PART III
FINANCE TO THE PRIMARY

Chapter XI. Conditions For Loans 286-346

XI.1 : The Basic Tenets (286); XI.2 : Loans Only To Registered Housing Societies (288); XI.3 : A Clear And Marketable Title (289); XI.4 : Redemption Of Prior Mortgages (290); XI.5 : Purchase Of Completed Or Partly Completed Structures (292); XI.6 : Purchase Of Buildings By Tenants (292); XI.7 : Economic And Social Considerations (293); XI.8 : Ceiling On Individual Incomes (295); XI.9 : Maximum Loan Limit For A Member (297); XI.10 : The Quantum Of Loan Permissible In Different Areas (297); XI.11 : Limit On The Maximum Loan To A Society (298); XI.12 : Maximum Cost Of Construction Of A Flat (298); XI.13 : Restriction On The Carpet Area Of A Flat (299); XI.14 : Optimum Size Of Membership (301); XI.15 : Individual Incomes And The Repayment Capacity (302); XI.16 : Age Factor And Consumption Factor Not Considered (304); XI.17 : New Mode Of Disbursement : Several Facilitative Features (307); XI.18 : The Rate Of Interest (308); XI.19 : The Repayments (309); XI.20 : Share Capital Contribution : An Important Component Of The Outlay On The Housing Scheme (312); XI.21 : No Return Of Share Capital (314); XI.22 : Valuation Fees And The Incidental Expenditure (317); XI.23 : Valuation To Be Made By The Architects On The Panel Only (319); XI.24 : The Outgoings Must Be Paid Regularly (320); XI.25 : No Revision Of The Estimates And The Plans (319); XI.26 : Insurance Of The Property - A Must (320); XI.27 : No Change In The Byelaws etc. (325); XI.28 : Additional Security If Necessary (322); XI.29 : Inspection Of The Records And The Property Of The Mortgagor Society (322); XI.30 : Recall Of Loan (322); XI.31 : No Change In The Byelaws etc. (325); XI.32 : Economic Rent (326); XI.33 : No Loans For Shops And Garages (330); XI.34 : Supreme Authority For The Finance Society (331); XI.35 : Higher Quantum Of Finance For The Law Income Group (332); XI.36 : When Will Transfers Be Permitted? (333); XI.37 : No Change On Mortgaged Property (336); XI.38 Lesser Quantum Of Finance For Bombay And Thana (336); XI.39 Conditions Of Loans Of The Gujarat Co-operative Housing Finance Society Ltd. Ahmedabad (340).
XI.1 : The Basic Tenets :

The Maharashtra Co-operative Housing Finance Society Ltd. as an apex institution dispensing long-term housing credit appears to have multi-dimensional responsibilities. Firstly, as the only institution advancing loans in the State, it must foster conditions for a steady and uninterrupted flow of finance to the primaries for the satisfactory completion of their housing schemes. Secondly, the manner of this vital dispensation, must also be such, as would facilitate the operations of its member societies, and must not be such as would retard their growth. Thirdly, it must ensure compliance of the various conditions imposed by its financier, i.e., the Life Insurance Corporation, and the guarantor, i.e., the State Government. Fourthly, as the provider of finance, which is the most vital input for economic development, it must take care to see that its operations and the policies achieve the socially desirable goals - and do not result in or be responsible for unhealthy practices in the co-operative housing sector; and finally, as a financier, it must take adequate care for proper utilisation and repayments of loans and should also attend to security considerations. These requirements, therefore, form the basis of its accountability to its member-societies; to its lender, which is the Life Insurance Corporation; to its guarantor,
which is the State Government; to the community at large and to its own self particularly. Since its main business is to provide finance to the member societies, the requirements just enumerated forestall a need to have conditions for loans which would be helpful in achieving these objectives.

