

C H A P T E R - V

LOANS AND ADVANCES OF THE TWO BANKS (H/O) .

- 5.1 Introduction.
- 5.2 Lending Policy of UCBS
- 5.3 Types of loans and advances
- 5.4 Overdues of the loans and advances.
- 5.5 Trends in total overdues of the two banks (H/O) .
- 5.6 Overdues of secured loans and advances of the
two banks (H/O) .
- 5.7 Overdues of unsecured loans and advances.
- 5.8 Action Taken by two banks for recovery of overdue
loans and advances.

CHAPTER VLOANS AND ADVANCES OUTSTANDING OF THE TWO BANKS (H/O) :5.1 INTRODUCTION :

The UCBS play an important part in catering to the credit needs of their regular and nominal members. They grant loans and advances for meeting commercial, productive and consumptional requirements of members, to make them free from the clutches of urban money lenders.

Resources of an UCBS consist of (a) Owned funds and (b) borrowed funds. Owned funds include paid-up share capital, reserve fund and other reserves. Borrowed funds include deposits of members and non-members and borrowings from district central co-op. bank and state Co-op. Bank. The bank should pay prescribed rate of interest on deposits accepted, appropriate dividend on shares and interest on borrowings if any. Though the aim of UCBS is not to earn maximum profit, in order to recoup cost of management and other overheads, to ensure efficient conduct of the institution, they must earn a reasonable amount of profit. The UCBS accept deposits for purpose of lending. As the rate of interest on lending is more than that of deposits, the UCBS earn profit.

5.1 LENDING POLICY OF UCBS :

UCBS decide their lending policies keeping in mind the RBI regulations, Banking Regulation Act 1949, as amended in 1983 and guidelines of Co-op. department of the state.

Under section 21 of the Banking Law (Amendment) Act 1983 with reference to Banking regulation Act the RBI may issue directives to Co-op. banks generally as to the purpose, margin, maximum amount, guarantee and rates of interest, other terms and conditions on advancing loans. Under section 44 of Co-op. Societies Act 1960 as amended in 1986 the UCBs can grant loans and advances to their members only. It also prohibits sanction of loans or advances on the security of their ~~own~~ own shares. But the UCBs may grant loans to other institutions, provided that the prior special permission of Co-op. Registrar is obtained.

Under section 18 of Banking Regulation Act 1949 as amended by Banking Law (amendment) Act 1983 A. Co-op. bank is required to maintain cash reserve with itself or in current Act (net balance) opened with RBI or SBI or State Co-op. Banks, not less than 3% of demand and time liabilities as on the last Friday of the second fortnight and shall submit a return to RBI before 15th of every month showing the amount so had on alternative Fridays during a month. Primary Co-op. Banks can maintain cash reserve in the central Co-op. Bank or district Co-op. Bank. Further under section 24, every Co-op. Bank shall maintain in India in cash/unencumbered approved securities an amount which shall not at the close of business on any day less than 25% of demand and time liabilities. Instead of the above legal obligation the UCBs require to invest funds into premises, furniture other assets. The remaining resources are available to the bank for profitable lending function.

While lending to a member, the banks should follow the principles of good lending; i.e. safety, liquidity, profitability and diversification of risks. The management should stress on productive loans which create additional income and ensure repayment of loan by the member. As more risk is involved in granting consumption loans, proper appraisal of individual loan proposals, assessment of creditworthiness of a borrowing member, repayment capacity and watch on use of loan for given purpose, stood an essential part of consideration.

The two banks under study have laid down their loan policies in their by-laws. These banks in accordance with the provisions of banking Regulation Act Co-op. Societies Act, Rules, and instructions issued by the Registrar, RBI, shall fix a maximum limit of loans and advances to a single party, directors and to a particular purpose. The two banks under study have formulated rules regarding loans and advances in by-law No.41. As per this by-law the banks may sanction loans to their members on security or without security. - Provided that the RBI guidelines issued time to time will be followed. The borrowing member should declare that he has not obtained any loan from other Urban Co-op. Bank/salary earners society. Banks may sanction loans or advances on the following securities.

- (1) Personal guarantee or guarantee of other members.
- (2) Tangible assets or collateral Security.

- (3) Industrial goods, goods-in-trade, agricultural produce, other products bearing market value, machinery (in the form of pledge, hypothecation)
- (4) Government Securities, debentures of trusts, shares and debentures of sanctioned companies.
- (5) Surrender value of LIC Policies.
- (6) Godown receipts.
- (7) Gold, Silver, other valuable ornaments.
- (8) Other tangible assets.

The board of directors of the banks prepare rules regarding sanction of loans, cash credits, overdraft facilities, rules of repayment of loan, recovery, extent of unsecured loans, keeping in view the RBI guidelines. In keeping with the national objectives of development with distributive justice, a diversified lending port-folio with emphasis on weaker sections will ^{continue} to be the guiding principle in directing the lendable resources of UCBS. The managements of UCBS have a crucial role in this behalf. They should continue to ensure that the benefits of urban Banking get widely dispersed among their members and particularly, the needs of the low and middle income group categories are effectively met. Concentration of loan port-folio in a few individuals and ^{or} connected groups or a particular industry is not compatible with the objective of urban banking. In recognition of this role of urban banks the RBI had exhorted UCBS in september 1983 to lend not less than 60% of their total loans to priority sectors of which 25% should go to the 'weaker' sections of the community. These targets have fixed to ensure that the benefits

percolate to wider sections of community engaged in productive ventures."¹

5.3 TYPES OF LOANS AND ADVANCES :

The nature of various types of loans and advances of the two UCBs under study is as below.

Total loans and advances mainly consist - (a) secured loans and advances and (b) unsecured loans and advances. While observing loans and advances on the lines of period; they may be classified as - (1) short-term loans and (2) medium-term loans. The researcher has studied the secured and unsecured loans and advances outstanding of the two UCBs (H/O) under research.

Secured loans and advances are defined under section 5 (n) of the Banking Regulation Act, 1949 as "a secured loans and advances means a loan and advance made on the security of assets, the market value of which is not any time less than the amount of such loan and advance." The list of secured loans and advances is as under :-

1. Loans secured against mortgage.
2. Machinery loans.
3. Loans against security of gold and silver ornaments.
4. Loans against fixed deposits.
5. Pledge goods loan.
6. Secured cash credit loans.
7. Cash credit loans against hypothecation of goods.

8. Cash credit loans against pledge of goods.
9. Cash credit loans against fixed deposits.
10. Cash credit loans against gold and silver ornaments.
11. Overdraft secured.
12. Allied agricultural loans.
13. Employee provident fund loans.
14. Secured instalment loans.

The two UCBs under study have granted the above types of loans and advances to their members.

Next main type of loans and advances is unsecured loans, which is defined under section 5 (i) (n) of the Banking Regulation Act, 1949 as "an unsecured loan or advance means a loan or advance not so secured." It means unsecured loans are those that are not secured but granted against the promissory note of the borrowing member with personal guarantee of two regular members. The two banks under study have the following types of unsecured loans :-

1. Unsecured loans.
2. Unsecured instalment loans
3. Unsecured cash credit loans
4. Bills purchased.

The nature and comparative study of the secured loans and advances and unsecured loans and advances of two banks (H) is done by the researcher in the following paragraphs; with the help of data collected.



Sr.No.	Type of loan	T H E A J A R A B A N K				J A N A T A B A N K			
		Maximum Limit to individual member (Rs.)	Maximum period months	Rate of Interest %	Rate of Interest %	Maximum limit to individual member (Rs.)	Maximum period months	Rate of Interest %	Rate of Interest %
(a)	(b)	(c)	(d)	(e)	(e)	(f)	(g)	(h)	(h)
1.	Personal Guarantee loans	7,000	12	15.50	15.50	5,000	24	16	16
2.	Personal Guarantee Instalment loans	7,000	35	15.50	15.50	5,000	24	16	16
3.	Loan on mortgage	75,000	12	15.50	15.50	15,000	48	16	16
4.	Secured cash credit and secured anstalment loan	75,000	35	15.50	15.50	15,000	24	16	16
5.	Pledge Loans	50,000	12	15.50	15.50	1,00,000	24	17	17
6.	Hypothecation loans	50,000	12	16.00	16.00	1,00,000	24	17	17
7.	Hypothecation cash credit loans	50,000	12	15.50	15.50				
8.	Machinery loans (Hire purchase)	75% of value or 1,25,000 which- ever is more	60	15.00	15.00	2,50,000	48	17	17
	Up to Rs. 1,25,000		36	15.00	15.00				
	All types of old models	10,000	35	15½	15½				
9.	Industrial Machinery loans/small scale Industries loans.	up to Rs.2,00,000 & up to Rs.25 lakhs over 25 lakhs	12 12 12	12% 15½ 16	12% 15½ 16	3,00,000	48	17	17
10.	Loans on Government securities	75% of value	12	15½	15½	50,000	24	16	16

(d)	(B)	(c)	(d)	(e)	(f)	(g)	(h)
13.	Gold loans	1,00,000 or 75% of value whichever is less	12	15½	50,000	24	16
14.	Allied Agricultural loans	80% of purchase bill	12	15½	1,00,000	48	17
15.	<u>Salary loans</u>						
	a) To employees of bank	As per contract with the bank			As per contract with the bank		
	b) To other salary earners	Calculated on 1/3 pay Instalment	35	15½			
16.	Bill purchased	Period up to cheque is credited		15½	Period up to cheque is credited		16
17.	<u>Educational loan</u>						
	(1) Hire education in India	As determined by board	120	10			
	(2) Other educational loan		35	15½			
18.	Housing loans						
		upto 20,000	120	12½	'A' Class salary earner earning upto 1500 monthly salary loan upto 50,000	180	15
		from 20,000 to 50,000	120	13½			
		from 50,000 to 1 Lakh.	120	14	Monthly salary 1,500 to 2,500	180	15
		over 1 lakh	120	16	loan upto 1 lakh		

(Source - Janata bank Board of Directors meeting dated 20.8.1988 records of the Ajara bank)

* Rate of Interest is flexible depending upon instructions from RBI. As per RBI circular No. UED/DC/40 HC 9/1988-89 dated 8.10.1988, Bank may charge The rate of interest on loans and advances at 16.50% from 10.10.1988.

Table No. 5.1 clearly indicates various types of loan advanced by the two banks under study with the maximum amount of loan to individual, maximum period and rate of interest. It may be noted that maximum limit on advances is fixed by R.B.I. Accordingly maximum limit of secured and unsecured advances of all types to any single party in respect of Ajara bank whose time and demand liabilities are above 10 crores is Rs. 40 lakhs from 25/11/1986. On the other hand the maximum limit of secured and unsecured advances of all types to any single party of Janata Bank whose time and demand liabilities are between 1 crore to 10 crores, fixed upto 5% of time and demand liabilities of the bank or Rs. 20 lakhs whichever is less.

The loan and advances given for not more than one year fall under short-term loans; those given for the period between 2 year to 3 years are called medium-term loans and those advanced for more than 5 years are called as long-term loans and advances. The researcher found that both the banks have advanced short-term and medium-term loans only.

The limits, period, rate of interest may be changed by the Board of Directors in their meeting provided that they should obey the instructions received time to time from R.B.I., Registrar and Government.

5.3.9 LOANS AGAINST MORTGAGE ETC. :

Secured loans are those that are secured by mortgage on house property, land, agricultural land etc. Banks may sanction a loan against mortgage of immovable properties of a regular member, who does trade, commerce, profession etc. in

the area of operation of a bank. Section 58 of the Transfer of Property Act, 1882, defines the term mortgage as "the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability."² It means there must be a transfer of interest in an immovable property; however, actual possession of the property need not always be transferred to the bank. Generally these types of loans are given for the purpose of trade. Secured loans or loan on mortgage of immovable property are given for one or two years period. There is facility to repay secured loans in monthly instalments within 36 months. The borrower is required to give his specific immovable property as a security with two guarantors. The banks charge 16% rate of interest from 4/4/1988.

Table No. 5.2 indicates the loans outstanding against mortgage of the two banks (H/O) under study. It includes mainly secured loans and secured instalment loans.

