the village.
5. Seeking the help of friends and relatives

If all these fail in recovery of the loan, the only course left is “legal action” i.e. through court.

#### **4.4 Working of MSFC to increase the rate of recovery:**

For better working and increase the rate of recovery, MSFC,s all units work very hard. If installments remain pending by the borrower then MSFC’S officers remind such borrowers for the payment of their installment at the earliest. Following are some steps taken by MSFC for increasing the rate of recovery:

1. **Postal Reminders:** Postal reminders are send to the defaulter for two or three times.
2. **Registered Postal Reminder:** After sending simple postal reminder for two or three times, if defaulter does not contact to the office, then MSFC sends registered postal reminder to the defaulter as well as to the guarantors.

3. **Personal visit:** If registered postal reminder also not works, then officers plan personal visit to the defaulter's residence or business place and convince him to pay their outstanding installments.
4. **Warning Notice:** If all above the steps fail, then MSFC sends notice through advocate to the defaulter and warn them to pay the installments as early as possible.
5. **Possession Notice:** MSFC then sends a possession notice for non payment of installment. Under this notice defaulter gets warned for earliest payment of his dues. In this notice detailed information of defaulter's account is given. for example: details about principal amount due, Interest payable, penal interest payable and total dues etc.
6. **Notice to take over collateral security:** After that MSFC sends notice to defaulters for taking over collateral security. Notice is sent to the owner of the collateral security and borrower also. In this notice all detailed information according to their loan account, security position, hypothecation, overdues of interest and principal amounts of defaulter are given
7. **One time settlement:** MSFC offers to the defaulter one time settlement package for increasing the rate of recovery. One time settlement is the scheme for defaulter wherein some of the interest is waived. The defaulter is suggested to pay a single installment for unpaid installments/ balance.

#### 4.5 Advances, loans and overdues of MSFC, Kolhapur region:

##### Classification of Target given and actual amount recovered by MSFC, Kolhapur (Rs. In lakhs)

Sr. No	Particulars	2003-04			2004-05		
		Target	Actual	% Recovery	Target	Actual	% Recovery
1.	Principal amount	1137.35	1119.49	98.42	969.41	840.15	86.66
2.	Interest Amount	343.20	289.51	84.35	232.50	133.37	57.36
Total		1480.55	1409.00	95.16	1201.91	973.52	80.99

In the year 2003-04 actual target given of principal amount was Rs. 1133.35 lakhs and for interest amount Rs. 343.20 lakhs. But actual recovered by MSFC was Rs. 1119.49 lakhs and 289.51 lakhs of principal and interest amount respectively. Total percentage of recovery was 95.16 for the year 2003-04.

In 2004-05 actual target given was Rs. 969.41 lakhs for principal amount and Rs. 232.50 lakhs for interest amount, but actual recovered by MSFC Rs. 840.15 and Rs. 133.37 lakhs for principal and interest amount. Percentage of recovery was 80.99 for the year 2004-05.

The figures of 2004-05 show decrease in the rate of recovery compared to the figures of 2003-04.

Telex No. : 195 269 MSFC IN  
Telegram : STAFICO

Telephone : 652451 - 52

# MAHARASHTRA STATE FINANCIAL CORPORATION

Incorporated under State Financial Corporations Act, 1951. (No. LXIII of 1951) 2

## REGIONAL OFFICE : KOLHAPUR

Please address  
all letters to the  
Regional Manager



Udyog Bhavan  
Assembly Road.  
KOLHAPUR - 416 003

Ref. \_\_\_\_\_

Date \_\_\_\_\_

Dear Sir,

Re : Loan to you - Payment of Overdues.  
Account No. \_\_\_\_\_

It is observed from our record that you have committed serious defaults in payment of dues of the Corporation. The overdues have been increased to Rs. \_\_\_\_\_ as on \_\_\_\_\_ as under :-

	A/c.No. _____		Total
	Rs.	Rs.	Rs.
Principal			
Interest			
(Cal. upto _____			
due on _____			
Expenses			
(Debited upto _____)			
Total	_____	_____	_____

Further, the next Principal / interest instalment will be due on \_\_\_\_\_.