The Finance Society has prepared its conditions for grant of loans; their last major revision becoming effective from 1st May 1970. The Board of Directors being the architects of the Society's policies, prepares these conditions. The Government has, however, a vital stake in the satisfactory functioning of the institution - particularly because of its large share capital holdings and guarantees for Life Insurance Corporation loans. The conditions according to the present practice do not become effective unless the Co-operative Department accords its approval. The Government is also represented on the Board of the Society, through the Commissioner for Co-operation and the Housing Commissioner and their presence helps to ensure enunciation of proper policies and also their implementation. The regular inspection of the working of the Society by the Co-operative Department and the continuous and concurrent audit of all its transactions, further helps in the correct application of these conditions and also their observance. The conditions which are now in force also appear to have been evolved out of experience gained by the Society during the last ten years of its operations, and also in view of the
requirements mentioned above. What are the specific basic tenets which have guided this process? These broadly appear to be to have:

a) conditions which envisage compliance with the Co-operative Societies' Act and Rules; and the bye-laws of the society;
b) conditions which ensure security for loans;
c) conditions which lay down norms for repayment;
d) conditions which attempt to prevent malpractices;
e) conditions which have their origin in social and economic considerations.

It is thus seen that the different facets of the multi-dimensional responsibility have finally crystallized themselves into these basic tenets underlying the actual conditions for loans.

The Actual Conditions:

After referring to the considerations, which have guided their preparation, the conditions for loans may now be enumerated and their implications examined.

XI.2: Loans Only To Registered Housing Societies:

Condition No. 1: "Loans will be granted to Registered Co-operative Housing Societies, subject to availability of finance".

Condition No. 2: "Application for a loan will be entertained only after the applicant co-operative Housing..."
society enrolls itself as member of the Finance Society, purchasing at least one share of the face value of Rs.500/-

The two conditions mentioned above ensure compliance with the Act, Rules and the Bye-laws in having dealings with the member societies. The stipulation regarding 'the availability of finance' keeps the Finance Society immune from a possibility of a legal action by a borrowing society if funds are not available. Similarly the bye-laws require that loan transactions should be made only with the member societies. The institution is an apex society and cannot grant loans to individuals.

XI.3 : A Clear And Marketable Title :

   Condition No. 3 : "No application from a Co-operative Housing Society will be entertained if it has no conveyance or lease or sanad in its name in respect of its land on the date of application for loan. Each application shall, however, be accompanied by a copy of registered sale-deed or lease deed or sanad as may be applicable in each case. Such copy should be certified by the J.P., Hon. Magistrate or Gazetted Officer".

   Condition No. 4 : "Loans will be advanced against the property with a clear and marketable title. However, loans may be advanced for redeeming prior mortgages provided the society and the prior mortgagees agree to reconvey the property and execute a first legal mortgage in favour of the finance
society free from any incumbrance or even a second charge."

Condition No. 5: "Loan applications from the societies which have purchased vacant pieces of land with construction thereon will be entertained subject to the following conditions:

(1) If a society has purchased newly constructed building its loan application will be considered provided the date of completion certificate issued by the competent authority in respect of the building falls within a period of two years preceding the date of application for loan;

(2) If a society has purchased the land with the plinth or partly constructed building, the application for loan will be considered, provided, in the opinion of the Architect of the Finance Society such structure is durable and suitable to form part of the building proposed to be constructed by the society".

It is seen that security considerations underlie these conditions. Formerly co-operative societies used to be registered even before they had purchased any land or had entered into an agreement with the Vendor. When the societies could not finally purchase land, they lived only on paper without ever commencing business. The provisions of condition number 3 are in harmony with the procedural requirements of registration under the Co-operative Societies' Act and in conformity with the standing orders issued by the Co-operative Department. Similarly, once the land is clearly purchased by
the society, it reduces to some extent the probability of the
professional promoters approaching the Finance Society for a
loan (provided, of course, the management is in the hands of
genuine members). The condition, therefore, to some extent
prevents potential malpractices.

XI.4 : Redemption of Prior Mortgages :

The first part of condition number 4, is regarding the
requirement of the clear and marketable title. The finance
will, therefore, be given to the real owner of the property
which is to be mortgaged as security to the Finance Society.
Without a title to the land, any mortgage executed by it would
be inchoate. The second part of this condition providing for
loans for redeeming prior mortgages is a significant addition
to the earlier conditions, which did not provide for them.
One important snag, however, appears that such redemption of
earlier mortgage should result in rendering the property free
from any incumbrance, completely so that even a second charge
of the earlier mortgagee should not subsist. The earlier
mortgagee who has advanced loan for an amount larger than the
first instalment likely to be released by the Finance Society
may be prepared for accepting the second charge for himself —
allowing the first charge of the Finance Society. He will not
be prepared to waive his charge, unless he has received back
his amount in full. The condition, therefore, precludes the
possibilities of an arrangement of temporary finance, where
the lender insists for a second charge. In many western countries such as Austria and Sweden, where institutional mortgage finance plays an important role in co-operative housing activity, such second or further mortgages are common; and the whole gamut of financing operations from the national to the primary level comprises a series of well-managed mortgages - of short and long-term durations with first, second and subsequent charges.

