

## **CHAPTER –III**

### **ANALYSIS OF LOANS AND ADVANCES**

#### **3.1 Introduction**

#### **3.2 Lending Procedure**

#### **3.3 Types of Loans and Advances**

#### **3.4 Purpose of Loans and Advances**

#### **3.5 Trends of Secured and Unsecured Loans**

#### **3.6 Security wise Loans and Advances**

#### **3.7 Credit Deposit Ratio**

#### **3.8 Employee Productivity Ratio**

## CHAPTER-III

### ANALYSIS OF LOANS AND ADVANCES

---

#### 3.1 INTRODUCTION:-

Before 60 years, the financial needs of the people were largely supported by the money lenders. They were charging high rate of interest. During this period the co-operative banks were established in certain areas, with the main objectives of including the habit of thrift among its members and extracting them from the clutches of money lenders these Co-operative banks used to give loans and advances to middle and low income level groups.

Initially Co-operative banks provided loans to consumption purposes and many other sectors from the community, such as small scale industries, trade, commerce etc. always remained away from banking sphere. Commercial Banks provided loans to big enterprises on long term basis also they did not provide loans for non-productive purposes. Now the Reserve Bank of India has given instructions to all commercial banks for appropriate flow of credit to the extent of 40% of the total loans and advances by 1985 to various sectors which are identified as priority sectors.

The bank is taking active part in respect of loans and advances, according to its bye-laws. The Reserve Bank of India introduced lending policy to the Kolhapur Urban Co-operative Bank Ltd., Kolhapur to make optimum use of their resources in loans and advances, which would also improve the

profit of the Bank. Initially banks confined itself to meting consumptional requirement later it followed a diversified lending policy by providing finance for better business, better production and better living and it has helped many industrial units to improve their operational performance.

The banks main objective was to provide loans to the common people and to help them to escape from the clutches of urban, money lenders. The Bank also provided loans to various needy persons for various purposes.

In this chapter, an attempt is made to study these problems under the following heads i) Lending Policy ii) To study the various purposes loans and advances given by the bank iii) To study the nature of various types of loans and advances sanctioned by the Bank, iv) Position of Overdues, V) Trends of secured and unsecured loans and amount wise distributions of loans and advances during the period from 2001-02 to 2005-06.

### **3.2 LENDING PROCEDURE :-**

At the out-set we shall study what is the standard procedure of sanctioning loans in the Kolhapur Urban Co-operative Bank Ltd., Kolhapur with the help of concerned Bye-laws of the bank.

The Kolhapur Urban Co-operative Bank has a sound loan policy. The Bank has formulated a procedure in regard to the process of loan applications, their securities, sanction, documentation follow-up supervision and credit control and detailed particulars of a borrowers credit worthiness it will be always advisable to prescribe a suitable loan application form for different types of borrowers for each purpose. The bank has prepared a printed application form in a simple language on receipt of the loan application necessary entry is made in the register maintained for the purpose and then the application is scrutinized.

After the loan application forms are received from the borrowers, they are recoded the Loan Application Register. Loan application forms are simple so that any ordinary persons can fill in the information required by the bank. Application forms are available at the Head Office of the Bank as well as in the Branch offices. On receipt of the application the Bank goes through the borrowers account. It reveals a number of points which assists a bank in judging its customers financial position, character and capacity to do the business. If he is already having a current account with the Bank, a study of his account may indicate the approximate turnover of his business and Bank requests borrowers to supply the latest financial statement preferably audited of his liabilities and assets. It will be possible for the Bank to trace the financial position and capital resources of the borrowers.

On collecting all the information and data the proposal is submitted to the higher officer with recommendations for being submitted the board of directors for sanctioning the loan. It is through the Chief-Executive officer of the Bank that the sub-committee (Loans) calls the meeting of the Board of Directors in order to discuss the issues pertaining to loan sanctions. The board of Directors expresses its views and opinions and the additional information is invited if required about the borrowers. Thus, finally the board sanctions the loan amount under the stipulated terms and conditions. The borrower is required to give his consent in writing and has to accept the terms and conditions stipulated by the board of directors of the Bank.

Different types of documents are required to be presented by the borrower depending on the nature of accommodation, documentation is necessary for the acknowledgment of debt and charging of securities to the Bank by him. If there is any mistake in documentation it is rejected. Documentation namely, stamping, execution and registration as the cause may be must be stamped according to section 17 of the India stamp Act, 1899. Unstamped documents have no Value and stamps affixed on the documents should be canceled. The signature of witness must be obtained wherever necessary Documents they should be filled properly and signed by the executives. After execution of the documents they should be entered in the security Register. After stamping and execution of all the documents the third stage is registration.

