

CHAPTER V

5. LOAN POLICIES AND PROCEDURES:

5.1 INTRODUCTION:

As urban banks are meant to cater for the needs mainly of persons of moderate and small means, every urban bank should attempt at maximum dispersal of its loans and advances among small borrowers.

Urban banks have not been as aggressive in increasing their loans and advances as they have been in augmenting the deposit resources. Urban banks should actively explore possibilities of increasing their advances by conducting surveys within their respective area of operation to identify the scope for and purpose of lending. The initiative for building up the loans portfolio should come from the board of management and the chief executive officer and the directive issued by the Reserve Bank of India.⁽¹⁾

The bank should build up its resources from share capital, deposits, borrowing, reserves. The bank has to pay interest on deposits. Salary to staff office expenses, dividend etc. For recouping these overheads, lending is necessary. The assistance of the Lead Bank of the area, State Co-operative Bank, the Industries

and Co-operative Department of the State Government. The State Financial Corporation may be taken if necessary.

As lending is profitable, it is risky also because the defaulting tendency of borrowing members. The bank has introduced the same loan policy which will be profitable and safe to the bank.

Shri Mahalaxmi Co-operative Bank Ltd., is playing an active role in respect of loans and advances according to its bye-laws. In this chapter, the following points is studied.

5.2 LENDING POLICY:

1. EXTENT OF ADVANCES:

The loanable funds of an urban bank is a proportion of total resources available with it comprising deposits, share capital and reserves. The extent of funds actually available for loaning operation is limited by various factors such as statutory pre-exemptions for maintenance of cash reserves and liquid assets under section 18 and 24 of the Banking Regulation Act. Rules for investment of reserve fund and provident fund, investment in fixed assets like land and building etc. after making above allocations only the balance is available for loaning operations.

The amount to be pre-exempted for maintenance of cash reserve and liquid assets, is variable on a day to day basis of its demand and time liabilities. In order that, a bank may not incur any deficit in the maintenance of cash reserve and liquid assets, Shri Mahalaxmi Co-operative Bank Ltd., keeps a safe margin over and above the statutory minimum required which would diminish the amount of loanable resources.⁽²⁾

To achieve maximum profitability through optimum employment of funds, the Reserve Bank of India fixed norms for optimum level of advances. These norms are

- 1) Urban Banks reached at 75% of owned funds (Excluding statutory reserves)
- 2) 70% of deposits
- 3) 100% of borrowings⁽³⁾

STATEMENT SHOWING OPTIMUM LEVEL OF ADVANCES OF SHRI MAHALAXMI CO-OPERATIVE BANK

	30/6/81	30/6/82	30/6/83	30/6/84	30/6/85	30/6/86	30/6/87
1. Owned Funds	5750188	6480391	7459403	9194430	10206504	11411540	12561317
75% of Owned Funds	4312641	4860293	5594552	6895822	7654878	8558655	9420988
2. Deposits	32376600	36209613	41845495	50891202	62572655	66879464	78034334
70% of Deposits	22663620	25346279	29291846	35623841	43800858	46815624	54624033
3. Borrowings	-	-	-	-	-	-	-
100% of Borrowings	-	-	-	-	-	-	-
TOTAL	26976261	30207022	34886398	42519663	51455736	55374273	64045021
Loan outstanding	23234752	28902443	32745351	43272601	41873137	54361922	59684878
% of Optimum to loans outstanding	116.10	104.51	106.45	98.26	107.48	101.86	107.31
Lending	+ 16.10	+ 4.51	+ 6.45	- 1.74	+ 7.48	+ 1.86	+ 7.31

Source : Compiled from Annual Reports of the bank

From the above table, the deposits of the bank rose from Rs. 323.76 lakhs in 1981-82 to Rs. 780.34 lakhs in 1986-87 70% of deposits is calculated in the table. Owned funds also shows increasing trend i.e. 70% of the owned funds means in 1981 it was Rs.43,12,641 lakhs and in 1987 it is 94,20,988 lakhs.

In order to find out the efficiency of the Shri Mahalaxmi Co-operative Bank Ltd., in regard to its resources, optimum level of loans and advances has been estimated.

The actual amount of loans and advances given by the bank shows a continuous upward trend during the period 1981-82 to 1986-87. If we compare actual loans to optimum loans outstanding we find that the bank has given more loans and advances except in 1983-84 than its capacity.

5.3 LENDING PROCEDURES:

According to the bye-laws of the bank the Reserve Bank of India directives, loan policy has been introduced by Shri Mahalaxmi Co-operative Bank Ltd. The Bank has a sound loan policy. The bank formulated a procedures in regard to the process of loan applications, their nature, scrutiny and sanction of loans, documentation, follow up, supervision, control and detailed particulars of a borrowers credit worthiness..

First of all the bank decides the nature of loans. Usually banks sanction fixed loans, cash credits and overdrafts to their member borrowers. Fixed loans are either short term or long term depending upon the period. Loans upto one year are termed as short term loans and those for 1 to 5 years are medium term loans. Such loans as are advanced for a period exceeding five years are classified as long term loans. Cash Credit limits are sanctioned for accommodating merchants, traders etc. to meet their working capital requirement. Overdrafts are allowed to members for meeting unforeseen contingencies of a temporary nature.

Than the bye-laws of bank specify the period upto which loans can be given.

The bank has prepared a printed application form,

necessary entries is made in the register. The scrutiny of applications should also deserve special attention, credit appraisal is a complex exercise. Each proposal is required to be gone through from the point of credit requirements, repaying capacity of the borrower and security offered. Application forms are made available at the Head Office of the bank.

Another aspect is given by banks in the matter of obtaining necessary documents from the borrowers. On collecting all the information and data, the proposal is submitted to the office with permission to Board of Directors for sanctioning the loan. The Board of Directors expresses his views.