Despite of repeated reminders and personal contacts by the recovery officer you have neither made the payment nor submitted any concrete proposal for payment of dues of the Corporation period. In order to avoid further unpleasant action to be taken against you, we hereby call upon you to pay the substantial overdues and also submit concrete proposal acceptable to the Corporation for payment of balance dues. In case we do not receive any favourable response from you within a period of \_\_\_\_\_ days from the date of this letter, the Corporation shall be constrained to initiate suitable legal action against you for recovery of dues entirely at your risks, as to the cost and consequences thereof which may please be noted.

Yours faithfully,

BY: MANAJI (H.O.).



Telegram:STAFICG

Telephone:652451/52

**MAHARASHTRA STATE FINANCIAL CORPORATION**

Incorporated under State Financial  
Corporations Act 1951. (No. LXIII OF 1951)

**REGIONAL OFFICE : KOLHAPUR**

Please address  
all letters to  
the Regional  
Manager

"UDYOG BHAVAN"  
Assembly Road  
KOLHAPUR-416003

BY REGD. A.D./U.C.P./ORDINARY POST

POSSESSION NOTICE

WITHOUT PREJUDICE

Ref No. KRO/RCY/42

Date :

M/S. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

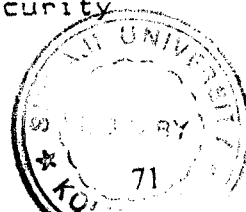
Dear Sir,

RE: RECOVERY OF LOAN TO YOU.

As you are aware that out of total loan/s of Rs. \_\_\_\_\_ sanctioned to you, the Corporation has disbursed to you an aggregate loan/s of Rs. \_\_\_\_\_, against which you have executed a Mortgage dated \_\_\_\_\_ and further charge date \_\_\_\_\_ under Equitable Mortgage created on \_\_\_\_\_ and Letter of Hypothecation \_\_\_\_\_ hereinafter collectively referred to as the said "loan security documents" dated \_\_\_\_\_ securing to our Corporation the assets therein mentioned.

Under the said loan security documents you have agreed to repay to the Corporation the said sanctioned aggregate sum of Rs. \_\_\_\_\_ by the instalments with interest at the rate and other moneys in the manner and on the dates mentioned in the said loan security documents.

For the consideration aforesaid, you have by the said loan Security Documents/ mortgaged by way of first charge all your land and building/s situated at \_\_\_\_\_ and all the plant fixed and unfixed machinery, fixtures, implements, fittings and other installations and all other articles chattels and things whether fixed or lying in the said premises or any godown of your company/ concern described in short particulars of the main items where of are described in the schedule to the said loan security documents which were then or which may thereafter from time to time be brought in/bought in or be placed in the said premises as security for repayment of the said loans to the Corporation.



By the said loan security documents the Corporation is entitled to enter into possession of the mortgaged and hypothecated property and also has a power to sell the mortgaged and hypothecated property or give it on lease for realising the dues from you.

It is further provided in the said loan security documents that over and above these rights and powers, the Corporation is entitled to take possession of the assets mortgaged and hypothecated to the Corporation by virtue of the State Financial Corporations Act 1951 (hereinafter called SFC Act.)

In the Clause No. \_\_\_\_\_ of the said Mortgage dated \_\_\_\_\_ Letter of Hypothecation dated \_\_\_\_\_ Equitable Mortgage and Letter of Hypothecation it is inter alia provided that the principal moneys or any balance thereof and all other moneys due thereunder shall become immediately payable and security thereby constituted shall become enforceable forthwith in case of any of the events mentioned thereunder.

In the past you had committed defaults and taking into consideration representation and solely relying on your representation the Corporation had considered reschedulements in payment of dues on \_\_\_\_\_ on \_\_\_\_\_ on \_\_\_\_\_.