XI,5 : Purchase Of Completed Or Partly-Completed Structures:

Condition number 5 is also new. The old conditions did not provide for such purchase of newly constructed and completed or partly-completed structures. The stipulation regarding the constructions not to be more than 2 years old and a certificate by the Architects of the Finance Society regarding the durability is essentially security-oriented. By incorporating these provisions the Finance Society achieved a new policy-dimension.

XI,6 : Purchase Of Buildings By Tenants:

The Finance Society has also recently introduced a new provision under which applications from societies formed by tenants purchasing residential properties from their landlords can also be considered. The rule regarding the quantum of

1. The Swedish methodology has been discussed in Chapter XX.
loans are the same; but the period of loan will be half the
life of the building estimated by the Architects of the Finance
Society. The loan amount will be disbursed subject to valuation. Some difficulty may arise here. If the original
expenditure made by the landlord, less depreciation is treated
as book value, the society may not be eligible for much loan.
On the other hand, the document-price of the purchase may be
significantly higher than the amount actually spent by the
Vendor-landlord. The Finance Society will have to find out
a representative basis for valuation. However, when this is
done and the procedural requirements are codified, it will
provide an incentive for the tenants to purchase the property
by
from their landlords/ forming a co-operative society and
obtaining loans from the Finance Society. The repayment period
will, however, be smaller in view of the estimated life of the
old structures, making the repayments larger. The monthly
rentals will also need to be revised and adjusted to the size
of the loan instalment to be paid to the Finance Society and
also to other outgoings.

XI.7: Economic And Social Considerations:

Condition No. 6: "Loans will be granted to those
Co-operative Housing Societies only, whose members are earning
and having earnings commensurate with the repaying capacity
for the loan. In case of joint members, the income of one of
the joint members only will be taken into consideration for
assessing the eligibility for loan, except in case, where
the joint members are husband and wife their combined income
will be taken into consideration. Loans will be sanctioned for
those members only, who have a domicile in the State of Mahara-
shtra for at least 10 years preceding the date of application
for loan.

Condition No. 7: "The applicant society shall have
to apply for the loan in the prescribed form along with the
estimates and site plans (each in triplicate) duly prepared
by qualified authority and sanctioned by Municipality or any
other proper authority. The society will have to certify by
a resolution of the managing committee that the members for
whom loan has been applied have been residing in the State of
Maharashtra for a period of 10 years preceding the date of
application for loan. The society will have to submit along
with the application, certificates of domicile and income of
its borrowing members."

"If the loan required for a member is Rs.15,000/- or
less, the society may certify the income of such members by
a resolution of the Managing Committee, stating therein that
the Committee has satisfied itself about the income of the
member. If the amount of loan applied for a member exceeds
Rs.15,000/-, the Society will have to produce a certified copy
of the assessment order or a duly certified copy of the Return
submitted to the Income Tax authorities. In case of a member,
who is employed, the applicant society should produce a certificate issued by his employer certifying the salary and the allowances paid to the member or certified copy of the tax deduction certificate or Income Tax Assessment Order. In case of a member having income from agriculture the Authority not below the rank of Revenue Tahasildar having jurisdiction over the area where the lands are situated should certify.

XI.8 : Ceiling On Individual Incomes :

Condition No. 8 : "No loans will be granted to any Co-operative Housing Society for a member whose total income exceeds Rs.24,000/- per annum".

XI.9 : Maximum Loan Limit For A Member :

Condition No. 9 : The maximum amount of loan that may be advanced by the Finance Society in respect of any flat or tenement in a tenant co-partnership type of society or building or a house in a tenant ownership type of society, shall not exceed Rs.27,000/- subject to stipulation contained in condition No.10 hereunder".

XI.10 : The Quantum Of Loan Permissible In Different Areas :

Condition No. 10 : "In case of societies from Bombay the amount of loan sanctioned shall not exceed 65% of the aggregate value of the land and building to be mortgaged to the finance society. In case of societies from Town of Thana
the maximum amount of loan sanctioned shall not exceed 70% of the aggregate value of the land and building to be mortgaged to the Finance Society. In all other areas it shall not exceed 80% of the aggregate value of the land and building to be mortgaged. The maximum limit of loan to any individual member of borrowing society shall be limited to 36 months' income of the said member or Rs. 27,000/- whichever is less”.