The Bank should have adequate supervisory staff for follow up of the utilisation of the loans granted and for the timely recovery. Reports on these inspections should be prepared in a prescribed proforma and submitted to the Board of Directors.

It is important to note that Shri Mahalaxmi Co-operative Bank Ltd., Kolhapur has not ignored the principles of safety, liquidity, profitability, purpose for its better banking business.

5.4 PURPOSEWISE CLASSIFICATION OF ADVANCES:

Urban banks are traditionally inclined to grant

loans for certain limited purposes and have been advised to maintain a purposewise register in the following proforma showing the loans and advances outstanding.

1. Industry -
 - a) Small Scale Industries
 - b) Others
2. Trade -
 - a) Wholesale trade
 - b) Retail Trade
3. Professional and self-employed artisans and craftsmen.
4. Transport Operators
5. Education -
6. Constructions and/or repairs to building etc. -
7. Agriculture -
 - a) Agriculture loans
 - b) Activities allied to agriculture
8. Consumption / ceremonial purpose
9. Repayment of prior debts
10. Others
Medical expenses, purchase of domestic requirements etc.

Shri Mahalaxmi Co-operative Bank Ltd. issued loans by following purposes.

1. Small Scale Industries

2. Trade and Commerce
3. Minor repairs and properties.
4. Professional and self employed persons.
5. Consumption loans
6. Repayment of prior debts
7. Others.

1. LOANS FOR SMALL SCALE INDUSTRIES :

Small Scale Industrial units are those engaged in the manufacturing processing or preservation of goods.

Units financed by Urban Co-operative Banks under the 22 broad groups of Industries listed dated 17th December 1982 will be covered under these categories Some of these are -

1. Plying and tanning
2. Leather goods
3. Pottery
4. Hand pounding of paddy and cereals
5. Oil Crushing
6. Cane gur and Khandasari
7. Handicraft Industries
8. General Engineering
9. Consumption material
10. Sericulture, Coir
11. Cotton textiles and other textiles

12. Printing, Book binding etc.

The Bank has diversified its loan portfolio during the subsequent period to small scale industries in as much as 10.9% of total loans and advances were allotted to them in 1986-87. In 1982, for Industry Purpose Rs. 56.44 lakhs are allotted and it shows increasing trend as in 1987 it increased to Rs. 65.44 lakhs.

2. TRADE AND COMMERCE PURPOSE:

Under the bye-laws of the bank, the bank sanction loan for trade and commercial purpose such as small businessan, small traders, commission agents etc. They may finance the activities of marketing and processing. Such type of loans for purchase and proper utilisation of vehicle such as trucks, rickshaws, transport purpose. Most of the loans accounting for 30.07% of the total loans at the end of the June 1987 have gone to the retail trade. There is considerable increase in the amount of loans outstanding.

3. CONSTRUCTION AND MAJOR REPAIRS TO PROPERTIES:

The bank sanctions loans and advances for construction, additions, alterations, repairs etc. Recently in the context of giving loans for housing accommodation to weaker sections of the community, urban banks were

allowed by the Reserve Bank of India to grant loans for house construction from their own resources, but a ceiling was fixed on the aggregate amount of loans for such purposes.

The details in the following table will give the idea of loan sanctioned by the bank for house construction and major repairs to properties.

The percentage of loan for the development or construction purpose was 26.64 lakhs in 1982 and it increased in 1987 amounting to Rs.102.03. The percentage of total loans outstanding is 17.1%.

4. REPAYMENT OF PRIOR DEBTS:

The bank sanctioned such loans for these members who were in fact poor low income. The bank sanctioned loans and advances for repayment of prior debts. The loan disbursement in 1987 is the largest amount of Rs. 2619.

From the table it shows that the demand for this purpose shows decreasing trend i.e. Rs.28.11 lakhs in 1982 and in 1987 it is 20.40 lakhs. The percentage of total loans outstanding is also low i.e. 3.4%.

5. AGRICULTURAL PURPOSES:

There is a demand from certain quarters that there

should be no constraints on urban banks lending for agricultural activities. Shri Mahalaxmi Co-operative Bank Ltd., does not give any type of loans for agricultural purposes or activities allied to agriculture.

6. CONSUMPTION LOANS:

Consumption loans include loans for general consumption, medical expenses, marriage ceremonies, funerals etc.

The amount of loan for consumption has also significant as it formed 9.60% of total loans outstanding in 1987.

7. PROFESSIONAL AND SELF EMPLOYED PERSONS:

The percentage of loan supplied to self employment professionals is also increased to Rs.6.91 lakhs in 1982 and in 1983 and 1984 there is no demand for this type of loan.

8. TRANSPORT OPERATORS:

The share of transport operators also increased from Rs. 57.04 lakhs in 1982 to 63.31 lakhs in 1987 with a view to helping such poor persons they receive incomes mainly from cycle rickshaw, autorikshaw, tempo etc.

9. EDUCATION PURPOSE:

Availability of adequate loan facilities in time from bank has also facilitated for Education purpose. There is less demand of loans for this education purpose as in 1982 the percentage of total loans outstanding is 0.3% and in 1984 it has 0.1%. In 1983, 85, 86, 87 the bank does not sanctioned this type of loan.