In spite of reschedulements granted to you by the Corporation, you have once again committed defaults in payment of dues as per reschedulement/s and you had no concrete scheme/plan for payment of dues of the Corporation. (Please narrate reschedulement, time granted, other reliefs given to the concern in details if any).

In spite of latitude shown to you and repeated reminders sent by the Corporation to you, you have failed and neglected to honour the commitment given by you from time to time. The cheques issued by you as per your commitments returned dishonoured for \_\_\_\_\_ times, hence a warning letter was sent to you on \_\_\_\_\_ communicating the intention of the Corporation to initiate suitable action against you, for recovery of the dues.

In addition to this you have also committed following breaches :

- i) The unit is intermitently working/ closed and its production is very much below the breakeven level.
- ii) You have not furnished the audited accounts despite of specific condition to this effect as contained in the said loan security documents.
- iii) The inter-linking of funds in sister institution/concern.
- v) Continuous losses for last three years.
- ) Not renewing insurance policies.
- i) Given misleading information.
- ii) The assets shifted without permission of Corporation.

(In case the machinery items are missing. It should specifically mentioned about the name.)

In spite of repeated request made by the Corporation to you, you have failed and neglected to pay the following dues of the Corporation.

(Incorporate the Overdues)

Principal	: Rs.
Interest (Calculated upto _____)	: Rs.
Expenses (debited upto _____)	: Rs.
Total	: Rs. _____

Under the circumstances the Corporation has become entitled to recover forthwith from you the entire outstanding loan together with compound interest as well expenses till receipt of payment.

The Corporation has therefore decided to call upon you to forthwith repay to the Corporation the total outstanding loan of Rs. \_\_\_\_\_ as due as on \_\_\_\_\_ as detailed below together with future compound interest thereon and expenses as per the said loan security documents and in case you fail to do so to take over possession of your assets mortgaged pursuant of the powers vested with the Corporation under the said SFCs Act.

(Please give outstanding)

Principal	: Rs.
Interest (Calculated upto : _____)	: Rs.
Expenses (Debited upto _____)	: Rs.
Total	: Rs. _____

We are accordingly hereby calling upon you to forthwith repay the Corporation the said outstanding loan of Rs. \_\_\_\_\_ with future expenses and future compound interest as aforesaid. Please note that in case you do not repay the entire loan by \_\_\_\_\_, then the Authorised Officer of the Corporation will be coming to your factory premises on \_\_\_\_\_ to take over possession of all your assets mortgaged and hypothecated to the Corporation which assets will be disposed off pursuant to the powers vested in the Corporation by virtue of provision of Section 29 of the said SFCs Act, 1951 as well the said loan security documents entirely at your risk as to the cost and consequences. We hereby further call upon you to remove the raw materials, all

types of goods and materials which are not mortgaged and hypothecated to the Corporation on or before \_\_\_\_\_ from the factory premises failing which the Corporation will remove and keep the same outside the factory premises entirely at your risk as to the loss and damages if any caused there to.

We have therefore to advise you that in case you fail to repay the entire dues of the Corporation you may keep your representative present in your factory premises on \_\_\_\_\_ at \_\_\_\_\_ a.m./ p.m. to handover the possession of your mortgaged and hypothecated property to our Corporation after joint inventory.

In case you or your representative fails to remain present at the time of taking over the possession, the Authorised Officer of Corporation will break open the locks and take possession of the unit as per the provisions of Section 29 of the SFCs Act, 1951.

Yours faithfully,

REGIONAL MANAGER

C.C.TO:

1. M/s. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Partners / Directors  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. The Branch Manager,  
\_\_\_\_\_  
\_\_\_\_\_

With a request to advise your Officer to remain present at the factory site of company/ concern on the date and time mentioned above for taking custody of goods/ hypothecated/ or charged to our bank.

4. Shri \_\_\_\_\_ (Advocate)  
\_\_\_\_\_  
\_\_\_\_\_

... with a request to file caveat in appropriate Court.

5. The General Manager,  
District Industries Centre.  
\_\_\_\_\_

... for information.