Loans outstanding against mortgage of the Ajara Bank (H/O) increased from Rs. 17.54 lakhs in 1981-82 to Rs. 37.33 lakhs in 1985-86, showing an increase by 2.13 times. The loan accounts rose from 251 in 1981-82 to 462 in 1985-86. The percentage of loans against mortgage to total loans outstanding has shown rise from 19.55% in 1981-82 to 25.40% in 1985-86. But the proportion of these loans with working capital of the bank declined from 7.77% in 1982 to 6.33% in 1986.

Loans against mortgage of the Janata Bank (H/O) rose

TABLE NO. 5.2

SHOWING LOANS AGAINST MORTGAGE OUTSTANDING OF THE TWO BANKS (HEAD OFFICE) FROM 1982 to 1986.

Rs. in lakhs.

THE AJARA BANK

JANATA BANK

Sr.No.	Year	Loan against mortgage	A/c	Rs.	Rs.	Inc ^r rease	Total loans out-standing	% to total loans out-standing	Wofk-ing capital ing standing	%	A/c	Rs.	Rs.	Incre-ase	Total loans out-standing	% to total loans out-standing	Working Capital	% to working Capital.
1.	1981-82	251	17.54	-	89.70	19.55	225.88	7.77	660	9.78	-	52.82	18.51	89.00	10.98			
2.	1982-83	258	19.51	1.97	92.30	21.13	282.92	6.90	709	12.47	2.69	63.68	19.58	109.82	11.35			
3.	1983-84	334	29.20	9.69	107.71	27.10	354.55	8.24	752	17.07	4.60	74.11	23.03	136.58	12.49			
4.	1984-85	402	33.12	3.92	130.92	25.29	452.82	7.31	802	18.80	1.73	79.84	23.54	161.40	11.64			
5.	1985-86	462	34.53	4.41	146.95	25.40	592.90	6.33	827	22.63	3.83	91.71	24.67	186.46	12.13			
6.	Average %	-	-	-	-	23.69	-	7.31	-	-	-	-	21.86	-	-	11.71		

(Source - Records of the two banks (H/o))

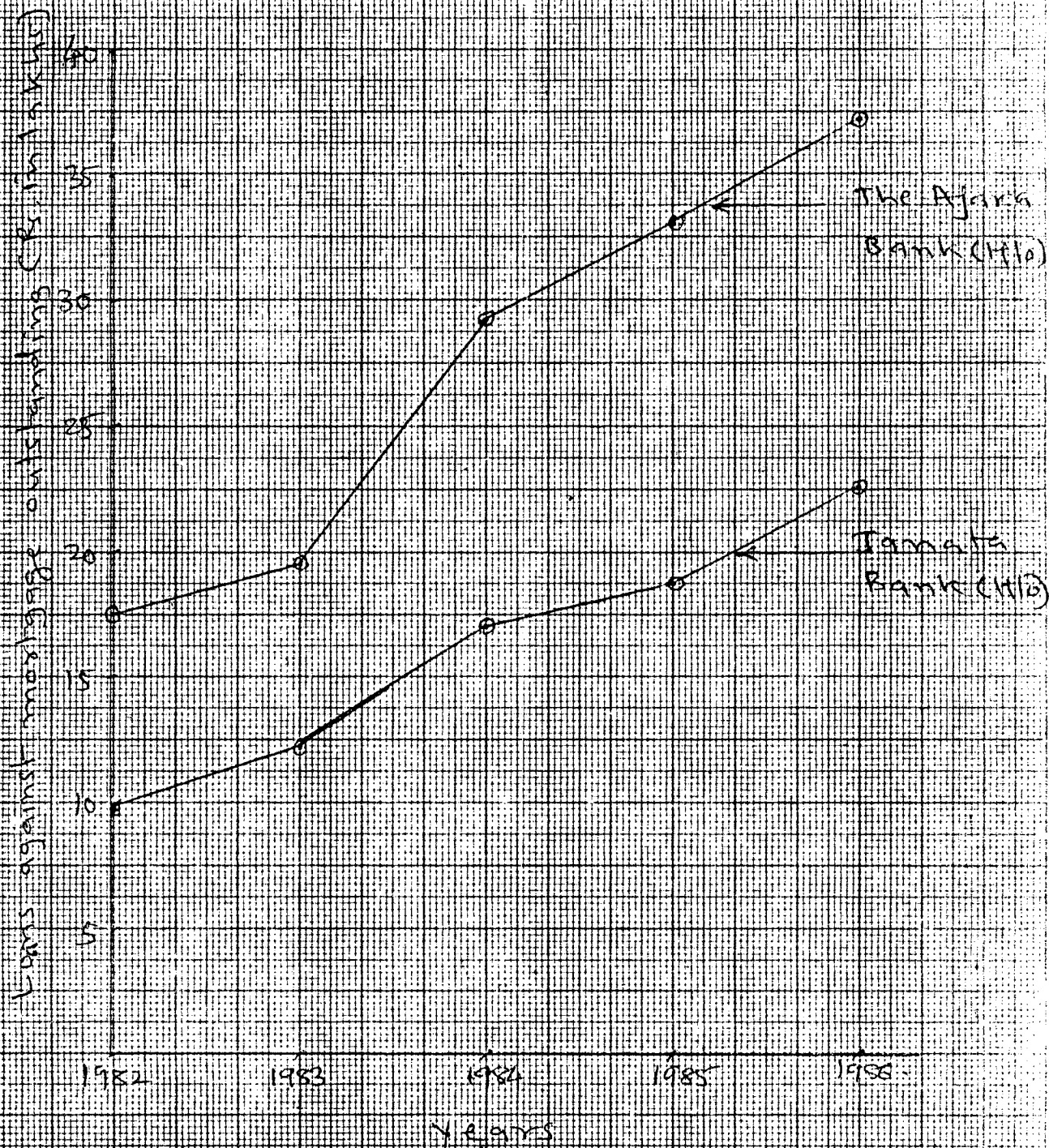
Graph showing Loans against mortgage of

Ajara bank (H/o) and Janata bank (H/o) from 1982 to 1986

Scale: On x-axis: 3 cm = 1 year

On y-axis: 1 cm = 2.5 lakhs

GRAPH No - 5.1



from Rs. 9.78 lakhs in 1981-82 to Rs. 22.63 lakhs in 1985-86, showing 2.31 times increase. The loan amount which were 660 in 1982, increased to 827 in 1986. The percentage of loans against mortgage to total loans outstanding has also increased from 18.5% in 1982 to 24.67% in 1986. The share of these loans in working capital was 10.98% in 1982. It was also raised to 12.13% in 1986.

The researcher found that loans against mortgage were increased because the both banks have increased the maximum limit on such loans and advances.

5.3.b MACHINERY LOANS :

Banks may grant a loan on security of a machinery of 'A' class member as well as of 'B' class member. Machinery will include trucks, rikshaws, motor cars, scooters, motor cycles, tractors, trolly, tempo, vans, oil engines, electric motor, lathe machine, cinema projectors, power looms, grinding machine etc. If a member wants to purchase a new machinery, the banks allow hire-purchase loan, provided that a member is required to deposit 25% of tender price with a bank. Banks under study allow a loan of 80% of valuation price of a new model; 70% of valuation of a model of 1 to 5 years and 60% of a valuation of a model beyond 5 years. Maximum limit of machinery loan is 80% of valuation of machinery or Rs. 2 lakhs whichever is less. (as per bye-laws of the two banks). The repayment period is 5 years and rate of interest at present is 16%. A borrowing member is required to give a machinery as a security with two guarantors. He has to insure a machinery in

the joint name (himself and a bank) covering comprehensive risk. There are some restrictions on lending to 'B' class members. The sixth meeting of Standing Advisory Committee (SAC) for UCBs was held in February, 1987 and recommended that UCBs may be allowed to grant loans for purchase of consumer durable articles such as T.V. sets, Réfrigerators, Two wheelers etc. to individuals who are not their regular members by admitting them as nominal member.³

As per this recommendation of SAC, urban banks are allowed to provide finance for purchase of consumer durable articles like T.V. sets, Refrigerator, Two wheelers etc. to individuals who are not already regular members of the bank by admitting them as a nominal member subject to the condition that -

- (i) the amount of such advance should not exceed Rs. 10,000/-.
- (ii) The total number of nominal members should not exceed 10% of the regular members at any point of time.⁴

The Table No. 5.3 gives total secured loans outstanding of the two banks from 1982 to 1986. (a) The table reveals that the machinery loans given by Ajara bank (H/O) were to the tune of Rs. 24.40 lakhs in 1981-82. They decreased to Rs. 20.98 lakhs in 1982-83 due to absence of more demand and further increased to Rs. 22.72 lakhs in 1983-84, to Rs. 29.28 lakhs in 1984-85, again increased to Rs. 35.42 lakhs in 1985-86. Most of the machinery loans are given on trucks. They increased from 1982 to 1986, by 45.16%. The share of machinery loans of Ajara

TABLE NO. 5.3

SHOWING MACHINERY LOANS OUTSTANDING OF THE TWO BANKS (HEAD OFFICE) FROM 1982-1986

Rs. in lakhs.

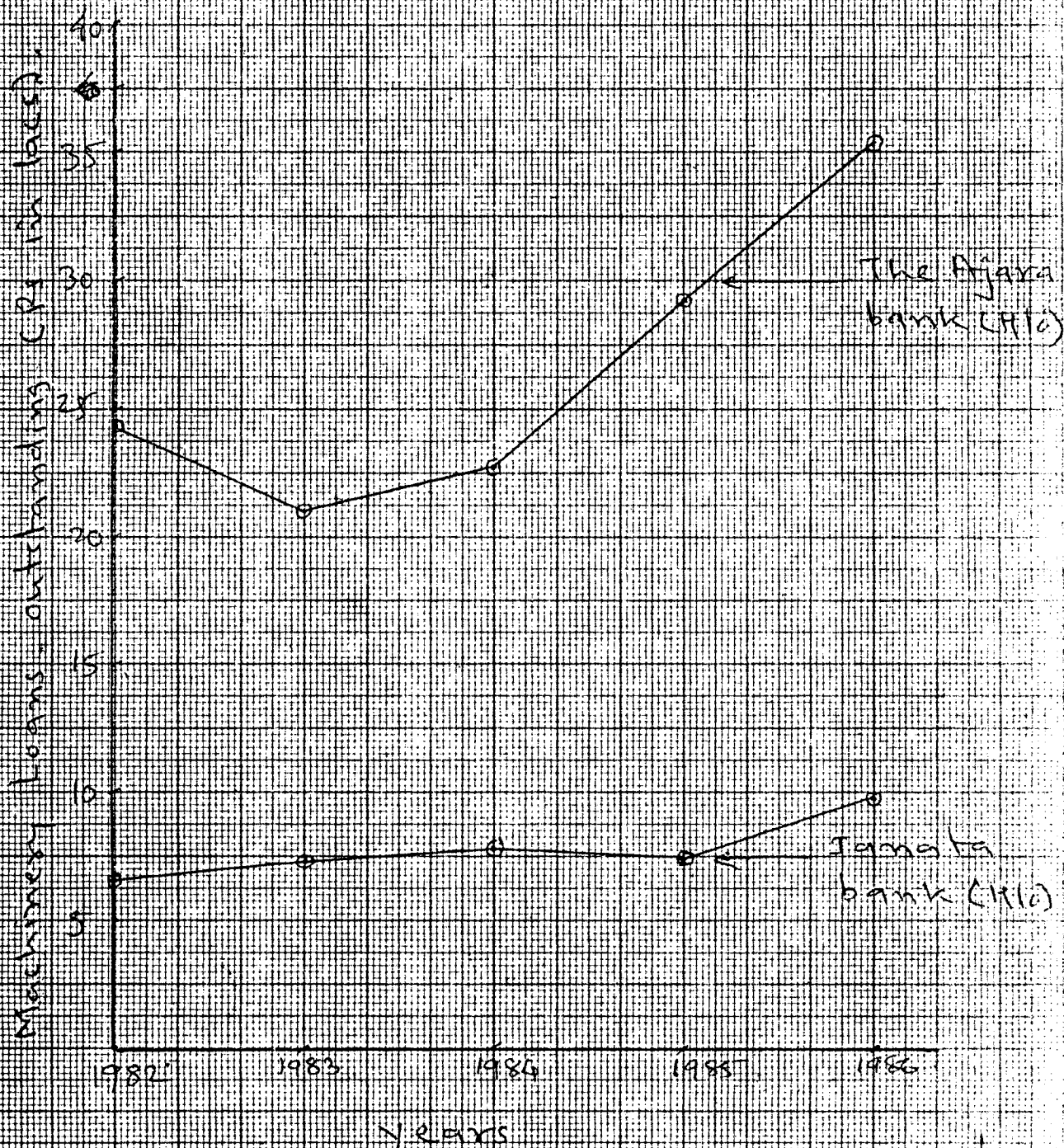
Sr.No.	Year	THE AJARA BANK (H/O)				JANATA BANK (H/O)										
		Machinery loans outstanding.		Incre-ase	Total loans outstanding	Working Capital	% of work- ing Capital	A/c.	Rs.	% to total loans outstanding	Machinery loans out- standing	Incre-ase	Total loans outst- anding	% to Total loans Outstanding	Working Capital	% of work- ing Capital
		A/c.	Rs.													
1.	1981-82	56	24.40	-	89.17	27.20	225.88	10.80	29	6.62	-	52.82	12.53	89.00	7.43	
2.	1982-83	44	20.98	-3.42	92.30	22.73	282.92	7.41	41	7.35	0.73	63.68	11.54	109.82	6.69	
3.	1983-84	63	22.72	1.74	107.71	21.09	354.55	6.40	45	7.73	0.38	74.11	10.43	136.58	5.65	
4.	1984-85	74	29.28	6.56	130.92	22.36	452.82	6.46	43	7.42	- 0.31	79.84	9.29	161.40	4.59	
5.	1985-86	93	35.42	6.14	146.95	24.10	592.90	5.97	65	9.62	2.20	91.71	10.48	186.46	5.15	
6.	Average %	-	-	-	-	23.49	-	7.40	-	-	-	-	10.85	-	5.90	

(Source - Official records of the two banks (H/O))

Graph showing Machinery loans outstanding of the Ajara Bank (H/o) and Janata Bank (H/o)

from 1982 to 1986.