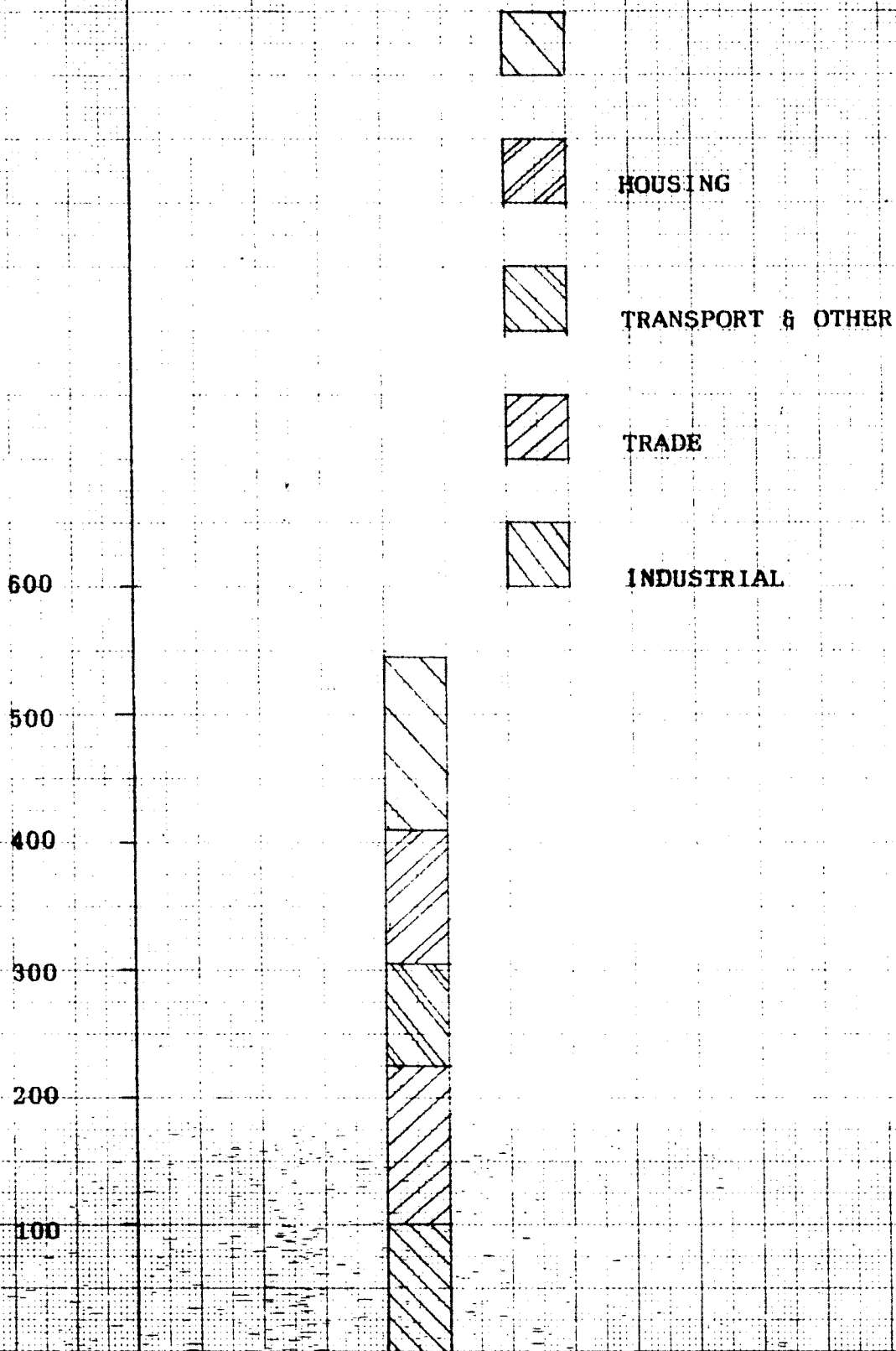
10. OTHER PURPOSES:

The bank sanctioned loans to those members who were in fact weak, poor. The loan is sanctioned mainly for household purpose, domestic requirements etc. Such loans for other purposes has improve individual life of the members and to solve financial difficulties.

The percentage of loans to others went up from 1.4% in 1983-84 to 12.1% in 1986-87 due to kind help of bank to persons for various reasons.

SCALE ON 'Y' 1CM = RS.50 lakhs

DISTRIBUTION OF LOANS 85-86



PURPOSEWISE LOANS AND ADVANCES OUTSTANDING FOR THE YEAR 1982 to 1987

(Rs. in lakhs)

PURPOSE	1982		1983		1984		1985		1986		1987	
	Loans Outstanding	% of Total Loans O/S.	Loans Outstanding	% of Total Loans O/S.	Loans Outstanding	% of Total Loans O/S.	Loans Outstanding	% of Total Loans O/S.	Loans Outstanding	% of Total Loans O/S.	Loans Outstanding	% of Total Loans O/S.
1. Industry S.S.I.	56.44	19.60	19.61	6.00	18.71	4.3	73.73	15.40	101.57	18.70	65.44	10.90
2. Trade-Retail -Whole-sale	30.88 39.63	10.60 13.7	150.63 -	46.00 -	172.42 -	39.80 -	140.55 -	80.60 -	164.52 -	30.30 -	183.03 -	30.07 -
3. Professional Self Employed Persons	6.91	2.40	-	-	-	-	6.95	1.50	1.35	0.30	33.58	5.60
4. Transport Operators	57.04	19.70	49.49	15.10	92.34	21.30	43.04	9.00	51.88	9.50	63.31	10.60
5. Construction & repairs of Building	26.64	9.20	15.80	4.80	42.44	9.80	67.23	14.00	88.57	16.30	102.03	17.10
6. Agriculture	-	-	-	-	-	-	-	-	-	-	-	-
7. Consumption Ceremonies	42.66	14.80	58.39	17.80	74.31	17.30	65.16	13.60	56.20	10.20	57.47	9.60
8. Repayment of prior debts	28.11	9.70	33.53	10.30	25.98	6.00	18.25	3.80	18.35	3.40	20.40	3.40
9. Education	0.72	0.30	-	-	0.40	0.10	-	-	-	-	-	-
10. Others	-	-	-	-	6.13	1.40	57.82	12.01	61.18	11.30	71.59	12.10
TOTAL	289.03	100.00	327.45	100.00	432.73	100.00	478.73	100.00	543.62	100.00	596.85	100.00

Source : Compiled from annual reports of the bank

From the above table the Shri Mahalaxmi Co-operative Bank Ltd., provides financial accommodation for a variety of purposes. Most of the loans given by the bank were for trade purpose which accounted for 30.07% of the total loans and advances outstanding at the end of June 1987. The loans for construction and repairs purpose were also sizeable in as much as they form 17.1%, Loans under other category accounted for 12.1% of the total loans and advances outstanding at the end of June 1987. The share of professionals and self employed in total loans was 5.6% of the total loans outstanding. The amount of loans for consumption was also significant as it formed 12.1% at the end of June 1987.