6. The Area Manager,  
M.I.D.C.,  
\_\_\_\_\_ ... for information.
7. The Managing Director,  
W.M.D.C. Ltd.,  
Kubera Chambers,  
Dr. R.P. Road,  
Shivajinagar,  
PUNE. ... for information.
8. The Executive Engineer,  
M.S.E.B.,  
\_\_\_\_\_ ... for information.
9. The District Collector,  
\_\_\_\_\_ ... for information.
10. The Superintendent of Police,  
\_\_\_\_\_ ... for information.
11. The Police Inspector,  
Police Station,  
\_\_\_\_\_ ... For information.
12. The General Manager (Zone-III),  
M.S.F.C.,  
Head Office,  
MUMBAI. .... for information.
13. The Manager (Tech.),  
M.S.F.C.,  
KOLHAPUR. ... for information.
14. The Manager (Law),  
M.S.F.C.,  
KOLHAPUR. ... for information.
15. The Branch Manager,  
M.S.F.C., SATARA/SANGLI.

...He is advised to deliver the enclosed copies of the notice to respective authorities. He is further advised to deliver copy of the notice to the concern/Company and obtain acknowledgement thereof.

NOTICE/RCKADE/NO.4.

Index No. 195 269 MSFC IN  
Telegram : STAFICO

Telephone No. 65241  
Fax No. : 652780

**MAHARASHTRA STATE FINANCIAL CORPORATION**

Incorporated under State Financial Corporations Act 1951) (No. LXIII of 1951)

**REGIONAL OFFICE : KOLHAPUR**

Please address  
all letters to the  
Regional Manager

Udyog Bhavan,  
Assembly Road,  
KOLHAPUR - 416 003.

**WITHOUT PREJUDICE**

Ref No. KRD/RCY-I/2004/

Date :

**NOTICE TO TAKE OVER COLLATERAL SECURITY.**

**BY REGD. A.D./U.C.P.**

1) **OWNER OF THE COLLATERAL SECURITY**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2) **BORROWER**

M/s. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dear Sir,

Re: Loan to M/s. \_\_\_\_\_  
Possession of your \_\_\_\_\_  
(Collateral security)  
\_\_\_\_\_

You are aware that in consideration of an aggregate term loan of Rs. \_\_\_\_\_ sanctioned by the Corporation to M/s. \_\_\_\_\_ (hereinafter called "BORROWER") the said Borrower has by a Deed of Mortgage dated \_\_\_\_\_ / Equitable Mortgage by deposit of Title Deeds and Letter of Hypothecation both dated \_\_\_\_\_ (hereinafter called "LOAN DOCUMENTS") agreed / covenanted with the Corporation to repay the said term loan amount of Rs. \_\_\_\_\_ to the Corporation together with interest, costs other charges etc. thereon and mortgaged all the assets i.e. land, building, plant and machinery etc. situated at \_\_\_\_\_ in favour of the Corporation.

You are also aware that in consideration of aforesaid term loan you have by Deed of Mortgage dated \_\_\_\_\_ / Equitable Mortgage by deposit of title deeds dated \_\_\_\_\_ / revised letter of sanction dated \_\_\_\_\_ and undertaking dated \_\_\_\_\_ created charge over all that \_\_\_\_\_ standing on Gat No. \_\_\_\_\_ admg. \_\_\_\_\_ area of \_\_\_\_\_ within the limits of \_\_\_\_\_, Tal. \_\_\_\_\_, District \_\_\_\_\_ in favour of the Corporation as a collateral security (hereinafter referred to as "the Collateral Security") for the due repayment of said term loan by the borrower to the Corporation.

Under the said loan documents the Corporation has lent and advanced a total sum of Rs. \_\_\_\_\_ to the Borrower.

Since, the Borrower failed to repay the amounts fallen due for payment under the said loan documents, a notice dated \_\_\_\_\_ was issued by the Corporation to the Borrower calling upon him / them to repay the amounts outstanding to the Corporation.