### **3.3 TYPES OF LOANS AND ADVANCES :-**

Banks are commercial enterprises. Therefore they are always busy in earning profit. Either deposits are mobilized or kept idle in stock room or these deposits are to be used to given 'loans and advances.

The following one the main advances given by the Bank.

#### **A) Cash Credit:-**

Cash Credit is an arrangement by which the banker allows its customers to borrow money up to the certain limit. Cash credit arrangement are usually made against security of commodity by hypothecated or pledged with the bank.

Cash credit facility is extend to manufacturing industry and business concern to meet working capital requirement. These document create pledge hypothecation over the goods, book-debts and other current assets of the borrowers. The borrowers can drawn up to the extent of drawing power against the value of stock.

#### **B) Overdraft:-**

The customer is permitted to draw up the sanctioned limit. It is running, open and mutual account, the customer need draw only up to the required by him.

Interest is applied on overdraft every quarter on the last working days. Overdraft is extended on facility for the temporary requirement of the customer. Customer is not

burdened by the interest component. He has to pay interest on account actually he has borrowed. He can also deposits the amount in the loan account, whenever he has the excess money.

### **C) Term Loan:-**

Term Loan is loan granted for the purpose of acquiring on asset which repay from the income generation of the assets there are two types of term loan.

#### **i) Long Term Loan:-**

In this type of loan the repayment is spread over more than three year. This is generally given to acquire high value of assets.

#### **ii) Short Term Loan:-**

In this type of loan the repayment period is between 12 months to 36 months.

### **3.4 PURPOSES OF LOANS AND ADVANCES:-**

The bank has sanctioned loan and advances its members for various purposes mainly agriculture and allied activities, educational domestic, consumption, house construction and repair purposes, transport and other purpose. The bank charged the rate of interest according to the bye-laws as well as directives of Reserve Bank of India.

**a) Agricultural and allied activities purpose:-**

The bank sanctioned loan and advances mainly for Agricultural and allied activities as well water pipe-line, poultry, dairy, animal husbandry, fisheries, purchased of electrical motors etc.

**b) Cottage and Small scale industrial purpose:-**

The cottage and industrial unit means a units engaged in manufacturing, processing, preservation or serving activities involving utilization of locally available natural resource and human and normally undertaken by the beneficiaries in their homes and scale. Industrial units are those, engaged in manufacturing processing or preservation of goods and whose investments in plant and machinery (Original Cost) should not exceed Rs.20 lakhs in case of ancillary units and plant and (original cost) should not exceed Rs.25 lakhs as defined by Reserve Bank of India.

**c) Loans for Professionals and Self Employment:-**

The bank trying to solve the employment problem by financing loans to educated unemployed and self employed persons and professionals such as Doctors, Lawyers, Chartered Accountant etc. professionals and self employed persons one those whose borrowings limits does not exceed Rs. 2 lakhs of those maximum Rs. 1 lakhs should be utilized for working capital requirement.



**d) Commercial Purpose:-**

Under the bye-laws of the bank, the bank sanctions loan for various commercial purposes such as small businessmen, small traders, agricultural products etc.

**e) House Construction and Repair Purpose:-**

The bank sanctioned loans and advances for house construction and repair purpose such as construction of new house, repair of old one etc. The amount of advances is depend on the need of the customer. The amount to advances is decided on the basis of the yearly income of the customer. Generally it is 8 to 10 times of yearly income of the customers while granting the loan the related documents of flat, plot, house etc. Verified by the bankers, lawyers and office.

**f) Transport Purpose:-**

The bank has sanctioned loan and overdue to members for this purpose especially for young educated unemployed members.

**g) Ceremonial and Consumption Expenses Purpose:-**

The bank sanctioned loans to individual members for marriage, other repayment of debt religious and traditional ceremonies etc. for the development of individual life to solve major difficulties of family problem etc.

**h) Educational Purpose:-**

Under this purpose the bank has sanctioned loan and advances to the poor but intelligent and needy students. This loan is granted to the students who prefer to higher studies.

Repayment of such loan is between 3 to 7, year which starts after completion of studies.

**i) Other Purpose:-**

The loan sanction the loans and advances for other purpose. It does not consist the purpose.

**3.5 SECURITY WISE LOANS AND ADVANCES :-**

Bank provide loans against securities. The amount is mainly depend upon the generator as well as security, security takes important part of sanctioning loan.

The list of such securities of loans and advances are given below.

**i) Loan Against Properties :-**

The bank provide loans against the property. The properties are like owned house, car or vehicle, bank deposits etc.

15332

**ii) Loan Against Personal Guarantee :-**

Bank also accept personal guarantee and as security and provide loans who fulfill the conditions of personal guarantee.