Scale - On x-axis: 1 cm = 1 year
On y-axis: 1 cm = 25 lakhs



bank (H/O) in its total outstandings loans which was 27.20 % in 1982, decreased to 24.10% in 1986.

The percentage of machinery loans outstanding to working capital of the Ajara Bank (H/O) declined from 10.80% in 1981-82 to 5.97% in 1985-86.

The machinery loans outstanding of Janata Bank (H/O) has shown an increase from Rs.6.62 lakhs in 1981-82 to Rs. 7.35 lakhs in 1982-83 and to Rs.7.73 lakhs in 1983-84 but decreased to Rs. 7.42 lakhs in 1984-85, due to absence of demand from members, again increased to Rs. 9.62 lakhs in 1985-86. It means the machinery loans are increased by 45.31% from 1982 to 1986. The researcher observed after scrutiny of machinery loans outstanding of Janata Bank (H/O) that most of machinery loans are given to purchase trucks, tempo etc. of the total outstanding loans at an average 11% loan were constituted machinery loans during the period under study. The % of the machinery loans to working capital declined from 7.43% in 1982 to 5.15% in 1986.

While comparing the machinery loans of the two banks (H/O) it shows that the share of machinery loans outstanding in total loans outstanding of the Ajara Bank (H/O) was about 23.49% as against 10.85% that of the Janata Bank (H/O) during the period under study. The researcher observed that machinery loans especially trucks loans are increased due to expanding wooden and surgarcane transport-services in the area of operation of the two banks. (H/O)

5.3.c LOANS AGAINST SECURITY OF GOLD, SILVER :

Banks issue a loan against security of gold, silver ornaments to the extent of 80% of the value. The valuation is done by goldsmith appointed by the board of directors of the banks. Personal guarantee of other regular members is not necessary for such type of loan. Gold loans are given for both purpose, trade and consumption. Generally it is given for the period of one year. The banks have sanctioned such type of loan up to maximum amount of Rs. 50,000 to a member. The rate of interest charged on gold loan is 16% from 4/4/1981.

Table No. 5.4 shows gold loans outstanding of the two banks (H/O) under study.

Gold loans outstanding of the Ajara Bank (H/O) which were Rs. 24.32 lakhs in 1981-82, decreased to Rs. 22.43 lakhs in 1982-83, due to lack of demand from the member, but increased to Rs. 24.52 lakhs in 1983-84 and to Rs. 27.63 lakhs in 1984-85 and decreased to Rs. 27.02 lakhs in 1985-86. It means an increase by 1.11 times. The gold loan accounts rose from 1125 in 1982 to 1158 in 1986. The average percentage of gold loans outstanding during the five years period was 22.73. The share of it in total loans was reduced from 27.11% in 1982 to 18.38% in 1986. The percentage of gold loans in working capital decreased from 10.76% in 1982 to 4.55% in 1986.

Gold loans outstanding of the Janata Bank (H/O) increased from Rs. 17.15 lakhs in 1981-82 to Rs. 19.37 lakhs in 1985-86. It means 1.12 times increase. The gold loan accounts rose from 1350 in 1981-82 to 1525 in 1985-86. The percentage of gold in the total loans decreased from 32.46% in 1982 to 21.12 % in 1986. The average share of gold loans in total loans stood - - -

T A B L E - 5.4

Rs. in lakhs.

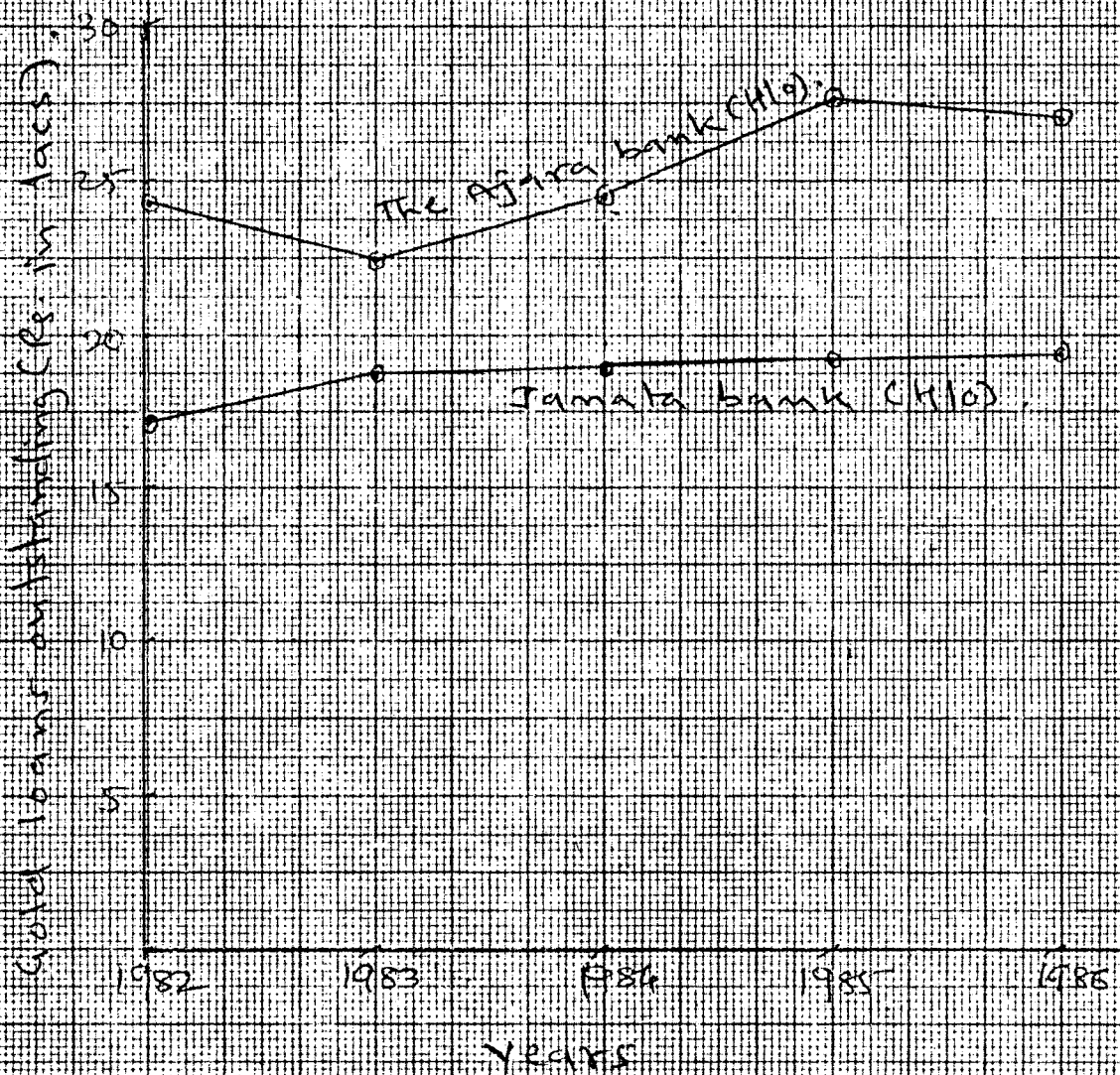
SHOWING GOLD LOANS OF THE TWO BANKS (H/O) FROM 1982 to 1986.

Sr. No.	Y E A R	THE AJARA BANK (H/O)					JANATA BANK (H/O)							
		Gold loan outstanding	Increase	Total loans outstanding	% to total loans outstanding	Working Capital	Rs.	% to total loan outstanding	Total loan outstanding	Rs.	Working Capital	% to working Capital		
		A/C	Rs.	Rs.		Rs.		A/C	Rs.	Rs.				
1.	1981-82	1125	24.32	-	89.70	27.11	225.88	10.76	1350	17.15	52.82	32.46	89.00	19.26
2.	1982-83	945	22.43	- 1.89	92.30	24.30	282.92	7.92	1490	18.68	63.68	29.33	109.82	17.00
3.	1983-84	1110	24.52	2.20	107.71	22.76	354.55	6.92	1498	18.87	74.11	25.46	136.58	13.81
4.	1984-85	1065	27.63	3.11	130.92	21.10	452.82	6.10	1509	19.16	79.84	23.99	161.40	11.87
5.	1985-86	1158	28.02	- 0.61	146.95	18.38	592.90	4.55	1525	19.37	91.71	21.12	186.46	10.38
6.	Average %	-	-	-	-	22.73	-	7.25	-	-	-	26.47	-	14.46

(Source - official Records of the two banks (H/O)).

Graph showing Gold loans outstanding of the
Ajara bank and Janata bank (H/o)

From 1982 to 1986. Scale: On x-axis: 3cm = 1 year
On y-axis: 1cm = 2.5 lacs



26.47%. The percentage in working capital of gold loans also decreased from 19.26% in 1981-82 to 10.38% in 1985-86.

While comparing the gold loans outstanding of the two banks (H/O) it shows that the gold loans of the Janata banks (H/O) increased by 12.94% during the period under study as against 11.10% that of the Ajara bank (H/O). The researcher found after ^{scrutiny} of the gold loan accounts of the two banks that the amount of loan sanctioned per account of the Ajara bank (H/O) was more than that of the Janata bank. It will be seen that one fourth loans of two banks belong to gold loans.

5.3.d FIXED DEPOSIT LOANS :

Section 44 of Maharashtra Co-Op. Societies Act 1960, permits a UCB to make a loan to a depositor on the security of his deposits. Further a loan to a non member on the security of his deposit with the society/bank is permitted by section 43 of the Act. Both the banks under study advance loan to non-members on his deposit with bank as per the rules laid down in their bye-laws. 'A' and 'B' class member will get a loan on fixed deposit receipt of his own, to the extent of 85% of the amount kept as fixed deposit with the Bank. Banks charge 2% additional rate of interest over and above the rate of interest on fixed deposit of a borrowing member. However under Rule 45 A (1) of Maharashtra Co-Op. Societies Rules 1960 when (a bank / society makes a loan to a depositor on the security of his fixed deposit with the society of his fixed deposit with the society (a bank), the amount of loan shall not exceed 90% of the deposit amount and the period for which loan is granted shall not extend beyond the date of maturity of the fixed deposits.⁵

~~SHOWING LOANS AGAINST FIXED DEPOSITS OF THE TWO BANKS (H/O) FROM 1982 to 1986.~~

THE AJARA BANK (H/O)

JANATA BANK (H/O)

Sr. No.	Y E A R	THE ADARSA BANK (H/O)				THE ADARSA BANK (H/O)				THE ADARSA BANK (H/O)					
		F.D. loan outstanding	Increase	Total loans outstanding	% to total loans outstanding	Working Capital	% to Working Capital	F.D. loans outstanding.	Increase	Total loans outstanding	% to total loans outstanding.	Working Capital	% to working Capital.		
		A/C	Rs.	Rs.	%	Rs.	%	A/C	Rs.	Rs.	%	Rs.	%		
1.	1981-82	286	5.66	-	89.70	6.30	225.88	2.50	120	2.37	-	52.82	4.48	89.00	2.66
2.	1982-83	304	9.20	3.54	92.30	9.96	282.92	3.25	150	3.37	1.00	63.68	5.29	109.82	3.06
3.	1983-84	288	8.18	- 1.02	107.71	7.59	354.55	2.30	127	2.87	- 0.50	74.11	3.87	136.58	2.10
4.	1984-85	305	10.87	2.69	130.92	8.30	452.82	2.80	158	3.59	0.072	79.84	4.49	161.40	2.22
5.	1985-86	325	13.66	2.79	146.95	9.29	592.90	2.30	159	3.14	- 0.45	91.71	3.42	186.46	1.68
6.	Average	-	-	-	-	8.28	-	2.55	-	-	-	-	4.31	-	2.34

(Source - Official Record of the banks (H/O)).