Above analysis reveals the fact that the performance of it in respect of diversification of loans portfolio catering to the needy and poor persons has been fairly satisfactory.

5.5. REGULATION OF ADVANCES:

Advances of the bank are by and large distributed over and majority of small borrowers.

The Reserve Bank may permit all urban banks to add 75% of their owned funds to time and demand liabilities while calculating maximum limit as advances to

SCALE 1CM = Rs.50 lakhs.

600

500

400

300

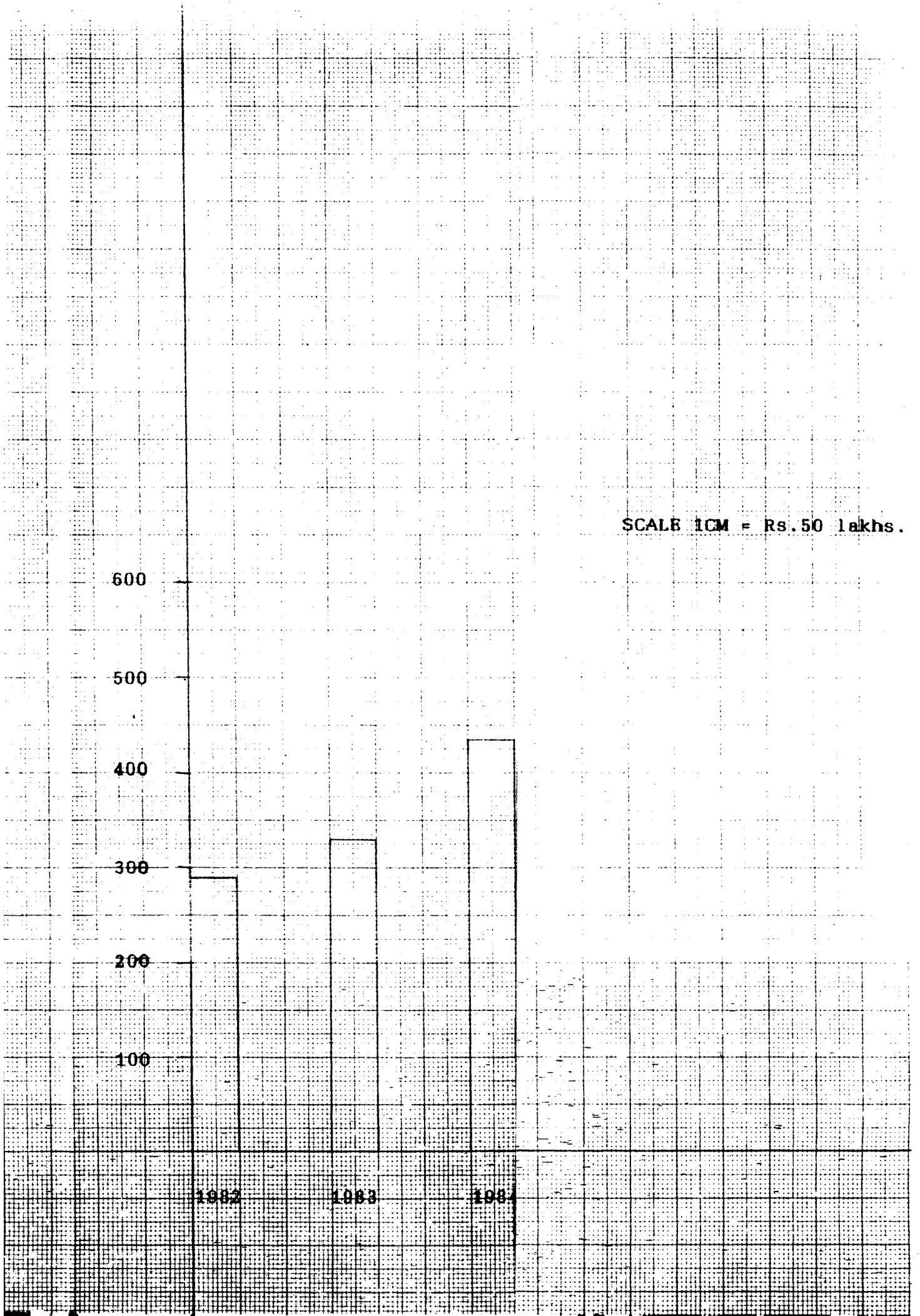
200

100

1982

1983

1984



a single party or to members as a whole prescribed under the directives.

As above table shows that Shri Mahalaxmi Co-operative Bank Ltd., give advances for following purposes.

1. Advances to small scale Industries.
2. Advances to retail trade.
3. Advances to road, water, transport operators.
4. Advances to professionals and self-employed.
5. Advances for housing purpose.

In 1982-83, the bank grant advances for agriculture and consumption purpose. (6)

Large amount of advances is grant for small scale industries i.e. In 1982 the amount formed to 15.13 lakhs and in 1987 it is 53.59 lakhs. In 1987, the advances for small scale industries purpose were as much high as total advances in 118.71 lakhs and 53.59 lakhs for for 55 industries. Most of the advances accounted for 20.79 lakhs have gone for road, water and transport operators in 1987. Advances for housing purpose was allotted to them in 1985. Advances under this head shows decreasing trend, as Rs.7.57 lakhs in 1987. A small proportion of the total advances was given to professionals and self employed accounting for Rs.13.66 lakhs in 1987.