**XI.11 : Limit On The Maximum Loan To A Society :**

Condition No. 11 : "The maximum amount of loan that may be sanctioned to any society shall not exceed Rs. 25 lakhs. The borrowing society shall collect from its members in advance the amount equal to the difference of the cost of the concerned scheme and the amount of loan sanctioned and invest the same in land and building”.

**XI.12 : Maximum Cost Of Construction Of A Flat :**

Condition No. 12 : "No loan will be advanced to any co-operative housing society for its member if the cost of construction of his flat or tenement or a building exceeds Rs. 50,000/-.

**XI.13 : Restriction On The Carpet Area Of A Flat :**

Condition No. 13 : "No loan will be advanced to any co-operative Housing Society in Greater Bombay and Town of Thana for a flat or a tenement with carpet area (excluding
balconies and varandah) exceeding 750 sq.ft. In case of a
Co-operative Housing Society situated in Poona City the carpet
area of flat or tenement or a house shall not exceed 1000 sq.
ft. and in the rest of the area of the State the carpet area
of a flat or tenement or a house shall not exceed 1500 sq.ft."

Condition Nos. 6 to 13 which are mentioned above have
their origin in economic and social considerations. Condition No. 6 provides that the beneficiary members of the borrowing primary should necessarily have a domicile in Maharashtra for 10 years. The earlier condition provided for a minimum three years' residential qualification for the individual members within the area of operation of the primary societies. The consideration that those who can prove that they desire to settle in Maharashtra should alone be benefitted, seem to be the basis here. This condition also specifies that the eligibility of loan would be determined with reference to the repayment capacity as reflected in the incomes of the beneficiaries - who must be earning. Where a member is not earning, the income of his joint member can be considered. Where husband and wife are earning, their combined incomes can be considered for calculating eligibility for the loan. The conditions linking eligibility with monthly incomes seem to have been introduced since April 1966. The provision for consideration of combined incomes of husband and wife, provided these were from employment, were introduced with effect from 1st January 1968.
The latest provision introduced with effect from 1st May 1970 for considering the joint incomes of husband and wife from whatever source appears to be more realistic.

The first part of condition number 7 mentions that the estimates and plans for construction should be prepared and approved by the competent authorities. These are necessary, for obtaining reasonably correct estimates of the outlay on the housing schemes; and in view of the municipal regulations. Without such approval to the plans, the Municipal Authorities cannot issue the Commencement Certificate. The condition creates a much needed basic safeguard, for preventing mortgage of unauthorised structures (which can be demolished when detected), and is, therefore, security oriented. Another realistic provision, under this latest conditions is that a resolution passed by the Managing Committee of a primary society, regarding the domicile is enough. Under old rules certificate from Gazetted Officer, Hon. Magistrate, J.P., M.L.A., M.L.C. etc. for every member was necessary. This new provision has now streamlined the procedure and has substantially benefitted the borrowing societies, although the responsibility of their management to pass the resolution only after the ascertainment of facts, cannot be avoided.

The second part of condition providing that where the loan required is not more than Rs.15,000/- for a member the Managing Committee can certify the incomes. Formerly, self-declarations could be accepted in respect of members having
monthly incomes up to Rs.450/- provided these were properly attested by the authorities. This revision appears to be a right step in simplifying the loaning procedure. For higher amount of loans, certificates from the prescribed authorities, regarding the incomes are required. This appears to be imperative, inasmuch as, once income is accepted as a basis for determining loan amount its correctness must also be ascertained.