GRAPH NO. 5.4. 164

Graph showing Loans against fixed deposits outstanding of the Ajara bank (K10) and Janata bank (H10) from 1982 to 1986.

Scale: On x-axis: 3cm = 1 year

On y-axis: 1cm = 1 (in 1000)

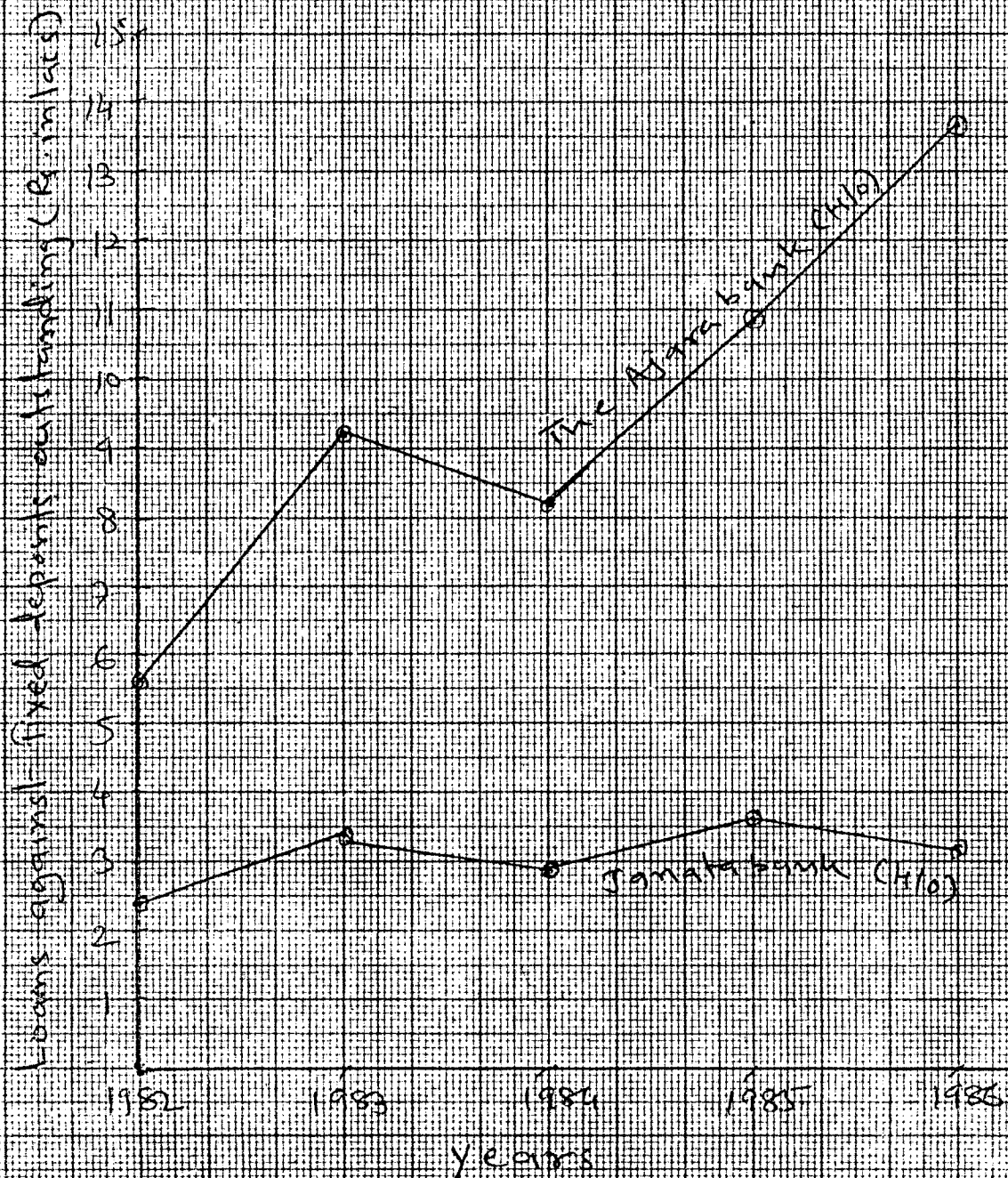


Table No.5.5 indicates the loans against fixed deposits of the two banks (H/O).

Loans against fixed deposits of the Ajara bank (H/O) increased from Rs.5.66 lakhs in 1981-82 to Rs. 9.20 lakhs in 1982-83 but decreased to Rs.8.18 lakhs in 1983-84, due to absence of demand from the mebers but increased to Rs. 10.87 lakhs in 1984-85 and again increased to 13.66 lakhs in 1985-86. These loans are increased by 2.41 times during the period under study. The fixed deposits loan accounts rose from 286 in 1982 to 325 in 1986. The ^{Average} percentage of these loans to total loans to working capital was 2.55%.

The researcher found that the loans against fixed deposits are increased due to increase in fixed deposits of the bank during the period under study.

Loans against fixed deposits of the Janata bank (H/O) increased from Rs.2.37 lakhs in 1981-82 to Rs.3.37 lakhs in 1982-83 but decreased to Rs. 2.87 lakhs; due to lack of demand from the members in 1983-84. They raised to Rs. 3.59 lakhs in 1984-85 and again decreased to Rs. 3.14 lakhs in 1985-86. It shows fluctuations in the fixed deposit accounts of the Janata bank (H/O). They are increased by 1.32 times during the period under study. The fixed deposit accounts rose from 120 in 1982 to 159 in 1986. The percentage of these loans in total loans outstandings of the bank reduced from 4.48% in 1982 to 3.42% in 1986. As well as the percentage of these loans with working capital of the bank also decreased from 2.66% in 1982 to 1.68% in 1986.

It should be noted that the loans on fixed deposits of the Ajara bank (H/O) are more than that of the Janata bank (H/O) because the fixed deposits of the Ajara bank (H/O) are more than double than that of the Janata Bank (H/O).

5.3.e PLEDGE GOODS LOAN :

Banks sanction loan on pledge goods of a regular member, to the extent of 70% of market price of goods. A pledge is contract whereby an article is deposited with a lender or promisee as security for the repayment of a loan or performance of a promise. Section 172 of the India contract Act defines it as " the bailment of goods as security for payment of a debt or performance of a promise is called pledge " Here delivery of goods to the banker is necessary UCBs under study advance loan on pledge of goods like cashew-nuts, grains etc. The borrower has to give the documents of title relating to the goods or the goods stored. The key of the godown where the goods (pledged) are stored will be with the bank officials. Such type of loan is given for 6 months to one year; charging 16% rate of interest from 4/4/1988, provided that the instructions of RBI received time to time are followed.

Table No.5.6 shows pledge goods loans outstanding of the Ajara bank (H/O) from 1982 to 1986. It shows ups and downs in these loan accounts of the bank. Pledge goods loans of the Ajara bank are increased from Rs.0.05 lakhs in 1982 to Rs.0.54 lakhs in 1983 but decreased to Rs. 0.52 lakhs in 1984, again

T A B L E - 5.6

SHOWING PLEDGE GOODS LOAN OUTSTANDING OF THE AJARA BANK (H/O) FROM 1982 to 1986.

Sr. No.	Year	Pledge goods loan outstanding		Increase	Total loans outstanding		% to total loans outstanding	Working Capital		% to working Capital
		A/C	Rs.	Rs.	Rs.	Rs.		Rs.	%	
1.	1981-82	1	0.05	-	89.70	225.88	0.05			0.02
2.	1982-83	2	0.54	0.49	92.30	282.92	0.58			0.19
3.	1983-84	2	0.52	- 0.02	107.71	354.55	0.48			0.14
4.	1984-85	3	0.72	0.20	130.92	452.82	0.54			0.15
5.	1985-86	2	0.25	- 0.47	146.95	592.90	0.17			0.04
6.	Average %	-	-	-	-	-	0.36			0.13

(Source - Official records of the two banks (H/O)).

increased to Rs. 0.72 lakhs in 1985 and decreased to Rs. 0.25 lakhs in 1986. The table further reveals that the percentage of pledge goods loans in total loans is decreased from 0.05% in 1982 to 0.17% in 1986. As well as it's share in working capital raised from 0.02% to 0.04% from 1982 to 1986.

The researcher found that there are wide fluctuation in pledge goods loans because these types of loans are mainly depend upon trade fluctuations. The members who deal in cashew are more interested in taking pledge loans. Nature also plays an important role in cashew-nuts production and it reflects on cashew-nuts trade. It should be noted that the Banata Bank (H/O) has not advanced any amount against pledge loans during the period under study.

5.3f SECURED CASH CREDIT LOAN :

In secured cash credit type of loan, the bank allows it's customer to borrow up to a certain limit. Within a maximum limit sanctioned to the borrower, he can withdraw amount according to his need and convenience. He can deposit money into cash credit account. He should keep the cash credit account running, by continuous keeping deposits and making withdrawals of the funds. The bank charges at present 16% rate of interest, on a minimum balance in cash credit account at every day. Cash credit loans are granted for the period of one or tow years. The banks under study have -
 sanctioned cash credit loans against security of land, -
 building, gold, fixed deposits, pledge, hypothecation -

stock etc., for the purpose of trade, commerce, domestic purpose also. Generally the regular members who are traders, producers, professionals take cash credit ^{loans} for meeting their need of working capital.

Table No.5.7 shows secured cash credit loans of the two banks (H/O) under study from 30/6/82 to 30/6/1986.

Secured cash credit loans of the Ajara bank (H/O) which were Rs. 6.83 lakhs in 1982, increased to Rs.8.04 lakhs in 1983 but decreased to Rs. 7.77 lakhs in 1984, again increased to Rs. 9.76 lakhs in 1985 and to Rs. 13.61 lakhs in 1986. It shows an increase by two times. The secured cash credit accounts also rose from 36 in 1982 to 57 in 1986. The share of these loans in total loans outstandings also increased from 7.61% in 1982 to 9.26% in 1986. But the percentage of these loan with working capital of the bank reduced from 3.02% in 1982 to 2.29% in 1986.

The researcher observed that the secured cash credit loans granted by the Ajara bank (H/O) are against hypothecation of goods, pledge of goods, security of gold, mortgage of immovable properties etc. Of the secured cash credit loans, hypothecation cash credit loans are more than 50% among total secured cash credit loans of the bank.

Secured cash credit loans of the Janata bank (H/O) which stood at Rs. 5.50 lakhs in 1981-82, increased continuously to Rs.11.02 lakhs in 1985-86. It means they are doubled. The secured cash credit accounts rose from 83 in 1982 to 128 in 1986. The share of these loans in total loans outstanding

TABLE - 5.7

SHOWING CASH CREDIT (SECURED) LOANS OF THE TWO BANKS (H/O) FROM 1982 TO 1986.

Rs. in lakhs.