PURPOSEWISE LOANS OUTSTANDING OF SHRI MAHALAXMI CO-OPERATIVE BANK LTD., KOLHAPUR
 FOR THE YEAR 1985 TO 1987
 (Rs. in lakhs)

PURPOSE	30-6-1985			30-6-1986			30-6-1987		
	No. of Accounts	Outstanding	% of total Loans O/S.	No. of Accounts	Outstanding	% of total Loans O/S.	No. of Accounts	Outstanding	% of total Loans O/S.
1. Industry	58	73.33	15.40	78	101.57	18.70	67	65.44	10.90
2. Trade	207	146.55	80.60	200	164.52	30.30	166	183.03	30.07
3. Professional & Self employed persons.	58	6.95	1.50	12	1.35	0.30	144	33.58	5.60
4. Transport Operators	43	43.04	9.00	84	51.58	9.50	77	63.31	10.60
5. Education	-	-	-	-	-	-	-	-	-
6. Construction & Repair of Building	274	67.23	14.00	54	88.57	16.30	426	102.03	17.10
7. Agriculture	-	-	-	-	-	-	-	-	-
8. Consumption Ceremonies	1530	65.16	13.60	1484	56.20	10.20	1179	57.47	9.60
9. Repayment of prior debts	324	18.25	3.80	468	18.35	3.40	830	20.40	3.40
10. Others	236	57.82	12.01	302	61.18	11.30	364	71.59	12.10
TOTAL	2769	427.73	100.00	3157	543.62	100.00	3223	596.85	100.00

Source : Compiled from Annual Reports of the Bank

FOR THE YEAR ENDING 1981 to 1987
(Rs. in Lakhs)

PURPOSE	1982		1983		1985		1986		1987	
	No. of Acco- unts	Bal. O/S.	No. of Acco- unts	Bal. O/S.	No. of Acco- unts	Bal. O/S.	No. of Acco- unts	Bal. O/S.	No. of Acco- unts	Bal. O/S.
1. Advances for activities allied to agriculture	N.A.	27.37	N.A.	36.68	-	-	-	-	-	-
2. Loans & Advances to Small Scale Industries	"	15.13	"	11.14	47	47.49	63	56.33	57	53.59
3. Advances to retail trade & Small business Employed	"	8.87	"	24.24	21	3.84	50	18.37	14	20.79
4. Advances to road, water transport Operators	"	1.22	"	0.71	32	18.77	34	22.86	52	23.10
5. Advances to professionals & Self Employed	"	-	"	-	53	18.38	36	6.03	76	13.66
6. Educational Purpose	"	-	"	-	-	-	-	-	-	-
7. Housing Loans	"	-	"	-	182	14.00	413	22.31	116	7.57
8. Consumption Loans	"	-	"	0.07	-	-	30	0.11	-	-
9. Construction & Repair	"	2.24	"	0.59	-	-	-	-	-	-
10. Others	"	1.83	"	3.90	-	-	-	-	-	-
TOTAL		29.20		40.65	335	102.48	626	126.01	444	118.71

Source : Compiled from Annual Reports of the Bank

It implies that the bank has diversified its advances to achieve the goal of financial stability.

5.6 SECURITY FOR LOAN:

Loans form the main and in most cases the only business of urban credit societies. These may be fixed loans. Cash Credits, Overdrafts, Fixed loans are given on the first mortgage of immovable property or one or more personal sureties who are also members of the society. On the security of fixed deposits, Insurance policies, grant cash credit on the pledge of agricultural produce, Industrial goods, gold, silver bars, ornaments. Overdrafts against fixed deposits are open to objective from the strict banking point of view.

As per the bye-laws of Shri Mahalaxmi Co-operative Bank Ltd., in the year 19-6-1986 loans, cash credit and for overdrafts (with or without security) on current accounts may be granted to the members on security or securities approved by the Board of Directors or without security loans, cash Credits and for overdraft or current account may be granted as per directives or orders issued by the Reserve Bank of India from time to time. The member applying for loan should not have obtained loan from other urban co-operative banks and salary earners societies.

The loans are granted on the following securities.

1. Personal security or surety or sureties of other members.
2. Security and collateral security of movable and immovable property.
3. Industrial, mercantile, agricultural and other marketable commodities or machinery under pledge, hypothecation or charge of the bank.
4. Pledge of Government, trustee securities, shares of approved companies, debentures and fixed deposits with the bank.
5. Insurance policies assigned to the bank within the surrender value.
6. Warehousing receipts.
7. Gold and silver ornaments.
8. Any other tangible security.
9. A) Bills or trade outstanding, Bills of exchanges, promissory notes and hundies on security.
B) Loans/overdrafts will be sanctioned on the security of fixed deposits.

The Board of Director shall frame the rules of loans, cash credits, overdrafts for sanctioning the loans. The Board shall frame detailed loan regulations prescribing of unsecured loans to total loans, proper terms and conditions and the nature of securities acceptable,

procedures for advancing loans, margin to be maintained. The board shall have to see that the directives issued by the Reserve Bank of India from time to time shall be observed at the time of training the rules of sanctioning loans.

Urban banks grant loans against security i.e. Secured loans like -

1. Mortgage of immovable properties,
2. Pledge of Hypothecation,
3. Merchandise,
4. Gold and Silver ornaments,
5. Government and trustee securities.

Unsecured loans are also granted in the form of -

1. Surety loans,
2. Clean Cash Credit,
3. Clean overdrafts.

SECURITY FOR LOAN, LOAN LIMIT AND PERIOD OF REPAYMENT:

The Board of Director shall sanction loan to the following limit to member and non-members. As per the bye-laws of shri Mahalaxmi Co-operative Bank Ltd., in the year 10-4-73 following types of securities is accepted.