- (1) The borrower did not respond to the same and hence the possession of the mortgaged assets was taken on \_\_\_\_\_ by the Corporation in exercise of the powers vested in it U/S 29 of SFC's Act, 1951 after giving due notice dated \_\_\_\_\_.
- (2) The assets were advertised for sale for \_\_\_\_\_ times but there was no response to the advertisements.
- (3) The various offers received by the Corporation were intimated to the borrowers but the borrower did not submit better offer.
- (4) The assets were sold for Rs. \_\_\_\_\_ after giving due intimation to the borrower.
- (5) The borrower filed civil suit against the Corporation against action u/s 29 of the SFC's Act and hence possession action was postponed.
- (6) The borrower promised to pay Rs. \_\_\_\_\_, however failed to honour his commitment.
- (7) The borrower vide our letter dated \_\_\_\_\_ was informed to pay the shortfall amount after sale of assets, however, we did not response thereto.
- (8) The borrower paid Rs. \_\_\_\_\_ by cheque, however, the cheque was returned unpaid by the bank. The borrower failed to remit the amount.
- (9) It was observed that the borrower shifted the plant and machinery without permission of the Corporation and committed breach of terms & conditions.
- (10) You were also advised by our letter dated \_\_\_\_\_ that in failure of the borrower making the payments of dues of the Corporation, the Corporation would take possession of the Corporation, the Corporation would take possession of the assets, mortgaged as collateral security to the Corporation, you failed to respond to the same.

(Special developments to be added)

The Borrower vide our letter dated \_\_\_\_\_.11.2001 was formed about the Non-Discretionary and Non-discriminatory Scheme One Time Settlement of the dues of the Corporation. The borrower was contacted personally, on telephone to avail himself of the benefits under the scheme. Inspite of this the borrower failed respond to our various appeals.

In the circumstances aforesaid the Corporation has decided to recover the entire outstanding amount with future compound interest, expenses, other charges etc.

There is now due and payable a sum of Rs. \_\_\_\_\_/- as on \_\_\_\_\_ by the Borrower to the Corporation under the said loan documents details of which are as under:-

(Position as on \_\_\_\_\_)  
Rs.

Principal	:	
Interest (Cal. upto 31-1-2002)	:	
Expenses	:	-----
Total	:	-----

Kindly note that under the said loan documents executed by the Borrower and you in favour of the Corporation, the Corporation is entitled to enter into and take possession of the Mortgaged assets and has got power to sale, lease, transfer the same for realisation of its dues, by virtue of State Financial Corporation's Act, 1951.

However, as a final opportunity, we advise to arrange payment of our dues as above with future interest and expenses thereon from \_\_\_\_\_ at the contractual rate till payment on or before \_\_\_\_\_ failing which the authorised officer of the Corporation will take possession of the property viz. \_\_\_\_\_

mortgaged to us by you as collateral security on \_\_\_\_\_ and dispose off the same pursuant to the powers vested in us u/s. 29 of State Financial Corporations Act, 1951 entirely at your risk, costs and consequences thereof.

We also advise you to remove the household material, if any, to its safety and hand over vacant and peaceful possession of the said property to the Corporation. In case you fail to remain present at the time of taking over the possession, the authorised officer of the Corporation will break open the locks and take possession of the said collateral security mortgaged by you to the Corporation as per the provisions of Section 29 of the SFC's Act, 1951 on \_\_\_\_\_ and thereafter sell the same pursuant to the powers available to the Corporation under State Financial Corporation Act, 1951 as also under loan documents.

Yours faithfully,

REGIONAL MANAGER.

.c.to:

1) The Dy.General Manager (Z-II),  
M.S.F.C., Head Office,  
MUMBAI-1.

2) Sr. Police Inspector,  
\_\_\_\_\_

...With a request to depute police help at the time of taking over the possession.

3) The Branch Manager, M.S.F.C., SANGLI / SATARA.

..... With a request to file caveat in the Court.

\\wp51\posnotis\colposs no.57020301.