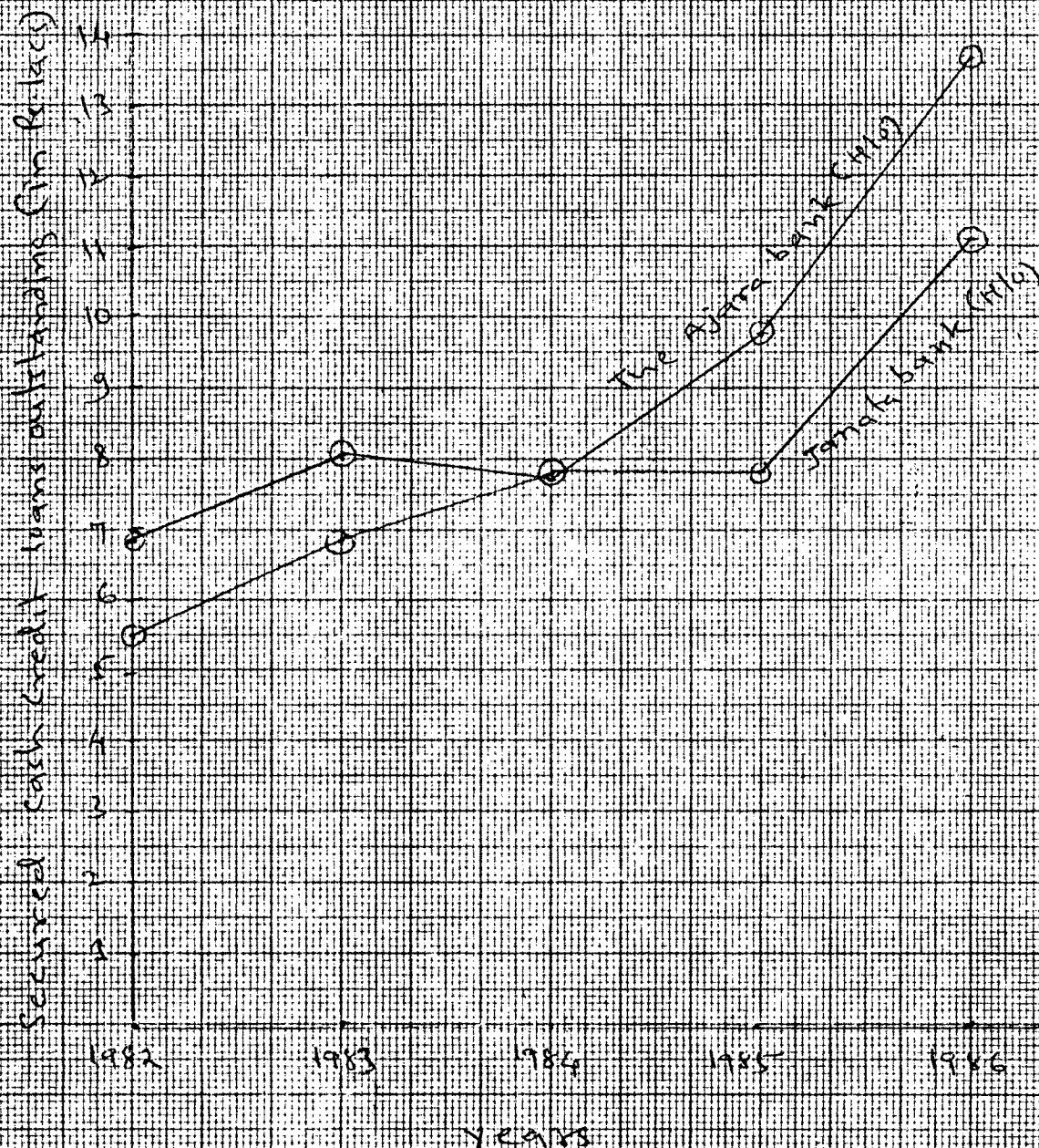
Sr. No.	Y E A R	THE AJARA BANK (H/O)					JANATA BANK (H/O)								
		Secured cash credit loan outstanding	Increase	Total loans outstanding	% to total loans outstanding	Working Capital	% to working Capital	Secured cash credit loan outstanding	Increase	Total loans outstanding	% to total loans outstanding	Working Capital	% to working Capital		
		A/C	Rs.	Rs.	%	Rs.	%	A/C	Rs.	Rs.	%	Rs.	%		
1.	1981-82	36	6.83	—	89.70	7.61	225.88	3.02	83	5.50	—	52.82	10.41	89.00	6.17
2.	1982-83	34	8.04	1.21	92.30	8.71	282.92	2.84	97	6.86	1.36	63.68	10.77	109.82	6.24
3.	1983-84	37	7.77	0.27	107.71	7.21	354.55	2.19	114	7.80	0.94	74.11	10.52	136.58	5.71
4.	1984-85	38	9.76	1.99	130.92	7.45	452.82	2.15	118	7.82	0.02	79.84	9.79	161.40	4.84
5.	1985-86	57	13.61	3.85	146.95	9.26	592.90	2.29	128	11.02	3.20	91.71	12.01	185.46	5.91
6.	Average %	—	—	—	—	8.04	—	2.49	—	—	—	—	10.70	—	5.77

(Source - official Records of the two banks (H/O)).

Graph No. 55. 171

Graph showing Secured cash credit loans outstanding of the two banks (H/o) from 1982 to 1986.

Scale - On X axis - 3cm = 1 year
On Y axis - 1cm = 1 lacs



raised from 10.41% in 1982 to 12.01% in 1986. But the percentage of these loans in working capital of the bank reduced from 6.17% in 1982 to 5.91% in 1986.

It will be seen that the average share of the secured cash credit loan in total loan of the two banks is nearly about 10%. The secured cash credit loans of the Janata Bank mainly consist cash credit loans ^aagainst mortgage of house property, immovable property, hypothecation cash credit and on security of fixed deposits.

The researcher observed that the hypothecation cash credit loans of both the banks are increased tremendously, because more ~~business~~ customers are attracted to this scheme as it is found that the officials of the Janata Bank (H/O) have made propaganda of these types of loan in traders carrying on business in the area of operation of the bank.

5.3 g ALLIED AGRICULTURAL LOANS :

Banks allow loans for allied-agricultural activities for the period from 1 year to 5 year. It includes loans for dairy, poultry and purchasing cattles, oil engines, agricultural tools and other allied-agricultural activities.

Allied agricultural loans outstanding of the Ajara bank (H/O) increased from Rs. 0.21 lakhs in 1982 to Rs. 0.23 lakhs in 1986. On the other hand the Janata Bank's outstandings loans against allied-agricultural increased from Rs. 637.80 in 1982 to Rs. 1.20 lakhs in 1986.

It can be seen that the Janata bank (H/O) has advanced more loans against allied-agricultural activities than the - Ajara bank (H/O).

5.3.h EMPLOYEES PROVIDENT FUND LOANS :

Loans are given to employees of the bank against their amount of provident fund. The Ajara bank (H/O) advanced - employees provident fund loans amounting to Rs. 0.07 lakhs in 1982 ^{and} 1983. They increased to Rs. 0.29 lakhs in 1984, to Rs. 1.01 lakhs in 1985 and decreased to Rs. 0.78 lakhs. ^{in 1986} The percentage of these loans to loans outstanding increased from 0.07% in 1982 to 0.77% in 1985 and reduced to 0.53% in 1986. Its percentage to working capital rose from 0.03% in 1982 to 0.32% in 1985 and declined to 0.13% in 1986.

However, the Janata bank (H/O) did not advanced any loan against employee provident fund during the period under study.

5.3.i UNSECURED LOANS :

These types of loans are granted against the - promissory note of the borrowing member. The 'A' Class members who carry on trade, commerce, profession in the area of operation of a bank will get a loan unsecured. The banks may allow cash credit unsecured loan to member. Banks in this case judge the creditworthiness, repayment capacity, economic condition, properties, capital resources of both the borrowing member and two guarantors. These loans are granted principally on personal guarantee of a borrowing member coupled with a

personal guarantee of two regular members standing as guarantors. Janata bank allows unsecured loan up to maximum amount of Rs. 5,000 and Rs. 7,000 as unsecured cash credit loan to each member. The Ajara bank grants an unsecured loan up to Rs. 7,000 to each member. As per the by-law of the Janata bank, such types of unsecured loans are allowed to salary-earners by monthly deduction from pay or salary of a borrowing member for the period of 36 months and in respect of cash credit unsecured loans up to the period not exceeding 24 months.

Table No.5.8 clearly indicates that the unsecured loans of the Ajara bank (H/O) increased from Rs. 7.74 lakhs in 1981-82 to Rs. 15.70 lakhs in 1985-86. It means 2.02 times increase. The unsecured loan accounts rose from 198 in 1982 to 370 in 1986.

The unsecured loans of the Janata bank (H/O) increased from Rs. 6.91 lakhs in 1981-82 to Rs. 15.02 lakhs in 1985-86 showing an increase, by 2.17 times. These types of loan accounts rose from 420 in 1981-82 to 585 in 1985-86.

The unsecured cash credit loan accounts of the Ajara bank which stood 21 in 1982, decreased to 19 in 1983 but increased to 21 in 1984 and remained at 21 in 1985 also but again decreased to 12 in 1986. The loan amount advanced under these types of loan are continuously decreased from 1.52 lakh in 1982 to 0.39 lakhs in 1986.

The unsecured loans outstanding of the Janata bank (H) showed an increase from Rs. 4.45 lakhs in 1982 to 10.27 lakhs in 1986. These types of loan accounts are increased from 145 in 1982 to 448 in 1986.

TABLE NO. 5.8

SHOWING UNSECURED LOANS OUTSTANDING OF THE TWO BANKS (H/O) FROM 1982 to 1986.

Rs. in lakhs.

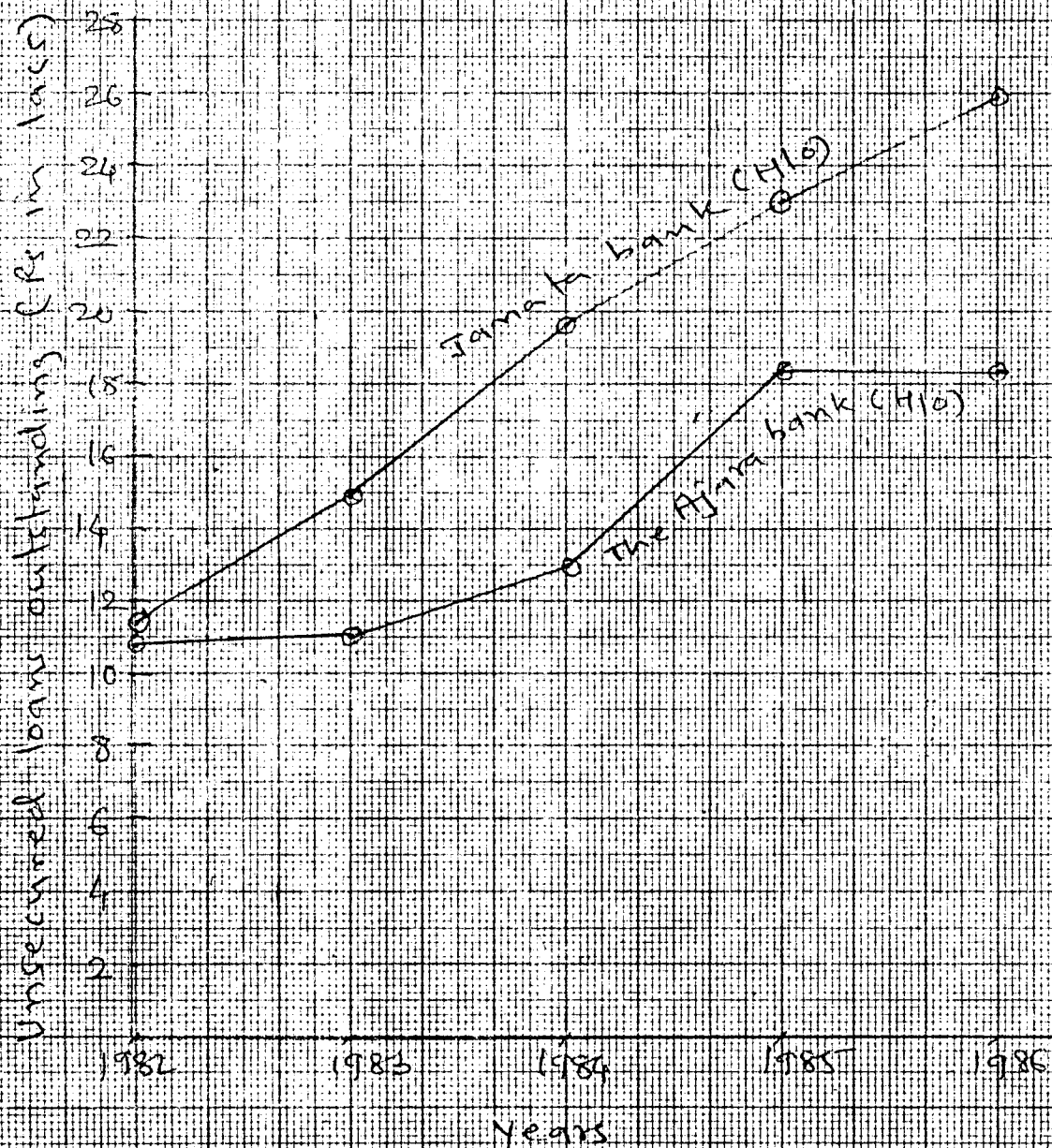
Sr.No.	I t e m	TEH AJARA BANK (H/O)					JANATA BANK (H/O)				
		1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
(1)	Unsecured Loans	7.74	8.48	10.83	15.60	15.70	6.91	8.90	11.11	13.77	15.02
(2)	Unsecured & cash credit Loans	1.52	.98	00.78	00.82	00.39	4.45	5.89	8.34	8.56	10.27
(3)	Unsecured Instalment Loans	1.36	1.62	1.37	1.92	2.21	-	-	-	-	-
	Total 1+2+3	10.62	11.08	12.98	18.34	18.30	11.36	14.79	19.45	22.33	25.29
(4)	Bills purchased and discounted	0.02	0.43	0.65	-	-	0.04	0.16	0.31	0.72	0.63
	Total unsecured loans	10.64	11.51	13.63	18.34	18.30	11.40	14.95	19.76	23.05	25.92
(5)	Total loans	89.70	92.30	107.71	130.92	146.95	52.82	63.68	74.11	79.84	91.71
(6)	% of unsecured loan to total Loans	11.86	12.47	12.65	14.00	12.45	21.58	23.48	26.66	28.87	28.26
(7)	Working capital	225.88	282.92	354.55	452.82	592.90	89.00	109.82	136.58	161.40	186.46
(8)	% to working capital	4.71	4.07	3.84	4.05	3.09	12.80	13.61	14.47	14.28	13.90

