



## **LOAN POLICY OF THE KARUNAGAPPALLY TALUK URBAN COOPERATIVE BANK IN KOLLAM DISTRICT, KERALA**

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### **Abstract:**

The present paper presents the loan policy of Karunagappally Taluk Urban Cooperative Bank in Kollam District. Firstly, it discusses the eligibility for being granted loan facilities. Secondly, to list out the brief idea of different types of loans and purposes for which loans granted. Thirdly, to pointed out the procedures for sanctioning the loan policy. Fourthly, to suggested two steps for the disbursement process of loan policy. Fifthly, to describe briefly post sanction monitoring of loan policy. Finally, it discusses about NPA & follow-up process and the Bank might follow the income recognition norms. The present study is helpful to the account holders in Karunagappally Taluk Urban Cooperative Bank.

**Key Words:** Loan Policy, Bye-Laws, Non-Performing Asset, Credit Exposure, Norms, Rules & Procedures

### **Introduction:**

The Karunagappally Taluk Urban Cooperative Bank was formed and registered under the Kerala Cooperative Societies Act 1969 with main purpose of developing thrift and self-help among the people with in its area of operation of Karunagappally Taluk in Kollam District, Kerala. It has been catering the financial needs of its members who mostly are self-employed, vendors, small businessmen, retail traders, transport operators and in services of various sectors. With an aim to keep the providing loans of various types and upon various securities to them. The funds for this purpose are mostly formed of the share capital of the members, reserves created from the profits of previous years and deposits of both members and general public. The lion's share of the funds is from the deposits, which has to be repaid with interest to the depositors on maturity. To uphold the credibility of the Bank and set up confidence among the depositors and the general public, the Bank has to be extremely cautious while investing in loans and the loans have to be properly monitored in regard to its prompt repayment and recovery. Thus while granting loans to the members the Bank has to ensure the safety, security and profitability of such investment even while catering to the best needs of the borrowers. The Reserve Bank of India has from time to time issues guidelines to be followed in regard to sanction of loans, post-sanction monitoring and the recovery specification in regard to this matter. The Bank formulates the following Loan Policy based on the above to safeguard the loans issued to the members.

### **Scope of the Study:**

The following Loan Policy Document adopted by The Karunagappally Taluk Urban Cooperative Bank Ltd. No. Q.455;

- ✓ The Bank covers all the aspects such as the various types of loans and advances.
- ✓ The Bank grants, the purpose for which they are granted, the various types of security on which they are granted, credit appraisal & exposure, sanction, disbursement, post sanction credit monitoring, recovery and classification & income recognition of loans granted by the bank.
- ✓ It also includes the roles & responsibilities of the various officials, the norms, rules, procedures and other aspects which are to be followed.

### **Eligibility:**

All members of The Karunagappally Taluk Urban Cooperative Bank are eligible for being granted loan facility. Members include nominal members who have no voting rights as specified in the Bye-Laws. These nominal members will be granted such loans as loans against gold ornaments & against their own deposits with the Bank and also can stand as surety for other loans in specific cases. However the Bank should not extend credit facilities to any of the directors, their relatives or the Firms or Concerns in which they are interested except against their own deposits in the Bank and Life Insurance Policies.

### **Types of Loans:**

The following are the different types of loans that are granted by The Karunagappally Urban Cooperative Bank Ltd. No. Q455.

- ✓ Loans against personal surety.
- ✓ Loans against deposit security.
- ✓ Loans against mortgage of landed property and building.

- ✓ Loans against gold ornaments.
- ✓ Loans for purchase of vehicles.
- ✓ Loans for purchase of consumer durables.
- ✓ Overdraft facilities to staff and members.
- ✓ Staff housing loans.

**Purposes for Which Loans Granted:**

Loans are granted to the members generally for productive purposes. For which loans are to be issued in The Karunagappally Taluk Urban Cooperative Bank at Kollam District, Kerala.

- ✓ For activities allied to agriculture.
- ✓ For small business activities.
- ✓ For transport owners for purchase and repair of their vehicles.
- ✓ For Small Scale Industries (SSIs) and cottage industries as working capital.
- ✓ For clearance of prior debts.
- ✓ For purchase dwelling house and to build, repair or renovate houses.
- ✓ For professionally self-employed persons.
- ✓ For educational purposes.
- ✓ For consumption purposes and ceremonial purposes like receptions, marriage, etc.