Type of Security	Loan Limit	Repayment period	Ratio of Total Loan
Government loan Bond & Debentures, Insurance policies, National Saving Certificates, Shares.	90% of the amount receivable to the bank at the end of the period	12 Months	2%
Gold & Silver	80% of the value of Gold & Silver as per appraisal of Saraf	12 Months	2%
Bank Fixed Deposits	90% of the amount deposit.	Upto period of deposit.	5%
Pledge & Hypothecation of goods	75% of the value of goods	Upto 12 Months	15%
Immovable property Trade Commerce & Industrial purpose productive purpose			
1.Owned Building	Upto 55% of the val. of the building as per valuation of the Engineer.	36 Months 12 Months Cash Credit	23%
2.Owned Property or hereditary	Upto 40% of the val. of the property as per valuation report of the engineer.	Loan 36 months	23%
Immovable Property unproductive pur-	Upto the valuation of 25% done by the engineer or 5000 whichever is less.	36 Monthly Installments	23%
Industrial Purpose	75% of the valuation of the machinery - 50% of the value of the building	By Law No. 56(10)	40%
Hypothecation & Hire Purchase etc.	75% of the value of goods or value of Transport Vehicle	36 Months 12 Months Cash Credit	40%
Unsecured loans Cash Credit etc.	Rs.150,000/-	12 Months	15%
Industrial Loans unproductive purpose	5 times of monthly emoluments	36 Months	15%

NOTE:

1. Total Loans and advances for all purposes to any single party should not exceed 5% of the total loan or 5% of time and demand liabilities.
2. With the prior permission of the Registrar as per terms and conditions stipulated. The Board of Directors of the Shri Mahalaxmi Co-operative Bank Ltd., shall raise the limit purpose of loan in the interest of the bank.

1. LOANS AGAINST FIXED DEPOSITS:

Loans are issued on the security of fixed and other deposit receipts. Loan limit against fixed deposits are issued upto 90% of the amount of deposit. Such loans carry higher rates of interest.

The table exhibits that loans against fixed deposits showed ups and downs trend as in 1985 it has Rs.27.71 lakhs and in 1987 it is Rs.39.42. In 1986 it has Rs. 41.57 lakhs.

2. LOANS AGAINST GOVERNMENT AND OTHER SECURITIES:

Loans are issued on the security of Government Securities, Bonds, Debentures, Insurance Policies, Shares etc. Upto the value of 90% of the amount receivable to the bank at the end of the period. This loan is repayable at the end of the year.

The table shows that Loans against Government securities were insignificant during the period of 1985 to 1987 as they accounted for Rs.0.78 lakhs in 1985 and Rs. 3.01 lakh in 1987.

3. LOANS AGAINST MERCHANDISE:

The bank gives more preference to traders and commission agents. The table indicates the diversification of its loans during the period 1985 to 1987. In 1985 it has Rs.219 lakhs and in 1986 the amount decreased by Rs.124.35 lakhs. In 1987, it shows increasing trend i.e. Rs.313.34 lakhs. The table indicates that the bank gives loans and advances to the extent of 50% against Merchandise security.

4. LOANS AGAINST GOLD & SILVER:

Loans are issued on the security of Gold & Silver ornaments. The loan limit of this security is 80% of the value of gold and silver.

The table indicates the increase in the amount of loans against gold and silver ornaments from Rs.31.82 to Rs.37.25 lakhs during the period 1985 to 1987.

5. LOANS AGAINST IMMOVABLE PROPERTY:

The amount of unsecured loans was significant of shri Mahalaxmi Co-operative Bank Ltd. Loans against

immovable property were increased on the proportion from Rs.75.94 lakhs in 1985 to Rs.119.04 in 1987.

6. LOANS AGAINST SURETY:

Loans are issued against surety upto the limit of Rs.150,000/-. Loans against surety were also significant as the proportion of it increased from Rs.40.14 lakhs to Rs.67 lakhs in 1987.

7. UNSECURED:

The amount of unsecured loan was Rs.1.46 lakhs in 1985. But later on its loans against unsecured reduced or say Nil in 1987.

8. OTHERS:

Shri Mahalaxmi Co-operative Bank Ltd., gives loans against godown pledge, warehouse receipts or any other security. The table indicates that there is ups and downs. In 1987 only Rs.17.79 lakhs loans are granted.

CLASSIFICATION OF LOANS OUTSTANDING BY SECURITY OF SHRI MAHALAXMI CO-OPERATIVE BANK LTD.

FOR THE YEAR 1985 TO 1987

(Rs. in lakhs)

Year	Total	Fixed Deposits	Govt. & other Trustee Securities	Agri. Produce	Merchandise	Gold & Silver	Immovable Property	Surety	Unsecured	Others
30/6/85	478.73	27.71	0.78	-	219.92	31.82	75.94	40.14	1.46	80.36
30/6/86	543.62	41.57	1.00	-	124.35	32.97	107.20	53.92	-	182.55
30/6/87	596.85	39.42	3.01	-	313.34	37.25	119.04	67.00	-	17.79

Source : Compiled from Annual Reports of the Bank

TABLE SHOWING GROWTH IN LOANS AND ADVANCES

Year	Total of Loans C/S.	Growth	Percentage Growth
1985	478.73	0.57	24.57
1986	543.62	2.55	88.24
1987	596.85	0.53	9.74

Source : Compiled from Annual Reports of the Bank

5.7 SIZE/AMOUNT WISE DISTRIBUTION OF ADVANCES:

In order to enforce greater discipline on the part of urban banks to lend a fair share to the small borrowers and weaker sections, the Reserve Bank of India laid down some stipulations such as financing selected low income groups under the scheme of differential rates of interest.