Conditions 8 to 13 can be considered together because these seem to have the same basic purpose and intent. It is provided here that no loan will be sanctioned for a member of a society whose monthly income exceeds Rs.2,000/- per month; that maximum amount of loan that can be sanctioned in case of an individual member will not be more than Rs.27,000/-; that for societies from Greater Bombay and Thana City areas, the loan that can be sanctioned will be limited to 65 per cent of the aggregate cost of land and buildings subject, however, to a stipulation that in case of an individual member it will be 36 times his individual income or Rs.27,000/- whichever is less; that for societies in the other areas of the State, with the same stipulations of 36 times, the monthly incomes/Rs.27,000/-, the limit has been fixed up to 80 per cent of the aggregate value of land and building; that the scheme-cost of a flat/tenement must not be more than Rs.50,000/- and its carpet area must not exceed 750 sq.ft. in Greater Bombay and Thana; 1000 sq.ft. in Poona City and 1500 sq.ft. in other areas.
The purpose behind these provisions appears to be that the more affluent sections of the community should not be benefitted by institutional finance, which may be availed of by middle and low-income group people. Similarly for an individual, loan being limited to 36 months' income or Rs.27,000/-, whichever is less, the operative limit of maximum monthly incomes is automatically frozen at (Rs.27,000/- divided by 36) Rs.750/-. This has a secondary effect of excluding the extra portion beyond Rs.750/- from consideration. The higher middle-income group-people cannot avail of the loan facility beyond a limit. Similarly very large sized and costly flats are not to be financed, although, the permissible cost of a tenement has been raised from Rs.40,000/- to Rs.50,000/-. Eventhough the ceiling has been raised further only those people can construct a tenement costing Rs.50,000/- who have a saving of about Rs.23,000/- (Rs.50,000/- minus Rs.27,000/- i.e. the maximum permissible loan limit). The formulation of these conditions appears to be in consonance with the following (findings and) recommendations of the Mirdha Committee:

"We have had the opportunity of visiting several housing co-operatives in the States of Maharashtra and Gujarat where this form of activity has attained considerable proportions. We saw some good societies, but we also saw a series of luxurious flats in posh localities built with the assistance of concessional co-operative finance, whose purpose it could never have been to help build these millionaire's like mansions."
These schemes in which crores of rupees have been sunk have done much to tarnish the image of co-operation". (Para 15).

"It should be accepted as a basic policy that housing societies are meant primarily for benefitting the persons of small means. For this purpose membership should be restricted to persons having incomes not exceeding certain ceiling to be prescribed. Simultaneously ceilings should be fixed on the cost of each flat and carpet area". (Para 17.1)²

II.14 : Optimum Size Of Membership :

The provision that for one society a maximum loan upto Rs.25 lakhs can be sanctioned has one salutory effect. It tends to restrict the size of the scheme. Hypothetically, with the individual loan limit fixed at Rs.27,000/-, the borrowing membership is automatically restricted to 92 (Rs.25,00,000/- divided by Rs.27,000/-) only. Another study³ of the beneficiaries of co-operative housing finance has shown that out of the total membership, about 10 to 12 per cent members of a primary housing society arrange for their own finance. This ceiling of Rs.25 lakhs for one society tends to restrict the size of the membership of a society to 100 only.

What should be the optimum size of membership of a primary

------------------------------------------------------------------------------------------


3. Chapter XXII. on "The Beneficiaries Of Co-operative Housing Finance" included in Part IV.
society? Very big schemes, although they have certain advantages of bulk operations, i.e., economies of scale and of division of overheads among large number of members, tend to be unwieldy and unhomogeneous. Some of the big schemes have also remained incomplete for a long time. 4

XI.15: Individual Incomes And The Repayment Capacity:

The method of linking up the eligibility for loan with 36 times the monthly incomes has considerable relevance in the context of the economic conditions of the beneficiaries as reflected in his repayment capacity. Earlier by a resolution dated 30th April 1963, the Board of the Finance Society had linked up loan eligibilities to 36 months' incomes for mofussil schemes for and 30 months' incomes for Our Own Scheme subject to the condition that the repayment on account of such loan should not exceed 25 per cent of his monthly income, whichever is higher. This procedure, however, would require calculation of the loan instalment for the loan amount sanctioned in every case, and was dropped. However, the distinction of 36 times and 30 times, for mofussil and Bombay-Thana City-Poona City societies was retained till 1st May 1970, when the uniform rule of 36 times came to be applied for all the areas.