At any point of time 40% of the loans so issued for the above purposes should be to the priority sector and at least 25% of the amount in the priority sector (or 15% of the total loans and advances) to the weaker section as envisaged in the Directives issued by the Reserve Bank of India.

**Credit Exposure:**

The Karunagappally Taluk Urban Cooperative Bank may sanction credit facilities to members up to the maximum limit prescribed in its Bye-laws, loan Rules, and as per the Directives of the RBI issued from time to time. As per the present norms the maximum credit facility per individual is restricted to ₹- 7 lakh as per the Bye-laws of the Bank. The credit exposure limit shall be fixed by the Bank as per the Directives issued by the RBI from time to time. At present the maximum credit exposure limit with regard to outstanding in the unsecured advances of the Bank should not be more than 15% of its total Demand and Time Liabilities.

**Procedures for Sanction:**

**Application of Loan Policy:** Anyone in need of a loan has to make it in the specified application from available in The Karunagappally Taluk Urban Cooperative Bank for the purpose. The application shall contain all the necessary particulars such as name, age, membership number, full address, profession, monthly/annual income, purpose for loan applied for amount and period required repayment, etc. The particulars of surety/sureties also should be shown. The Bank may also call for other information's such as details of their assets and liabilities. Basic monthly expenses incurred in order to ascertain their repaying capacity. The application shall be enclosed with other documents as specified in the annexure. The application shall be submitted to the Bank Manager concerned for further processing.

**Scrutiny of Loan Policy:** The Karunagappally Taluk Urban Cooperative Bank Manager shall verify to all the details in the application. That all the necessary documents are enclosed and shall ascertain to their applicant and recommendations shall be specified in the application. The applications for surety loans shall be placed before the next Board meeting for consideration. The application for loans against landed property & buildings shall be forwarded to the Head Office along with the documents submitted by the applicant for further scrutiny. An officer not below the rank of Branch Manager shall be entrusted to verify the value of the assets and give a valuation certificate for the asset. The valuation of an asset over ₹-10 lakh shall be obtained from an approved value. The scrutiny of the little deed and other related documents shall be made by a legal practitioner and his opinion in regard to clearness/marketability of asset shall be obtained. The inspecting officer shall also make his recommendation in regard to the amount that can be sanctioned as loan or limit in case of overdraft.

**Sanction of Loan Policy:** There are six key points to be briefly list out the sanctioning of loan policy in The Karunagappally Taluk Urban Cooperative Bank.

- ✓ Loans/Overdraft against personal surety, landed property, hire-purchase loans for vehicles and consumer durables, staff housing loan and overdraft to staff shall be sanctioned by the Board of Directors.
- ✓ Loans/Overdraft against deposits of the Bank shall be sanctioned by the Branch Managers. An amount up to 85% of the deposit shall be provided as on loan/overdraft limit. Lien shall be marked on their ledger folios and in the deposit receipt and such receipt shall be kept in the custody of the Bank. Whenever interest either to on such deposits are paid in cash, by cheque, by pay order or credited to the depositor's savings account, further interest will be paid or credited only after deduction of interest due in the loan availed and in the case of overdrafts, interest will be credited to the overdraft account. It will be the responsibility of the Manager to sanction loan within the limit.
- ✓ Loans against LIC policies can be granted up to 75% of the surrender value after obtaining lien in Bank's favour from the company. Further premiums on the policy shall paid by the Bank debiting

customer's account. The Manager shall surrender and recover the loan amount if two premium instalments are not paid.

- ✓ Loans against gold ornaments shall be sanctioned by the Branch Manager. The gold appraiser of the Bank shall verify the weight, purity of the gold, assess its value and specify the maximum amount that can be provided as loan as per the limit fixed for per gram of the gold by the Board from time to time. The Manager shall sanction the loan within the limit. The custody of the gold shall be of the Manager and gold appraiser. The Manager shall also ensure to the correctness of the stock of gold and adequacy of the insurance cover for it.
- ✓ For loans against vehicles and customer or durables the borrower has to produce a pro-forma invoice from an authorised dealer specifying the details of article intended to be purchased and its cost. The Bank will sanction up to 75% of the article or such amount as specified in the loan Rules, whichever is less. And the difference amount of the pro-forma and the loan will have to be remitted by the borrower along with the application for loan.
- ✓ The loans/overdrafts sanctioned against deposits, against gold ornaments and LIC policies by Branch Managers shall be got ratified in the subsequent Board Meeting.