(Source - Official record of the two banks (H/o))

Graph showing Unsecured loans outstanding of the two banks (H/o) from 1982 to 1986.

Scale: On x-axis: 3cm = 1 year

On y-axis: 1cm = 2 lacs



The Ajara bank (H/O) advanced the unsecured instalment loans to it's members. They increased from Rs. 1.36 lakhs in 1982 to 2.21 lakhs in 1986. The unsecured instalment accounts raised from 54 in 1982 to 92 in 1986. The Janata bank (H/O) has not advanced any amount against unsecured instalment loan.

5.3 J BILLS PURCHASED AND DISCOUNTED :

Bills purchased or Inward bills purchased (IBP) and bills discounted by the banks are unsecured or clean advances made against personal security of drawer coupled with personal guarantee of two or more parties. In this type of loans, banks relay mainly on the creditworthiness, goodwill of the drawer, endosser and other related parties.

Table No.5.8 clearly indicates that the bills purchased by the Ajara bank (H/O) increased from Rs. 0.02 lakhs in 1981-82 to Rs. 0.43 lakhs in 1982-83 and to Rs. 0.65 lakhs in 1983-84. However the bank has not advanced any amount for purchase of bills in the year 1985-1986.

Bills purchased and discounted by the Janata bank (H/O) increased from Rs. 0.04 lakhs as on 30/6/1982 to Rs. 0.72 lakhs in 1985 but decreased to Rs. 0.64 lakhs in 1986.

It should be noted that Ajara Tahsil is less developed in wholesale trade therefore, there are some limitations on bill transactions. Bull discounting is occassional. Nevertheless due to sugar factory at Harli, taluka Gadhinglaj cheque collection transactions are there.

The percentage of total unsecured loans outstanding to total loans and advances outstanding of the Janata bank (H/O) which was at an average 25.77% during 1982 to 1986 as against 12.69% in the ^{case} of Ajara bank (H/O). It means the Janata bank (H/O) has advanced more unsecured loans to its members ^{as} compared to the Ajara bank (H/O).

The percentage of total unsecured loans outstanding to working capital of the Janata bank was at an average 13.81% during the period of five years under study as against only 3.95% in the case of the Ajara bank (H/O).

The researcher found that the growth rate of the Janata bank (H/O) regarding the unsecured cash credit loans was more than that of the Ajara bank (H/O) during the period under study. Total unsecured loans outstanding of the Janata bank (H/O) are raised by 2.27 times as against 1.72 times that of the Ajara bank (H/O).

5.3 k TOTAL LOANS AND ADVANCES OF THE TWO BANKS (H/O) :

Table No. 5.9 clearly reveals the total loans and advances outstanding of the two banks (H/O) from 1981-82 to 1985-86.

The total loans and advances of the Ajara banks (H/O) has shown increase from Rs. 89.70 lakhs to Rs. 146.95 lakhs from 1982 to 1986. It indicated an increase by 1.64 times. It also further shows that the share of secured loans outstanding in total loan outstanding ranges from 86% to 88.14% during the period study. The share of unsecured loan outstanding which stood at 11.86% in 1981-82, increased to 14% in 1984-85 and

TABLE NO. 5.9

SHOWING TOTAL LOANS AND ADVANCES OUTSTANDING OF THE TWO BANKS (H/O) FROM 1981-82 to 1985-86

Rs. in lakhs.

Sr.No.	I t e m	T H E A J A R A B A N K (H/O)					J A N A T A B A N K (H/O)				
		1982 Rs.	1983 Rs.	1984 Rs.	1985 Rs.	1986 Rs.	1982 Rs.	1983 Rs.	1984 Rs.	1985 Rs.	1986 Rs.
(1)	Secured loans & advances	79.06 (88.14)	80.80 (87.54)	94.08 (87.35)	112.58 (86)	128.65 (87.55)	41.42 (78.42)	48.73 (76.52)	54.35 (73.34)	56.79 (71.13)	65.79 (71.74)
(2)	Unsecured loans and advances	10.64 (11.86)	11.50 (12.46)	13.63 (12.65)	18.34 (14)	18.30 (12.45)	11.40 (21.58)	14.95 (23.48)	19.76 (26.66)	23.05 (28.87)	25.92 (28.26)
(3)	Total loans and advances outstanding	89.70 (100)	92.30 (100)	107.71 (100)	130.92 (100)	146.95 (100)	52.82 (100)	63.68 (100)	74.11 (100)	79.84 (100)	91.71 (100)
(4)	Working capital	225.88	282.92	354.55	452.82	592.90	89.00	109.82	136.58	161.40	186.46
(5)	% of total loans to working Capital	39.71	32.62	30.38	28.91	24.78	59.35	57.99	54.26	49.47	49.18
(6)	Deposits	118.35	125.49	141.62	159.30	178.08	47.84	59.96	74.48	88.84	112.21
(7)	Credit Deposit ratio. (% of loans to deposits)	75.79%	73.55%	76.05%	82.18%	82.52%	110.40%	106.20%	99.50%	89.87%	81.73%

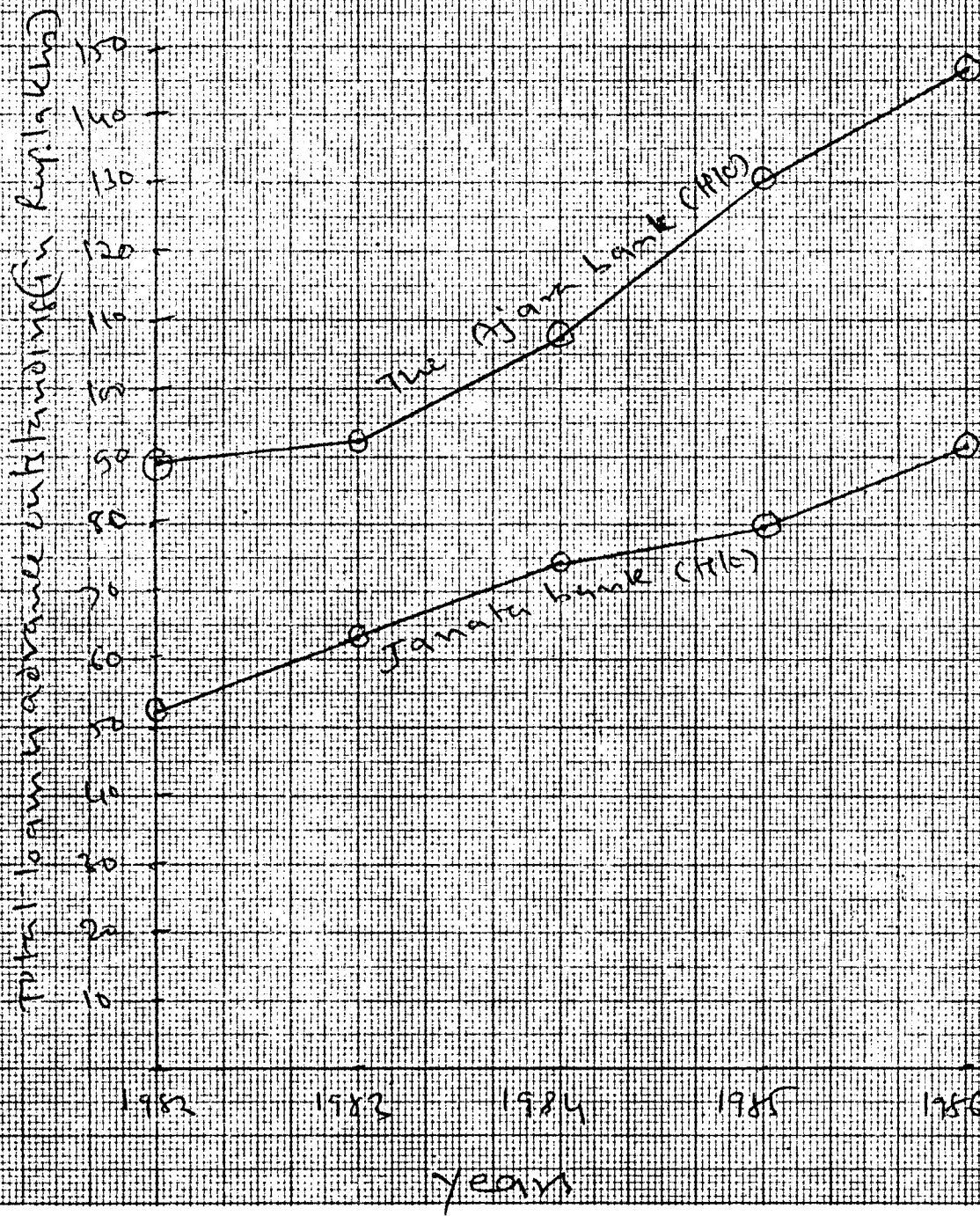
(Source - Official Records of the two banks (H/O))

Note - Figures into bracket indicate % to total
loan outstanding.

Graph showing Total loans and advances outstanding of the two banks (H/O) from 1981-82 to 1985-86.

Scale -

On x axis - 2 cm = 1 year
on y axis - 1 cm = 10 lakhs
Rupees



decreased to 12.45% in 1985-86. The percentage of loan outstanding to working capital decreased from 39.71% in 1981-82 to 24.78% in 1985-86. The credit-deposit ratio means % of loan in total deposits of the Ajara bank (H/O) ranges from 73.55% to 82.52% during the period under study.

Table No.5.9 indicates that the loans and advances outstanding of the Janata Bank (H/O) rose from Rs.52.82 lakhs in 1981-82 to Rs.91.71 lakhs in 1985-86, registering an increase by 1.74 times. Then the percentage of loan and advances outstanding to working capital has shown decrease from 59.35% in 1981-82 to 49.18% in 1985-86. The share of secured loans outstandings in total loan outstanding of the (H/O) declined from 78.42% in 1981-82 to 71.74% in 1985-86. The share of unsecured loan and advances outstanding during the period under review ranged from 21.58% to 28.87%. It may be noted that the Janata bank (H/O) has advanced loan at 110.40% of its total deposits in 1981-82, however, this ratio declined to 81.73% in 1985-86.