**iii) Loan Against Cash-Credit :-**

Bank provide loans against Cash-Credit to the needy borrowers.

**iv) Overdraft Secured Loan :-**

Bank also provide secured loans threw overdraft facilities to their members.

**v) Loan Against Silver and Golden Ornaments :-**

Against silver and golden ornament the bank provide loans to needy borrowers.

**vi) Hire Purchase Loan:-**

Bank provides loan for hire purchasing he mainly for moveable property. In the case of hire purchasing the actual security goods are not under the charge of the bank but the ownership of the goods belongs to banks still the last installment paid by the borrower.

**vii) Hypothecation Loan:-**

Loan provided by bank to facilitate and expansion existing business by mortgaging any movable property to the bank it termed as hypothecation.

It is not necessary to acquire the same asset by mortgaging that particular asset. It is generally long term nature and provided to acquire or create a new assets. The ownership of the mortgaged the property rate with the bank and allowed to use that assets for running his business.

**viii) Loan Against the Mortgage of Goods:-**

In this type of security also the goods are actually not in the charges of bank. It was at the godown and still just installment of the loan, the goods are actually belong to the bank.

**ix) Loan Against Fixed Deposits:-**

Bank accept fixed deposits as security. It is very safe or secured for the bank to provide such loan. It is also beneficial for the borrower. The borrower can enjoy the cash as well as the interest on the fixed deposit.

**x) Loan Against Recurring Deposits:-**

It is facility provided by bank to small investors generally individuals. Who are saving their income per month fixed amount deposited in recurring account maintained by the bank. In case of need of money or funds they are allowed to withdraw up to 85% of amount standing to the credit of their recurring deposits account. Bank generally charges a 2% higher than interest rate on given on recurring deposits for this type of loan. There is no compulsion to repay the loan during the tenure of loan after maturing R.D. Account Bank transfer

amount equivalent of loan account from recurring account and access of if any refunded to investors.

**xi) Loan Against Provident Fund:-**

Bank provide loans to their employees against provident fund as per their need.

**xii) Loan Against Household Goods:-**

Bank provides loans against the household goods with the security of valuable goods bank provide loans to the people.

**xiii) Loan Against Bills:-**

Bills are also like a promissory note for the future money so with the security of such bills the bank provide loans to the people.

**3.5 TREND OF SECURED AND UNSECURED LOANS :-**

The bank has sanctioned loans against security like mortgage of immovable properties, pledge, hypothecation of merchandise, gold and silver ornaments, fixed deposits and other trustee securities unsecured loans are also granted by the bank the form security loans, clean cash credits and clean overdrafts. In real sense it is risky to sanction without any security but sometimes, it is essential to sanction unsecured loans for the credit requirement of the members.

The following table shows the secured and unsecured loans of the bank during the last five years (2001-01 to 2005-2006)

**Table No. 3.1**

**TABLE SHOWING POSITION OF SECURED AND UNSECURED LOANS AND ADVANCES (during 2000-01 to 2005-06)**

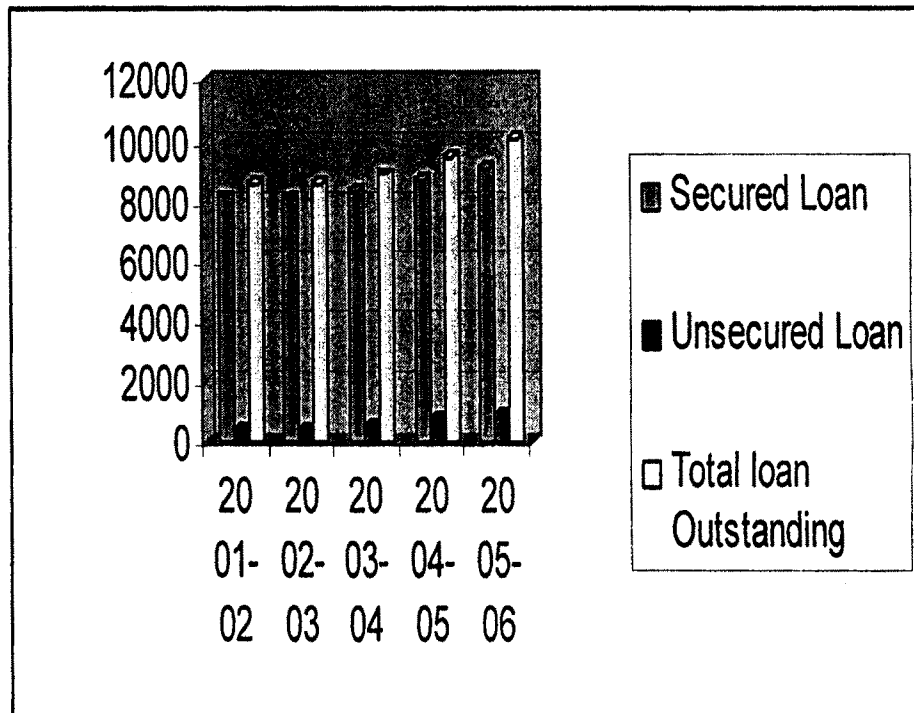
(Rs. In Lakhs)