These limits fixed in the by-laws of Shri Mahalaxmi Co-operative Bank Ltd., should be made flexible enough so that the bank will be able to grant loans to their members to meet their genuine requirements at least upto the limits prescribed in the Reserve Bank's directives, without approach the Registrar of Co-operative societies in individual cases for permission to enhance the limits prescribed in the bye-laws.

It is important to throw light on the growth of S.T.Loans & Advances and medium term loans and advances of the bank under short term, the bank has issued loans against Government Securities, loans against Gold & Silver, Loans against Fixed Deposits etc.

Under M.T. Loans & Advances the bank has issued loans against payment securities, loans against mortgage of house properties etc.

AMOUNT WISE CLASSIFICATION OF OUTSTANDING LOANS & ADVANCES
FOR THE SHORT TERM - SHRI MAHALAXMI CO-OPERATIVE BANK LTD.

Categories	At the end of June 86		At the end of June 87	
	No. of Accounts	Amount in Lakhs	No. of Accounts	Amount in Lakhs
1. Rs. 500 & less	22	0.09	195	0.96
2. Rs. 501 to Rs. 1000	28	0.23	170	1.09
3. Rs.1001 to Rs. 3000	487	35.28	340	7.44
4. Rs.3001 to Rs. 5000	865	43.60	610	20.83
5. Rs.5001 to Rs.10000	58	4.47	379	22.91
6. Over Rs.10000	195	168.35	728	98.45
TOTAL	1655	252.22	2422	152.58

Source : Records of Shri Mahalaxmi Co-operative Bank Ltd.

AMOUNT WISE CLASSIFICATION OF LOANS OUTSTANDING FOR
MEDIUM AND LONG TERM OF SHRI MAHALAXMI CO-OPERATIVE BANK LTD.

Categories	At the end of June 86		At the end of June 87	
	No. of Accounts	Amount in Lakhs	No. of Accounts	Amount in Lakhs
1. Rs. 500 & less	8	0.04	-	-
2. Rs. 501 to Rs. 1000	8	0.06	-	-
3. Rs.1001 to Rs. 3000	49	1.25	15	0.13
4. Rs.3001 to Rs. 5000	239	10.65	349	16.46
5. Rs.5001 to Rs.10000	127	12.53	180	16.39
6. Over Rs.10000	301	158.47	106	88.10
TOTAL	732	183.00	895	128.12

Source : Compiled from Annual Reports of the bank.

The above table indicates that in 1986 about 30 of the total borrowers of banks were those who borrowed loans upto Rs.500/- each. In 1987 there were 195 borrowers. The highest number of borrowers borrowed amounts ranging between Rs.3000 to Rs.5000 i.e. In 1986 number of borrowers were 1104 and in 1987 these were 959. Demand for short term loans is more rather than long term loans i.e. In 1986 total short term loans was Rs. 252.22 lakhs and total long term loan was Rs.173.00 lakhs.

The above analysis exhibits that, the Bank has given sizeable advances either to the borrowers of middle class i.e. Borrowers who have borrowed between Rs.3001 to Rs.5000 or to the borrowers belonging to the upper classes obtaining loans between Rs.10000 and above.

5.9 LINKING OF SHARE HOLDING WITH LOAN LIMITS:

As per the bye-laws of Shri Mahalaxmi Co-operative Bank Ltd. such proportion to his borrowings as may be fixed from time to time by the Reserve Bank of India.

The total amount of share capital to be held by a member will, however, have to be within the limits laid down under the act.

5.9 PERIODS FOR LOANS & RATE OF INTEREST ON LOANS & ADVANCES:

As the bulk of the working capital of banks are short term and demand deposits. It is very important that their investments should be equally liquid and loans or advances should be for short term. Cash credits are usually sanctioned for a period of one year and in deserving cases renewed for a like period. Interest on advances made on various kinds of security also varies and is laid down in the model rules.

As per the bye-laws of Shri Mahalaxmi Co-operative Bank Ltd., in 1937 Rate of Interest on advances was 7½%. No dividend shall be declared above 7½% unless the lending rate reaches at 7½%. Board of Director from time to time fix the rate of Interest on loans and advances. If the loans are not paid on due dates entered into contract, or if there is any breach of contract, he will be charged penal interest at 3% p.a. from 10th May 1972.

From that year i.e. 10/5/1972, loans sanctioned for unproductive purposes i.e. consumption loans - 5 times of monthly emoluments repayable within 36 monthly instalment. If the borrower repays instalments timely and if he is never charged any penal interest at any time, he will be granted Rebate at 5% interest of the

total interest paid by him. Rebate shall be granted with the prior permission of the registrar.

As per the rules of Shri Mahalaxmi Co-operative Bank Ltd. from 29/7/1982, rebate shall be paid to the borrowers who repays the loan on due date i.e. timely rebate shall be paid at the rate of 3% on the total interest paid in case of unsecured loan of 3% on the total interest paid in case of unsecured loan and at 2% on the secured loan such rebate granted shall be accounted for in books of accounts of the bank in each co-operative year.

INTEREST RATES ON ADVANCES;

STATEMENT SHOWING INTEREST RATES ON ADVANCES DATED 31/3/1987

Category of Advances	Rate of Interest (% p.a.)
1. Public procurement & Distribution Agencies Advances to state Government agencies entrusted with the procurement of cotton where there is an element of price support.	
a) To Co-operative Institutions	13.50
b) To Institutions other than Co-operatives	15.50
2. Advances to agencies entrusted by the Government with the procurement and distribution of commodities for sale on commercial basis	16.50
3. Advances against commodities subject to selective credit control measures	16.50
4. Small scale Industry	
1. Composite loans upto Rs.25000/-	
a) Backward areas	11%
b) Other areas	12%

5.	Short term advances	
	a) Limits upto & inclusive of rs.2lakh	14.00%
	b) Limits over Rs.2 lakh & upto Rs.25 lakhs	15.50%
	c) Limits above rs.25 lakhs	16.60%
6.	Educational advances	15.50%
7.	All other advances	16.50%
8.	Interest rate on discounting of bills of Exchange for categories of borrowers subject to the maximum rate of 16.50%	15.50%
9.	Term loans -	
	1) Small scale industry	13.50
	2) All other term loans	15.00%

Notes: 1. The rates of interest shall be charged with quarterly/ longer rests.