While comparing the total loans and advances outstanding of the two banks (H/O) it was found that the loans outstanding of both the banks have increased. Moreover, the share of secured loan outstanding of the Ajara Bank (H/O) in their total loan outstanding was more than that of Janata Bank (H/O). It shows that the Ajara bank (H/O) has given due care for security of loans while lending to members. It can be seen that both the bank's share of loan

outstanding in their working capital has been declined. The credit deposit ratio of the Ajara bank (H/O) increased from 75.79% to 82.52% during the period under study except in 1983 it was 73.55% The Janata bank (H/O) has granted loans more than its deposits. The credit deposit ratio which was 110.40% of deposits in 1981-82 continuously reduced to 81.73% of deposits in 1985-86.

5.4 OVERDUES OF LOANS AND ADVANCES :

Various types of loans are advanced by the UCBs to their members residing in their area of operation for the betterment of production, business and improvement of economic conditions of them. At the same time arrangement for timely recovery of loan is must. In order to keep low rate of overdues, the UCBs should take necessary steps like a proper ^{scrutiny} of a loan proposal and objects of loans, proper judgement of creditworthiness of a borrower, effective supervision on utilisation of loan, personal touch with a borrower and securities, timely reminders for repayment of loan, creation of such environment that the borrowing members should come themselves and repay the dues.

The word "credit" has it's own origin in Latin word "Credo" meaning " I believe ". Hence credit is based upon confidence. In other words, credit means an ability to command the capital of others, in return for a promise to repay at some specified time in future. This would imply that the overdues and bad debts of financing agencies ought to be negligible. Hence, the magnitude of overdues and bad debts should be

considered as an important criterion for assessing the performance of any financial agency.⁶

In connection with this it may be noted that the low overdues indicates efficiency of the management of a bank. As an overdue is an obstacle in the progress of any bank, necessary efforts to keep them negligible are essential.

5.5 TREND IN TOTAL OVERDUES OF THE TWO BANKS (H/O) :

Table No. 5.10 clearly indicates the trend of total overdues of the two UCBs (H/O) under study, from 1981-82 to 1985-86.

Total overdues of the Ajara bank (H/O) reduced from Rs. 4.59 lakhs in 1982 to Rs. 3.75 lakhs in 1986. The overdues loan accounts also decreased from 92 as on 30/6/82 to 32 as on 30/6/1986. The table further reveals that the percentage of total overdues with total loans and advances outstanding of the bank is sharply reduced from 5.11% in 1982 to 2.55% in 1986. The average percentage of total overdues with the total loans and advances outstanding of the bank was 3.31% during the period under study. It will be seen from above figures that the management of the Ajara bank (H/O) became successful in reducing magnitude of overdues. The researcher observed that in order to minimise the overdues the bank has taken various steps like timely and repeated reminders to borrowers for repayment of the loan, emphasis on prompt recovery of loan on due dates and personal liaison with members

T A B L E - 5.10

SHOWING THE TREND IN TOTAL OVERDUES OF THE TWO BANKS (H/O) FROM 1981-82 to 1985-86.

Rs. in lakhs.

Sr. No.	Year	THE AJARA BANK (H/O)		JANATA BANK (H/O)		Share in Total loans outstanding %	Total loans outstanding	Share in total loans outstanding %
		Total overdues A/C.	Rs.	Total overdues A/C.	Rs.			
1.	1981-82	92	4.59	48	1.80	5.11	89.70	52.82
2.	1982-83	55	4.17	72	2.86	4.52	92.30	63.68
3.	1983-84	38	2.61	109	3.03	2.42	107.71	74.11
4.	1984-85	29	2.55	148	5.78	1.95	130.92	79.84
5.	1985-86	32	3.75	154	5.99	2.55	146.95	91.71
6.	Average %	-	-	-	-	3.31	-	-

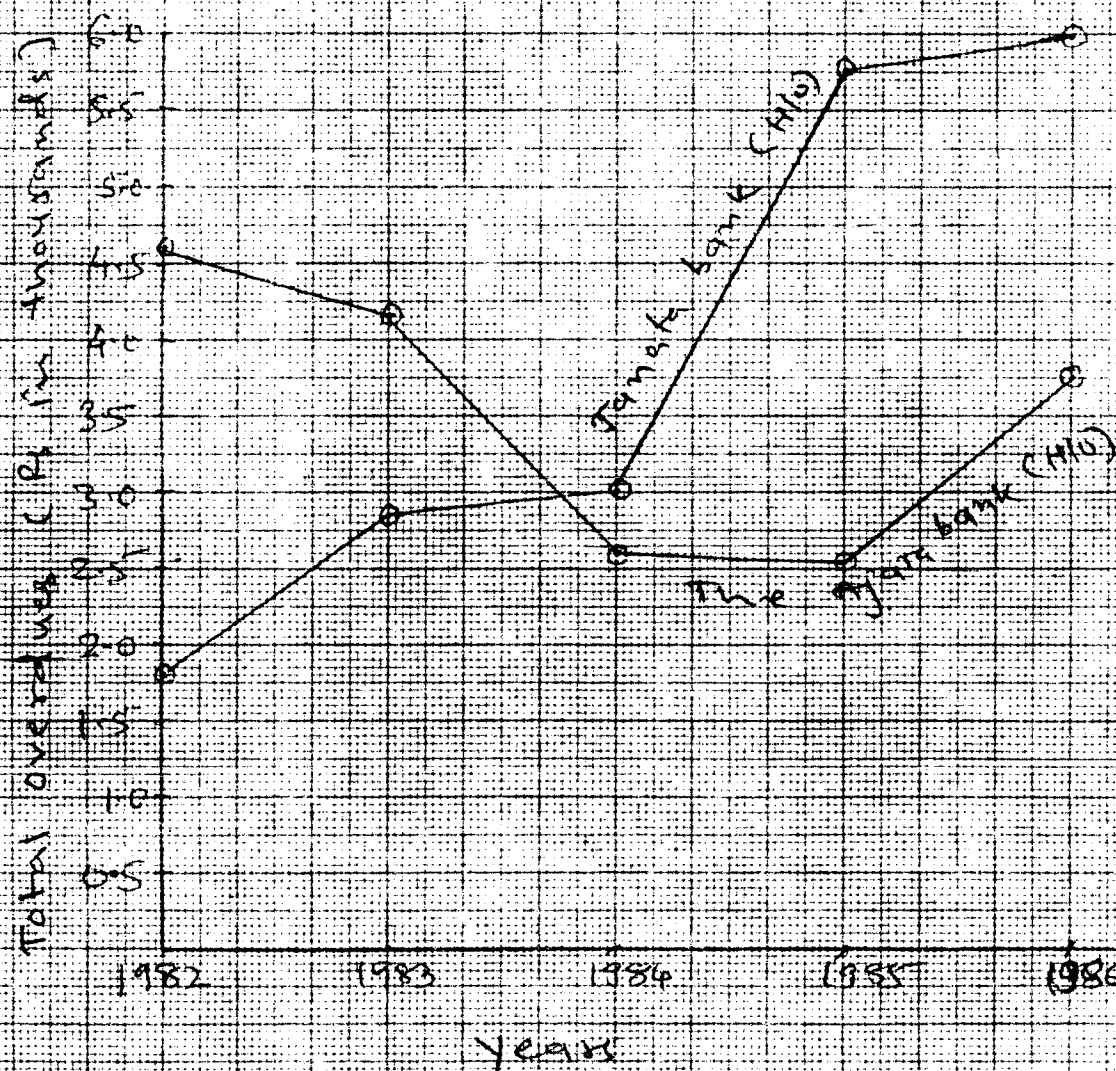
(Source: Official records of the two banks (H/O)).

GRAPH No. 5.9 - 186

Graph showing Total overdues of the two banks (H/O) from 1982 to 1986.

Scale On x-axis 3cm = 1 year

On y-axis 1cm = 50 thousand RS



by the directors also helped to rectify loans well in advance.

Total overdues of the Janata bank (H/O) raise sharply from Rs. 1.80 lakhs in 1981-82 to Rs. 2.86 lakhs in 1982-83, to Rs. 3.03 lakhs in 1983-84, to Rs. 5.78 lakhs in 1984-85 and to Rs. 5.99 lakhs in 1985-86. The proportion of overdues to total loans and advances outstanding has gone up from 3.41% as on 30/6/1982 to 7.23 as on 30/6/1985. But slightly decreased to Rs. 6.53 lakhs in the year 1985-86. The average proportion of overdues to outstanding loans and advances was 5.15% during 1981-82 to 1985-86. The total overdue loan accounts rose from 48 in 1982 to 178 in 1986. It shows that the overdues of the Janata bank (H/O) increased by nearly about two times during the period from 1982 to 1986.

From the foregoing analysis it may be said that the management of Janata bank (H/O) is totally failed to reduce the magnitude of overdues. The average proportion of overdues to outstanding loans and advances of the Ajara bank (H/O) was 3.31% during the period under study as compared to 5.15% that of the Janata bank (H/O). It shows clearly the managerial efficiency and good performance in the case of reducing overdues of the Ajara bank (H/O) than that of the Janata bank (H/O).

5.6 OVERDUES OF SECURED LOANS AND ADVANCES OF THE TWO BANKS (H/O) :

It is very easy to grant loans but difficult to recover them. Management of every bank should give due care

to security, while advancing loans. A large proportion of overdues of the two banks (H/O) under study are secured against mortgage of immovable property, machinery, gold, fixed deposits, stock etc. The researcher has studied the nature and trends of overdues secured of both the banks under study in the following paragraphs -

(i) TOTAL OVERDUES SECURED :

Table No. 5.11 shows that the total overdues secured of the Ajara bank (H/O) which were Rs. 3.94 lakhs in 1982, decreased to Rs. 3.82 lakhs in 1983, again decreased to 2.33 lakhs in 1984 but slightly increased to Rs. 2.41 lakhs in 1985 again increased to Rs. 3.47 lakhs by the end of 1986. The share of overdues secured in total loans and advances has raised from 85.84% in 1982 to 94.51% in 1985 but slightly decreased to 92.53% in 1986. The average proportion of overdues of secured loans and advances to total loans and advances stood at 90.75% during the period of five years under study.

Total overdues of secured loans and advances of the Janata Bank raised sharply from Rs. 1.47 lakhs in 1981-82 to Rs. 4.17 lakhs in 1985-86. It showed an increase by 2.84 times. The percentage of overdues secured to total loans and advances outstanding continuously decreased from 81.67% in 1982 to 69.62% in 1986. The average proportion of overdues secured to outstanding loan and advances stood at 76.59% during 1982 to 1986.

From the above analysis of the overdues secured the researcher observed that the average proportion of overdues secured of the Ajara Bank (H/O) was more, means 90.75% of the

Sr. No.	I t e m	T H E A J A R A B A N K (H/O)					J A N A T A B A N K (H/O)				
		1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(1)	Secured loans against mortgage etc.	2.49 (63.20)	2.68 (70.16)	1.83 (78.54)	2.05 (85.06)	3.33 (95.96)	0.62 (42.18)	1.22 (52.36)	1.53 (65.11)	2.17 (51.67)	2.60 (62.35)
(2)	Machinery loans	0.41 (10.41)	0.27 (7.07)	0.35 (15.02)	0.24 (9.96)	0.06 (1.73)	0.39 (26.53)	0.52 (22.32)	0.23 (9.79)	0.93 (22.14)	0.69 (16.55)
(3)	Loans against fixed deposit.	-	0.05 (1.31)	-	-	0.06 (1 .73)	-	-	-	-	-
(4)	Gold loans	0.98 (24.87)	0.76 (19.90)	0.15 (6.44)	0.12 (4.98)	0.01 (0.29)	0.17 (11.57)	0.29 (12.45)	0.11 (4.68)	0.30 (7.14)	0.13 (3.12)
(5)	Secured cash credit loans	0.05 (1.27)	0.06 (1.57)	-	-	-	0.28 (19.05)	0.29 (12.45)	0.47 (20.00)	0.79 (18.81)	0.74 (17.74)
(6)	Allied Agricultural loans	0.01 (0.25)	-	-	-	-	0.01 (0.68)	0.01 (0.42)	0.01 (0.42)	0.01 (0.24)	0.01 (0.24)
(7)	Employment P.fund loans	-	-	-	-	0.01 (0.29)	-	-	-	-	-
Total secured loans over-due		3.94	3.82	2.33	2.41	3.47	1.47	2.33	2.35	4.20	4.17
(8)	Total loans and advances over dues.	4.59	4.17	2.61	2.55	3.75	1.86	2.86	3.03	5.78	5.99
(9)	% of overdue secured loans with total overdues.	85.84%	91.60%	89.27%	94.51%	92.53%	81.67%	81.47%	77.56%	72.66%	69.62%

(Source - Records of the two banks (H/o))
Note - Figures in to the brackets indicate
% with total secured loans.