Year	Secured Loan	Unsecured Loan	Total loan Outstanding
2001-02	8162.78	458.43	8621.21
	(61.36%)	(26.47%)	100%
2002-03	8136.92	463.33	8600.25
	(64.53%)	(27.23%)	100%
2003-04	8337.52	574.82	8912.34
	(65.56%)	(27.09%)	100%
2004-05	8690.65	783.41	9474.06
	(70.42%)	(26.49%)	100%
2005-06	9083.03	995.34	10078.37
	(70.38%)	(26.91%)	100%

(Source: Compiled from records of the Bank)

It is evident from the table no. 3.1 that there has been a significant increase in the amount of secured loan from Rs.8162.78 in 2001-02 to Rs.9083.03 in 2005-06. and there percentage increased from 61.36% in 2001-02 to 70.38% in 2005-06, where as, there has been a remarkable increase in the amount of unsecured loan from Rs.458.43 in 2001-02 to Rs.995.34 in 2005-06. But the trend can not be clearly drawn.

**Graph**  
**No.3.1**



The above chart showing the total outstanding, secured loan unsecured loan for the period of 2001-02 to 2005-06.

### 3.6 SECURITY-WISE LOANS AND ADVANCES:-

#### 1] LOAN AGAINST REAL ESTATE (HOUSING LOANS):-

Table No.3.2

(Rs. In Lakhs)

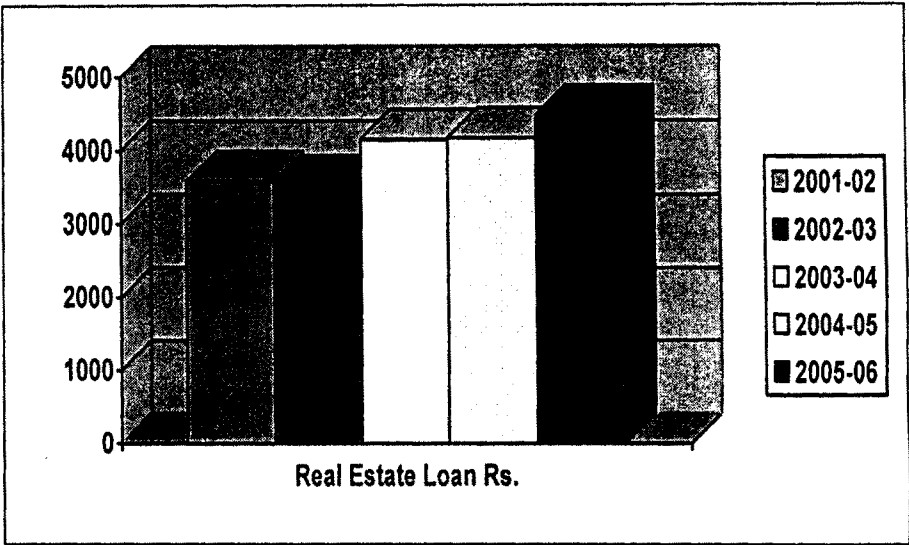
Year	Real Estate Loan Rs.	Increase / Decrease %
2001-02	3583.91	Base
2002-03	3520.94	-1.76%
2003-04	4152.16	17.93%
2004-05	4174.17	0.53%
2005-06	4477.54	7.27%

(source: Compiled from annual reports of the bank)

Above table indicates that the real estate loan decrease in 2002-03 in -1.76% but later it is increasing per year. In 2003-04 increased rate is 17.93% in 2004-05 increasing rate was 0.53% and in 2005-06 the increased rate was 7.27%.



**Chart No.3.2**



The above chart showing the loan against real estate. It shows the increasing trend in this type of loan.