2. Term loans shall mean a loan which is repayable within a period of not less than 3 years.

Source : Banking Regulation Act as amended
by Banking Laws Act 1983

Interest from loans was the main source of Income of the bank. It continuously increased from Rs.32,65,991 to Rs.1,15,55,667 during the period 1980-81 to 1986-87.

TABLE SHOWING INCOME FROM INTEREST FROM LOAN

Year	Interest Received
1981	41,75,584
1982	53,78,580
1983	60,51,571
1984	70,45,186
1985	83,02,044
1986	1,01,24,450
1987	1,15,55,667

Source : Compiled from Annual Reports of the Bank

5.10 OVERDUES AND RECOVERY OF LOANS:

1. INTRODUCTION:

After having studied the loans and advances of the bank, the study of recovery of loans is also important. In this respect the nature of overdues with trend and the action taken by the bank for the recovery of loans is essential.

NATURE OF OVERDUES:

The banks are expected to make full provision in

respect of estimated erosion in the value of their assets which include bad and doubtful debts as well as other assets considered doubtful of realisation. The bank sanctioned loans to members to obtain better business, derive better income. So prompt recovery is essential. Proper steps should be taken for bringing down the overdues.

The following classes of loans are known as overdues.

1. Advances which are treated Bad or Doubtful of recovery.
2. The amount of term loan instalments which have become due and remained unpaid.
3. A loan which has remained unpaid though it is due for repayment.

ADJUSTMENT OF RECOVERIES AND CALCULATIONS OF OVERDUES:

All recoveries effected in the short term and medium term loan accounts should be adjusted first towards repayment of Interest demand and only the balance amount should be adjusted towards repayment of principal. This presupposes that the banks should go on working out interest in the loan accounts at regular intervals on the basis of daily products and continue to recover interest as and when repayments are received. The unrealised interest if any would be treated as 'overdue interest'.

ACTION TAKEN BY THE BANK:

A sound recovery system should be followed by bank for recovering old overdues, current overdues and outstanding loans and advances. For this purpose, Bank should keep constant touch with defaulting members. Overdues are the main obstacles in the ways of financial growth of the bank. Mounting overdues retards the progress and the borrowing capacity of a bank.

The performance of Shri Mahalaxmi Co-operative Bank Ltd., in the matter of recovery of dues was fairly satisfactory. It also adversely affects the lending capacity of a bank as could be seen from the position of overdues at the end of 2 years.

It will be observed that the overdues were 5.93% of the total loans outstanding during 1987. The banks are periodically advised to step up their recovery efforts.

So it is necessary for a bank to keep its overdues within a safe limit so as to achieve its objective effectively.

What do you want to say?

LOANS OVERDUES OF SHRI MAHALAXMI CO-OPERATIVE BANK LTD.
AS ON 30/6/1987

Year	Loans Outstanding	Overdue Amount	% of Overdue	Growth	% of Growth
1981	23234700	1025400	4.41	-	-
1982	28902433	1291562	4.46	2.67	26.04
1983	32745351	1748900	5.34	4.57	35.37
1984	43272601	2310360	5.33	5.61	32.08
1985	47873137	3633437	7.58	13.23	57.27
1986	54361923	3026535	5.56	- 6.06	- 16.68
1987	59684878	3441349	5.93	5.14	16.98

Source : Compiled from Annual Reports of the Bank

As per above table, It will be observed that the overdues were 5.93% of the total loans outstanding during 1987. The banks are periodically advised to step up their recovery efforts.

The amount of overdues of the bank which was 10.25 lakhs in 1980-81, rapidly increased at the peak point of Rs.35.41 lakhs in 1986-87.

Yearly growth rate in overdues was very high in the year 1984-85, in that it was 57.27%. However with the sincere efforts of recovery of the bank and the Co-operation from the borrowers the percentage changed over the year in 1986 i.e. 16.68% in 1987. It will increase to 16.98%.

Thus the analysis of overdues of Shri Mahalaxmi Co-operative Bank Ltd., reveals that, the performance of the bank is fairly satisfactory regarding recovery of loans. The bank is successful in keeping the percentage of overdues within a safe limit.

2. PERIOD WISE CLASSIFICATION OF OVERDUES:

Number of borrowers having overdues and amount of overdues of Shri Mahalaxi Co-operative Bank Ltd., decreased from 484 to 474 and amount of overdues increased from Rs.33.46 lakhs to 40.78 lakhs.

Amount of overdues upto 1 year amounted to Rs.17.84 lakhs at the end of June 1985. This amount decreased to Rs.14.38 lakhs in 1987.

Amount of overdues between 1 and 2 year, 2 and 3 year and above 3 year increased slowly. The amount of overdues over 3 years accounted for a largest part of total overdues.

CLASSIFICATION OF OVERDUES BY PERIOD

Year	Total		Upto 1 Year		Between 1 & 2 Y.		Between 2 & 3 Y.		Over 3 Years	
	No. of Defau- lters	Amount	No. of Defau- lters	Amount	No. of Defau- lters	Amount	No. of Defau- lters	Amount	No. of Defau- lters	Amount
1984-85	484	33.46	367	17.84	64	5.27	10	0.99	43	9.36
1985-86	488	35.85	265	11.14	113	5.43	54	3.84	56	15.44
1986-87	474	40.78	243	14.38	74	5.88	45	3.97	68	16.75

Source : Compiled from the Annual Reports of Mahalaxmi Co-operative Bank Ltd., Kolhapur.

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3. Ibid
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