TABLE NO. 5.11

SHOWING OVERDUES OF SECURED LOANS AND ADVANCES OF THE TWO BANKS (H/O) FROM 30.6.82 to 30.6.86

outstanding loan and advances as compared to that of the Janata bank (H/O) which was 76.59% during the period under study. It shows that the management of the Ajara bank (H/O) has given due care to security while lending.

(2) OVERDUES OF LOANS AGAINST MORTGAGE ETC.:

As per table No. 5.11 the overdues of loans against mortgage have indicated an increasing trend. The overdues of secured loans and secured instalment loan of the Ajara bank (H/O) rose from Rs. 2.49 lakhs in 1982 to Rs.3.33 lakhs in 1986. The share of these overdues loans in the total secured loans overdues increased from 63.20% in 1982 to 95.96% in 1986. It shows that, more than three fourth overdue loans are secured against mortgage of immovable properties and other assets.

Overdues of loans against mortgage of the Janata bank have also gone up from Rs. 0.62 lakhs in 1982 to Rs. 2.60 lakhs in 1986. It showed an continuous increase in these overdues by 4.19 times. The share of these overdues in total secured loans overdue, rose from 42.18% in 1981-82 to 62.35% by the end of year 1986.

The researcher found after enquiry with bank officials that the repeated failures of rains during 1985 and 1986, already affected the production and turnover of cashew-nuts and other agricultural produce like rice, jawar etc. The secured loan are taken by the members who mostly carry on trade. The trade fluctuations due to natural calamities stood the cause behind increase in overdues of the banks.

As well as some merchants unable to repay the loan in time due to their financial difficulties.

(3) OVERDUES OF MACHINERY LOANS :

From the table No.5.11 it will be gathered that not only the overdues of machinery loans of the Ajara bank (H/O) has been decreased from Rs. 0.41 lakhs in 1981-82 to Rs. 0.06 lakhs in 1985-86, but the proportion of overdues has also decreased from 10.41% in 1981-82 to only 1.73% in 1985-86.

Though the overdues of machinery loans of the Janata bank (H/O) increased from 0.39 lakhs in 1981-82 to Rs. 0.52 lakhs in 1982-83, decreased to Rs. 0.23 lakhs in 1983-84, increased to 0.93 lakhs, in 1984-85 and decreased to Rs. 0.69 lakhs in 1985-86, yet the proportion of these overdues to total overdue secured loans and advances during this period fell from 26.53 to 22.32 to 9.79 between 1981-82 to 1982-83 and 1983-84; This proportion was increase to 22.14 in 1984-85 but decreased to 16.55 in 1985-86.

It may be noted that the overdues of machinery loans were due to loans for purchase of trucks. During the period under study the overdue of machinery loans raised ,becuase, the transport business comprises mostly of wood, and due to social forestry restrictions on the "Jangle trade" fell in to slack . It affected adversely over transport business of trucks to whom loan advanced by the banks.

(4) OVERDUES OF LOAN AGAINST FIXED DEPOSITS :

From Table No. 511 it can be seen that overdues of loans against fixed deposits of the Ajara bank were very low during the period under study. These overdues were to the tune of only Rs. 5,000 in 1982-83 and Rs. 6,000 in 1985-86. The proportion of these overdues to total secured loans overdue has shown an increase from 1.31 to 1.73 between 1982-83 and 1985-86.

It may be noted that there were no any overdues of loans against fixed deposits of the Janata bank (H/O) during the period under study.

The overdues of a fixed deposit loans is not a serious matter because under rule 45 A (2), if the depositor does not pay the loan within the period for which it is granted, the F.D. amount may be adjusted towards the repayment of the F.D. loan amount and interest thereon and only the balance, if any, shall be paid by the bank to the depositor on the date of maturity.

(5) OVERDUES OF GOLD LOANS :

The table No. 511 gives overdues of gold loans of two banks (H/O) under study. The overdues of loans against gold, silver ornaments of the Ajara bank (H/O) have shown a considerable decrease from Rs. 0.98 lakhs in 1981-82 to only Rs. 0.01 lakhs in 1985-86. As a result, the proportion of these overdues with total secured loan overdue has come down from 24.87 in 1981-82 to only 0.29 in 1985-86.

The overdues of gold loans of the Janata bank which were Rs. 0.17 lakhs in 1981-82, moved up to Rs. 0.29 lakhs in 1982-83. But they declined to Rs. 0.11 lakhs in 1983-84, again increased to Rs. 0.30 lakhs in 1984-85 and declined upto 0.13 lakhs in 1985-86. At the same time the proportion of these overdues with total secured overdue also declined from 11.57 in 1982 to 3.12 in 1986.

The amount of overdue of gold loans of the Janata bank (H/O) is more than that of Ajara bank (H/O) because gold loans are granted both for productive and consumption purpose. Those loans which were used for consumption, fell overdue. Though the overdue of gold loans is not serious matter, the bank should make necessary arrangement for timely recovery of such loans.

(6) OVERDUES OF SECURED CASH CREDIT LOANS :

The table No.5.11 shows an increasing trend of the overdues of the secured cash credit loans of the two banks from 1982 to 1986.

Overdues of secured cash credit loans of the Ajara banks (H/O) were very low. They increased from Rs. 0.05 lakhs in 1981-82, to Rs. 0.06 lakhs in 1982-83. The table further reveals that there were no any amount overdue against secured cash credit loan of this bank during the period from 1983-84 and onwards. As a result, the proportion of overdues of these loans to total secured overdes has also come down from 24.87 in 1982 to 0.29 in 1986.

Overdues of secured cash credit loans of the Janata bank moved up from Rs. 0.27 lakhs in 1982 to Rs. 0.29 lakhs in 1983 to Rs. 0.47 lakhs in 1984, to Rs. 0.79 lakhs in 1985 but declined upto 0.74 lakhs in 1986. It mean a 2.64 times - increase in overdues of these types. The praportion of overdues of these types in total secured overdue loan whch stood at 19.05 in 1982, reduced to 12.45 in 1983 but increased to 20.00 in 1984 again reduced to 18.81 and to 17.74 between 1985 and 1986.

It can be seen that the overdues of secured cash credit loans of Janata banks are more than that of Ajara bank. The main cause behind overdue of secured cash credit loans was business fluctuations. It also indicates inefficiency of the management of Janata bank, lack of sound supervision and lack of recovery derive well in advance.

(7) OVERDUES OF ALLIED AGRICULTURAL LOANS :

Table No. 5.11 reveals clearly that the overdues of allied agricultural loan of the Ajara bank (H/O) which stood only Rs. 0.01 lakhs in 1981-82, recovered the same. There were no any amount overdue of this type during the period from 1982-83 to 1985-86.

The overdues of the allied agricultural loan of the Janata bank has remained constant at Rs. 0.01 lakhs from 1981-82 to 1985-86.

It means the overdues of the Janata bank (H/O) - regarding allied agricultural activities remained constant.

These loans were given under 20-point programme of the Government. The bank has tried to recover the overdues. It has given a choice to borrower for repayment of overdues in instalments.

5.7 OVERDUES OF UNSECURED LOANS AND ADVANCES OF THE TWO BANKS (H/O) :-

Table No. 5.1 shows clearly the overdues of unsecured loans and advances of the two banks under study from 1981 to 1986.

Total unsecured loan overdues of the Ajara bank (H/O) which stood at Rs. 0.65 by 1981-82, declined to Rs. 0.14 by 1985-86. These proportion to total overdues 1981-82 to 5.49 in 1985-86. The share of overdues unsecured cash credit loans in total overdue loan was very low.

The overdues unsecured of the Janata bank (H/O) sharply from Rs. 0.33 lakhs in 1981-82 to Rs. 1.82 lakhs in 1985-86, showing an increase by 5.51 times. As well as share of overdues unsecured in total overdues of the bank has shown an increase from 18.33 in 1981-82 to 30.38 in 1985-86.

It may be noted that the average percentage of overdues unsecured to total overdues of the Janata bank was 23.40 during the five years period under study as compared to only 9.25 that of the Ajara bank (H/O).

The overdues unsecured are very low of the Ajara

TABLE NO. 5.12

SHOWING OVERDUES OF UNSECURED LOANS ^{and} ADVANCES OF THE TWO BANKS (HO) FROM 1982 to 1986.

THE AJARA BANK (H/O)

JANATA BANK (H/O)

Rs. in lakhs.

Sr.No.	Item	THE AJARA BANK (H/O)					JANATA BANK (H/O)					Rs.
		1982	1983	1984	1985	1986	1982	1983	1984	1985	1986	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
1.	Unsecured loans	0.65	0.32	0.27	0.13	0.27	0.22	0.42	0.47	1.01	1.04	
2.	Unsecured Cash Credit loans	-	0.03	0.01	0.01	0.01	0.11	0.11	0.21	0.57	0.78	
3.	Total unsecured loans overdues	0.65	0.35	0.28	0.14	0.28	0.33	0.53	0.68	1.58	1.82	
4.	Total loans overdues	4.59	4.17	2.61	2.55	3.75	1.80	2.86	3.03	5.78	5.99	
5.	% of unsecured loans overdue with total overdues.	(14.16)	(8.40)	(10.73)	(5.89)	(7.47)	(18.33)	(18.53)	(22.44)	(27.34)	(30.38)	

(Source - Official records of the two banks (H/O))

bank (H/O) as compared to that of Janata bank (H/O). Increase in unsecured loans overdues of the Janata bank shows defective lending policy/mistake in judging creditworthiness of a borrower and lack of coercive measure for recovery of loan.

5.8 ACTION TAKEN BY THE TWO BANK TO RECOVER OVERDUE LOANS:

After studying overdue loans of the two banks it is necessary to know the action taken by the two banks for recovery of overdue loans. Though lending is profitable it is risky also because of defaulting tendency of the borrowing members. With a systematic loan policy the bank will find it easy to reach the goals of the bank and the serving public concurrently.⁷

The Ajara bank has taken effective steps to bring down the overdues. It has recovered all overdues up to 1985-86. But some of Rs. 97,525.70 have not recovered till present, for which the bank has filed a suit in court against defaulter. These overdue loans are secured by mortgage of immovable properties of a defaulting members. Table No.513 clearly shows that as on 30/6/1986, the overdue loans - against which the bank filed a suit were of Rs. 97,525.70 of 4 defaulting members.

The Janata bank has filed a suit against eleven defaulting members for overdue loans amountings to Rs.30,427.45 as on 30/6/1986. Table No.5.13 further reveals that the overdue loan belong to secured loans, machinery loans and also unsecured loans.

TABLE NO. 5.13 SHOWINGOVERDUES LOANS AGAINST WHICH THE BANKS HAVE FILED SUIT ASON 30/6/1986

Types of Loan	No. of A/c.	The Ajara Bank		Janata Bank	
		Amount	No. of A/c.	Amount	
1) Secured loans	3	34,949.70	6	18,128.15	
2) Secured Cash credit loan	1	63,176.00	2	7,886.15	
3) Machinery loan	-	-	1	1,426.80	
4) Unsecured loan	-	-	2	2,986.35	
Total . . .	4	97,525.70	11	30,427.45	

Complied from official records of the two Banks.

R E F E R E N C E S

1. Dr. P.D. Ojha Deputy Governor R.B.I.
Address, Seminar of ^{UCBS} in Maharashtra
20/11/1987 at Pune - Page. 6
2. K.C. Shekhar, Banking Theory and Practice
1978 edition 6th,
Vikas Publishers - Page - 587.
3. RBI report 1986-87 supplement Oct.1987 Page 195
4. RBI circular UBD No. P & O 001 UB-8-86-87
dated 25/6/87.
5. Co-Op. Act. 1960.
6. Benudhar Bhuyan; Mrs. Bedabati Mohanty,
Analysis of PACS. Oct. 1975.
7. R.M. Shrivastva, Management of Banks, Pragati
Prakashan, Meerat 1980, Page - 214.

. . . .