**2]VEHICLE LOAN:-**

**Table No. 3.3** (Rs. In Lakhs)

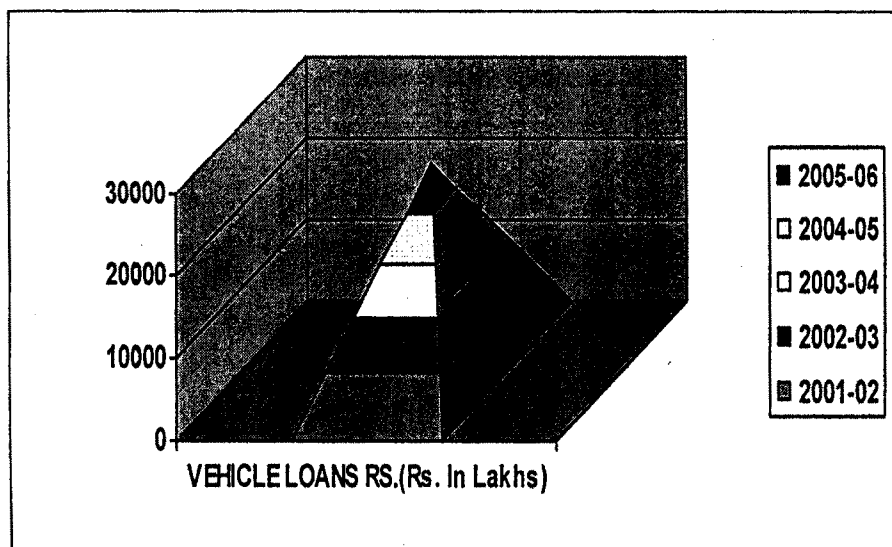
Year	VEHICLE LOANS RS.(Rs. In Lakhs)	Increase/ Decrease %
2001-02	6226.93	Base
2002-03	4942.49	-20.63%
2003-04	4849.1	-1.80%
2004-05	4705.2	-2.97%
2005-06	4446.13	-5.08%

(source: Compiled from annual reports of the bank)

The above table shows decrease in loans and advances of the bank. The table shows that vehicle loan decreased each year from 6226.93 lakh in 20001-2002 to 4466.13 lakh in 2005-06.

It is found that, there is other banks are provide more and more vehicle loan. But our bank has decreased the vehicle loan.

**Chart No.3.3**



The above chart shows the trend of vehicle loans during the period of 2001-02 to 2005-06

### 3] Gold Loan:-

**Table No.3.4**

**(Rs. In Lakhs)**

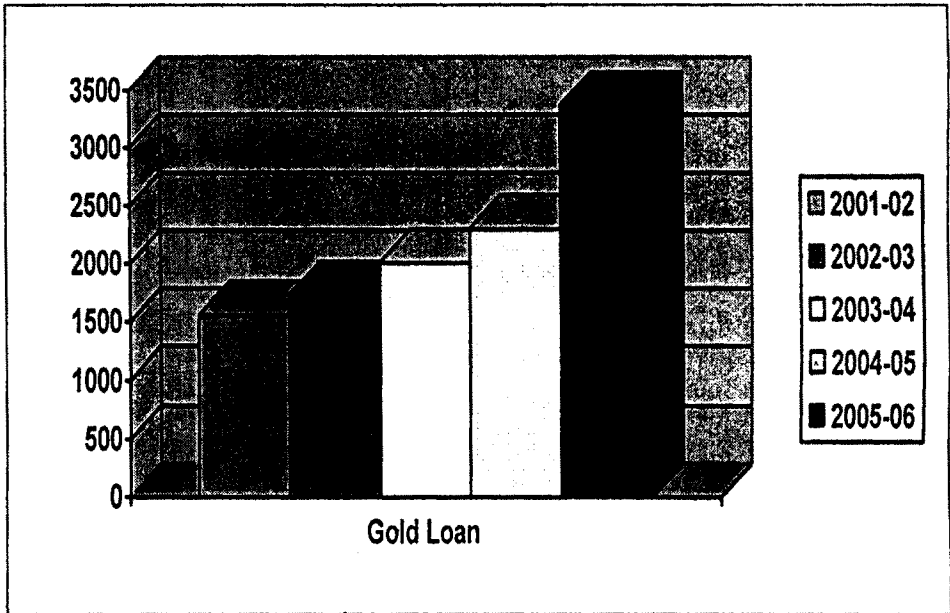
Year	Gold Loan	Increase / Decrease %
2001-02	1557.94	Base
2002-03	1725.28	10.74%
2003-04	2004.67	16.19%
2004-05	2300.51	14.76%
2005-06	3369.38	46.46%

(Source: Compiled from Annual Reports of the Bank)

The above table shows increase in loans and advance of the bank. The table shows that gold loan increased every year from 2001-2002, 1557.94 to 3369.368 in 2005-06.

In 2005-06 Gold loan increased by 46.46% as compare to last year.

Chart No.3.4



The above chart shows the trend of the gold loan provided by the bank. It also shows increasing trend of gold loan.