**Disbursement Process:**

**Documentation:** Proper documentation while issuing a loan or providing a credit facility, avoids a lot of complications that may arise during its recovery. Hence it will be of the Manager's responsibility to obtain such documents that are found necessary while disbursement of a loan or credit facility. The necessary documents that are to be obtained for various types of credit facilities are specified in the Annexure. In regard to loans/overdraft against landed property, sanction may be accorded against deposits of little deeds. However, in cases the Board may sanction loan/overdraft subject to registration of the lien in Bank's favour with in the concerned Registration Authorities.

**Disbursement:** Payment of all loans, except for loans of vehicles and for consumer durables under hire-purchase schemes shall be made in cash or otherwise. In the case of hire-purchase schemes payment will be made to the dealer, from whom the article is to be purchased by cheque or pay order for the amount specified in the pro-forma invoice. In the case of overdraft, the Bank Manager should specify the limit sanctioned in the ledger and withdrawal will be allowed by drawing of cheques. The Bank manager shall also clearly specify the date of expiry of the overdraft facility in the ledger.

**Linking of Share Holdings to Borrowes:**

As specified in the bye-laws of The Karunagappally Urban Cooperative Bank share holdings will be 5% of the borrowings in the case of unsecured loans and 2.5% in the case of secured loans. This will not apply to loans issued against deposits, gold, ornaments, LIC policies, etc.

**Responsibilities:**

For loans sanctioned against deposits of The Karunagappally Urban Cooperative Bank, LIC policies and gold ornaments the Bank Manager will be responsible. In the case of gold ornaments the appraisers will be responsible for its purity, quality and the value recommended by them.

**Pricing:**

In The Karunagappally Taluk Urban Cooperative Bank, the funds for the disbursement of the loans are mostly generated out of the deposits from the members and the general public, for which the Bank pays interest. Therefore it is important that the pricing of loans are adequate so as to meet the cost of deposits, establishment and to generate a moderate profit. Consequently it is of utmost importance that the Bank has to fix the rate of interest on the loans based on a Prime Lending Rate arrived at the cost of funds. Further the rate of interest on various loans shall be based on the Prime Lending Rate.

**Post Sanction Monitoring:**

The Karunagappally Taluk Urban Cooperative Bank Manager shall verify all documents periodically and inspect the properties of high valued loan accounts in which there are overdues. In any case all accounts are to be inspected once in a year. Further encumbrance certificates shall be obtained periodically to ascertain any sale or charge has been created in the title deeds of properties which have been deposited with the Bank as security. They may also verify the gold ornaments pledged with the Bank random and verify with the stock registrar. Report on such verification and any discrepancies found shall be repeated to the Head Office for necessary action to be initiated against such cases.

**NPA & Follow-Up Process:**

As the Karunagappally Taluk Urban Cooperative Bank has adopted the Non-Performing Asset (NPA) Norms as prescribed by the Reserve Bank of India. The report shall include the collection in NPA accounts in stock and new NPAs. The Board shall review the position in their meetings and recommend corrective steps. The Bank Manager shall send notices to all the borrowers in default and also shall visit the borrowers personally and with other officials of the Bank. Records of the visit shall be kept in the Bank. A recovery cell consisting of the Bank manager and a recovery officer not below the rank of a Bank Manager, sale officer and 2 or 3 other officials of the Bank with representatives from the Board shall initiate and monitor the actions for recovery.

Recovery process shall include filing of Arbitration cases and actions under The Securitisation and Reconstruction of Financial Assets Act 2002.

**NPA Provisioning and Write Off:**

The NPA statements prepared at the Bank will be processed and necessary provisioning will be made according to RBI guidelines. The Board may recommend to the General Body to write-off in cases where recovery is impossible for its approval.

**Income Recognition Norms:**

The Bank may follow the income recognition norms that may be prescribed by the Reserve Bank of India from time to time.

**Conclusion:**

In Karunagappally Taluk Urban Cooperative Bank, changes in the policies such as additions, deletions shall be made by the Board of Directors in a meeting through a special resolution for the purpose consequent to any alterations made in the Bye-Laws, Loan Rules or in the Directives of RBI from time to time. The present paper concludes the detailed discussion for loan policy of the Bank.

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