#### 4] LOAN AGAINST DEPOSIT:-

Table No.3.5

(Rs. In Lakhs)

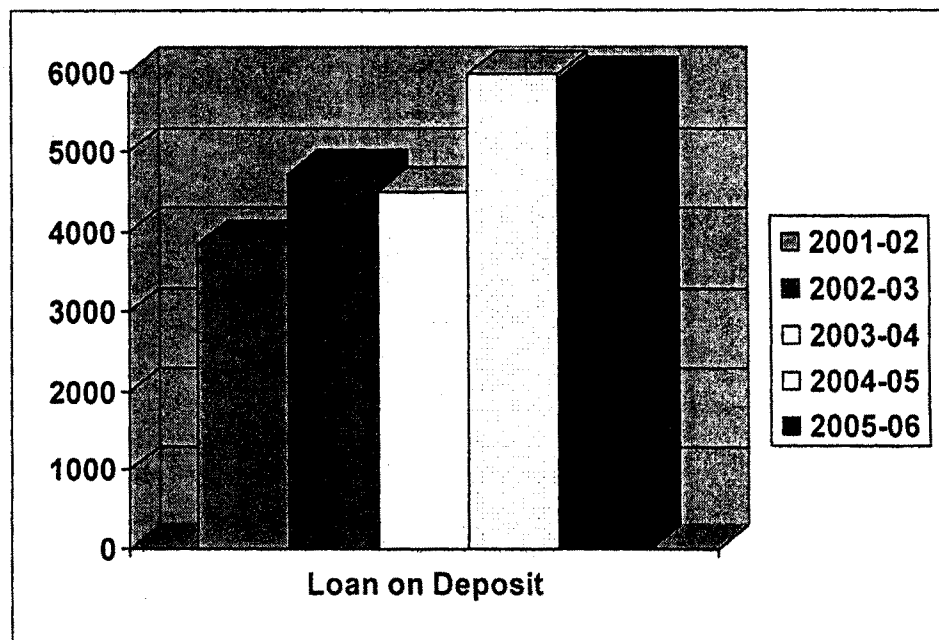
Year	Loan on Deposit ( In Lakhs)	Increase / Decrease %
2001-02	3846.53	Base
2002-03	4719.32	22.69%
2003-04	4504.77	-4.55%
2004-05	5960.31	32.31%
2005-06	5884.73	-1.27%

(Source: compiled from annual reports of the Bank)

The above table shows that the 2001-2002 to 2002-2003 the rate of increasing is 22.69% but the next year in 2003-2004 it is decreased -4.55% and in 2004-2005 it is increased 32.31% and in 2005-2006 it is decreased -1.27%.

The above table shows that the loans on deposit percentage is changeable

**Chart No.3.5**



The above chart indicates the loan given by the bank against deposit of the members.

#### **5] HIRE PURCHASE:-**

**Table No. 3.6**

**(Rs. In Lakhs)**

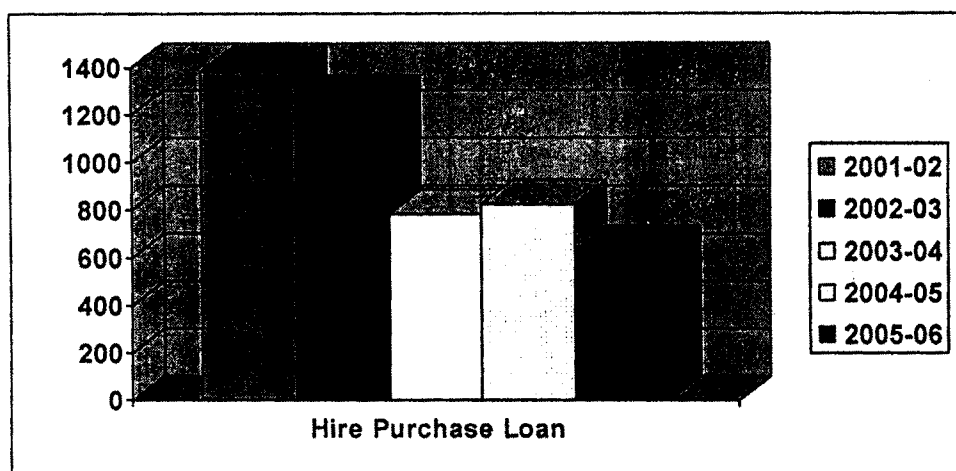
Year	Hire Purchase Loan	Increase / Decrease %
2001-02	1389.55	Base
2002-03	1264.42	-9.00%
2003-04	784.09	-37.99%
2004-05	823.11	4.59%
2005-06	630.41	-23.41%

(Source: Compiled from annual reports of the bank)

The above table and chart shows that the percentage of Hire Purchase loan is decreased every year except in 2004-05.

The hire purchase loan from 1389.55 lakhs in 2001-02 to 630.41 in 2005-06.

**Chart No.3.6**



Above chart shows the hire purchase loan provided by the bank to his customer. This chart indicates the decreasing trend from 2001-02 to 2005-06.

#### **6] LOAN ON HYPOTHECATION:-**

**Table No. 3.7**

**(Rs. In lakhs)**

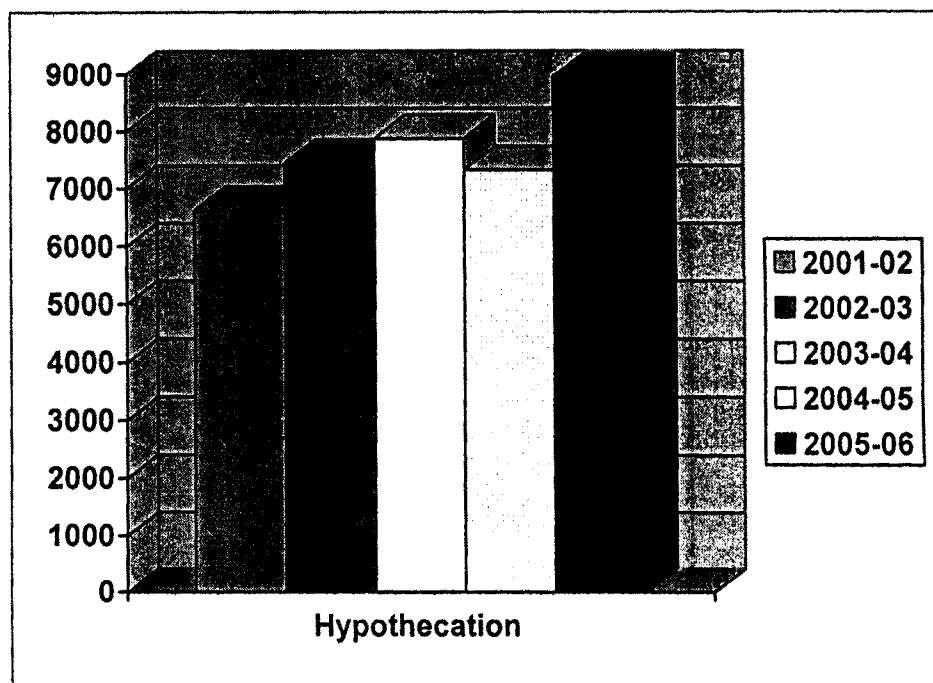
Year	Hypothecation	Increase / Decrease %
2001-02	6627.20	Base
2002-03	7457.34	12.53%
2003-04	7886.49	5.75%
2004-05	7331.19	-7.04%
2005-06	8960.57	22.23

(Source: Compiled from Annual Reports of the Bank)

The table reveals that the increase of hypothecation loan from 6627.20 in 2001-2002 to 8960.57 in 2005-06.

But in 2004-2005 hypothecation loan is decreased of the percentage of -7.04% as compare to last year.

**Chart No.3.7**



The above chart indicate the loan on hypothecation from 2001-02 to 2005-06. It reveals that mixed trend during the period.

### **3.6 CREDIT DEPOSIT RATIO :-**

While studying deposits, Loans and Advances of the bank and its working Credit Deposit Ratio is considered this ratio shows the relationship between total deposits and loans.

The following table shows the position of credit deposit ratio of the bank during the period of last 5 years i.e. 2001-02 to 2005-06.

Credit deposit Ratio is calculated by using following formula:-

$$\text{Credit Deposit Ratio} = \frac{\text{Loans And Advances}}{\text{Deposits}}$$

## 7) TABLE SHOWING THE CREDIT DEPOSIT RATIO

Table No.3.8

Year	Total Deposits	Loans And Advances	Credit Deposit Ratio
2001-02	13408.73	8621.21	64.29%
2002-03	15197.74	8600.25	56.58%
2003-04	16520.04	8912.34	53.94%
2004-05	17367.71	9474.06	54.54%
2005-06	18520.32	10078.37	54.41

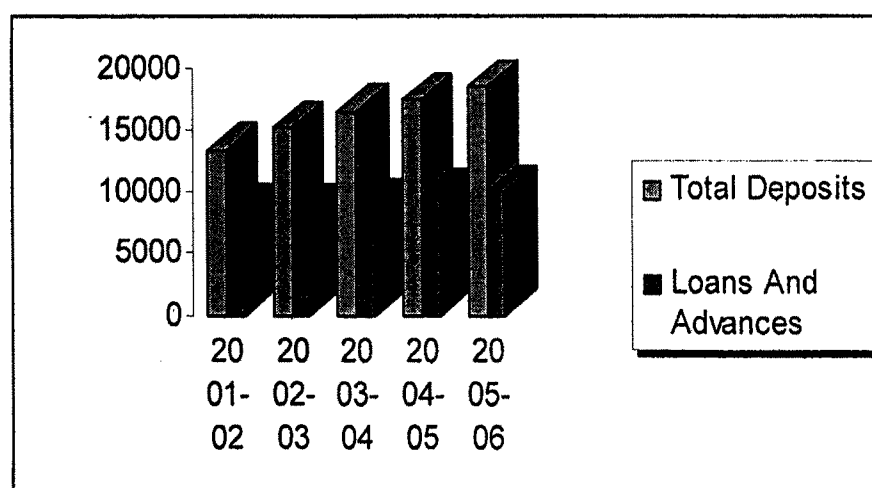
(source: Compiled from annual reports of the Bank)

The above table shows that the loans and advances as a percentage to total deposit of the bank decrease from 64% in 2001-02 to 56.58% in 2002-03. And the next year credit deposit ratio decrease and later it is constant.

Thus, this shows the change in the loan policy of the Bank for better investment.



**Chart No.3.8**



The above chart indicates the trend of total deposits and loans and advances given by the bank

### 3.7 EMPLOYEE PRODUCTIVITY RATIO :-

**Table No. 3.9**

**(Rs. In Lakhs)**

Year	Deposit	Loans	Number of Total staff	Business per employee
2001-02	13408.73	8621.21	169	130.35
2002-03	15197.74	8600.25	167	142.50
2003-04	16520.04	8912.34	162	156.99
2004-05	17367.71	9474.06	170	157.89
2005-06	18520.32	10078.37	168	170.23

(Source: compiled from Annual Report of the Bank)

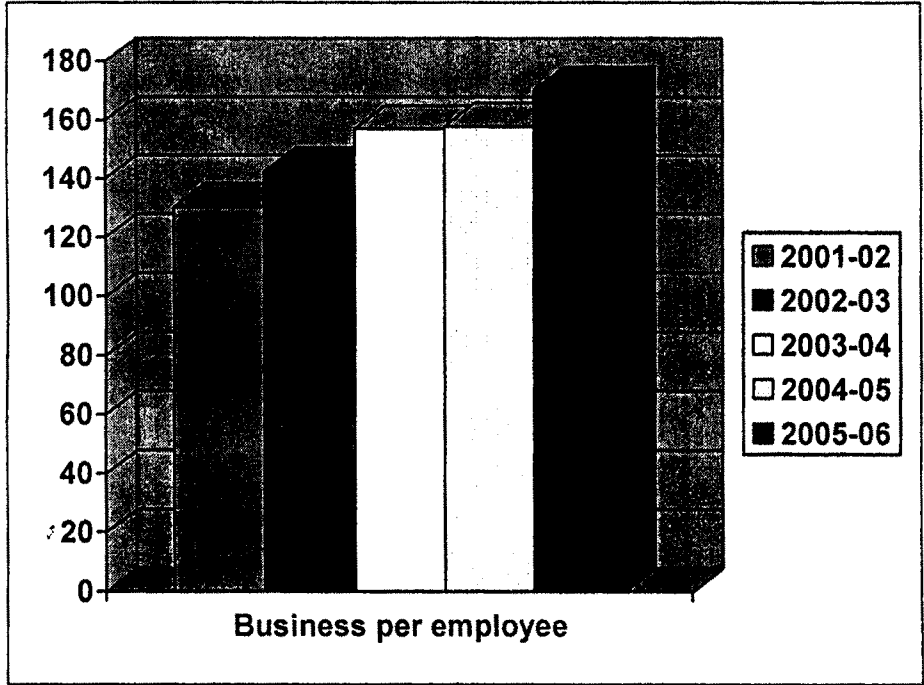
Employee productivity ratio is calculated by using following equation

$$\text{Employee Productivity Ratio} = \frac{\text{Loan} + \text{Deposit}}{\text{Total Staff}}$$

The employee productivity ratio is given in the table no 3.9. The total business per employee increases from Rs.130.35 lakhs to Rs.170.23 lakhs during the period of 2001-02 to 2005-06.

This shows that the employees of the bank work hard to obtain more business in terms of both deposits and advances.

Chart No.3.9



The above chart shows the business per employee. It reveals that the progress of business per employee from 2001-02 to 2005-06.