4. Also confirmed by the findings of the "Survey Of The Borrowing Societies", included in Chapter XXIII.
in the State. This can also be said to be a step, in the
direction of simplifying the loaning procedure. But what is
sacrosanct about the multiple of 36 (or 30) times? How much
a man really spends for housing? Or more importantly if a
man saves a particular portion of his monthly income, how
much time will it take for him to save enough for buying a
house? A study conducted by the United Nations in Western
Europe has shown that the capital cost of a new dwelling is
about four times the annual wage of the adult male worker.
This means that even if an average employee saved as much as a
quarter of his income each year, it would still take him
sixteen years to save sufficient to buy a new house.5 The
Finance Society, on the other hand, allows the loan to the
extent of 3 times the annual income of the individual member. If
we presume that loan portion is ideally equal to 80 per cent
of the scheme cost, the total cost of the tenement can be
equated to 3.75 times the annual income of the beneficiary m
member, ceteris paribus.6 With the ceiling of 70 per cent
of the scheme-cost for loan, the cost of a house comes to
about 4.23 times his annual income, and with 65 per cent
ceiling it comes to 4.61 times the annual income.

6. This is calculated in the following manner:
   Maximum permissible loan = 80% of the scheme cost = 3 times
   the Annual income. " 100% of the scheme cost = 3 times
   the annual income x 100 divided by 80 = 3.75 times the
   annual income.
XI.16: Age-factor and Consumption-factor Not Considered:

There is, however, one "Credibility Gap" if the repayment capacity is to be regarded as the main basis for linking up individual incomes with loan eligibilities. The age of the individual member does not seem to have been taken into consideration. Although App. D, of the Loan Application, requires mention of a member's age, its purpose appears to be to ascertain whether the individual member, for whom the loan is being asked is a major or a minor. (A minor cannot become a member of a society under the provisions of the Co-operative Societies' Act). There is no limit on the maximum age of a member. A person on the verge of retirement can also get a loan. Is it presumed that his repayment capacity will sustain itself in the next 20 years? The Life Insurance Corporation of India also takes into consideration the "age-factor", while granting loans under its Own Your House Scheme. The Madras Central House Mortgage Society Ltd. also takes into consideration, the age-group of the loanee-member, who seeks to avail of finance. Further the repayment capacity is also linked up with the consumption and other expenditure, which, the beneficiary member has to bear or incur - whatever is the level of his income.

7. Life Insurance Corporation of India: "Own Your House Scheme". The scheme appears as Appendix I.
8. Chapter XII on "Broad Procedure For The Grant Of Loans" - Para XII.12(b).
XI.17: How Is The Sanctioned Loan Disbursed?

Condition Number 14 which refers to the method of disbursement of loan instalments to societies from Greater Bombay/Thana Area and other areas of the State respectively is as under:

"The amount of loan sanctioned will be disbursed in 4 instalments, each instalment being as under:

(a) In case of societies situated in Greater Bombay and Town of Thana:

1) 30% of the amount of sanctioned loan as 1st instalment after the society has collected from its members and invested full 35% in case of societies in Greater Bombay and 30% in case of societies in Town of Thana of the amount of the cost of the concerned scheme in the land and/or construction thereon or where the amount of loan sanctioned is less than 65% in case of societies in Greater Bombay and 70% in case of societies in Town of Thana after the amount equal to the difference between the cost of the scheme and the amount of loan sanctioned is collected from the members and fully invested.

ii) 30% as second instalment if the amount of the loan already disbursed is invested and fully utilised in the construction.

iii) 30% as third instalment, if the amount of the previous instalments of loan disbursed is invested and fully utilised in the construction.
iv) 10% as fourth and final instalment after the building is completed and either completion certificate or occupation certificate issued by the Municipal authorities is produced.

(b) In case of societies situated in the areas other than Greater Bombay and the Town of Thana the amount of the loan sanctioned will be disbursed as under:

i) 20% of the amount of sanctioned loan as first instalment after the society has collected from its members and invested 20% of the cost of the concerned scheme in the land and/or construction thereon or where the amount of loan sanctioned is less than 80%, after the amount equal to the difference between the cost of the scheme and the amount of the loan sanctioned is collected from the members and fully invested.

ii) 30% as 2nd instalment if the amount of loan already disbursed is invested and fully utilised in the construction.

iii) 40% as 3rd instalment after the amount of previous instalment of loan disbursed is invested and is fully utilised in the construction.

iv) 10% as 4th and final instalment after the building is completed and certified by the Architect of the Finance Society as completed in all respects.
XI.18: New Mode Of Disbursement:
Several Facilitative Features:

The acceptance of this mode of disbursement signifies an important departure from the earlier practice of releasing the loan instalments according to the progressive valuation of the work carried out. This earlier practice put no restrictions on the number of disbursements (and, therefore, the valuations). A hypothetical working out of the scheme of disbursements showed that in a housing project involving an expenditure of Rs.1 lakh, if 40% amount collected from members was to be invested in land and construction, and the property got valued, the society would get the first instalment of Rs.24,000/- (i.e. 60% of Rs.40,000/-). The investment of Rs.24,000/- would entitle the society for a further disbursement of Rs.14,000/- and this sequence of valuations would continue till 10th valuation,9 when the society would get the last instalment of a small amount. The cost of valuations in such cases tended to become disproportionate.10 The operations therefore, became onerous for the primary society especially for smaller schemes which must in the alternative raise interim

9. 60% of Rs.64,000/- comes to Rs.38,000/- minus Rs.24,000/- being the amount already disbursed - equal to Rs.14,000/-. The actual working of the figures till the last valuation has been made in Chapter XVI relating to "The Valuation" (Para XVI,11).

10. Ibid.
finance from other sources at higher rates of interest if necessary or depend on contractor doing extra work on his own, to permit higher and fewer valuations.

Other welcome revision of the earlier rules relates to the disbursement of the last instalment. Formerly about Rs.10,000/- were withheld until the completion certificate was produced. Now, the whole of the last instalment amounting to 10 per cent of the sanctioned amount can be released if Occupancy Certificate is produced. This step will be helpful to the borrowing societies and in essence simplifies the loaning procedure. In fact, the society had introduced this earlier also, mutatis mutandis, while releasing the sanctioned amount to the flood-affected peoples in Poona in 4 instalments of 20%, 40%, 30% and 10%. This could, therefore, have been applied to societies from all the areas of the State, under the general scheme. Yet another improvement over the old conditions is that it is now not necessary, as in past, to bring the construction up to plinth-level, before the first instalment can be disbursed. It is sufficient that if the societies have invested the 35% (Bombay/Thana) or 20% (Other areas) amounts in the scheme. This has benefitted those societies especially which had to pay proportionately higher amounts for land.

XI.19 : Rate Of Interest :

"The rate of interest to be charged by the society on each loan will be fixed by the Board of Directors at the time
of each disbursement and will not exceed 3% over the Reserve Bank Rate on the date of sanctioning the loan subject to a maximum of 1-1/2% over the borrowing rate. Penal interest will be charged at the same rate in cases of default.

The rate of interest now being charged is 7-3/4% initially and 1/2% rebate on interest payment is allowed for regular payments. The Life Insurance Corporation charges 6.3/4% to the Finance Society. The rate charged by the Finance Society is 1% above its borrowing rate and 2.1/4% more than the Bank Rate. The Life Insurance Corporation has not agreed to allow the Finance Society to charge a rate of (6.3/4 + 1.1/2% i.e.) 8.1/4% to the primaries. The effective margin of the Finance Society is, therefore, restricted to 1/2% after allowing the 1/2% rebate. The Finance Society must, therefore, meet its administrative and management expenses and make its statutory and other appropriations out of the profits left as a result of this 1/2% margin.

X.20 : The Repayments :

Condition No. 16 : The period of repayment of loan will not exceed 20 years in any event.

Condition No. 17 : The loan shall be repaid with interest thereon by quarterly equated instalments.

Condition No. 18 : Borrowing societies desirous of repaying the balance of loan earlier than the stipulated time
may do so by giving three months' clear notice of the same to the Finance Society. The Finance Society also may accept the part repayment of the balance loan subject to the following conditions:

1) The amount proposed to be repaid should be such as would reduce the original loan in thousand or its multiples.

2) The repayments should be made only along with the equated quarterly instalments.

**Condition No. 19**: A rebate of 1/2% will be granted to the borrowing society if the repayment of instalments of the principal amount and interest are punctual during the year.

Repayments form a very important aspect of the methodology. The period within which the primary society should repay its loan is 20 years the same as the period within which the Finance Society has to repay the loan to Life Insurance Corporation. The primaries have to pay in quarterly equated instalments. The Finance Society on the other hand, has to pay interest half-yearly and the principal annually. The effect of these two different methods of amortization have been examined in Chapter VIII. There appears to be some scope for mutually agreeable rescheduling of repayments of loans to Life Insurance Corporation in view of the findings. There is one more important point. Should the period within which the primaries have to pay to the Finance Societies be shorter than the period within which the Finance Society has to pay back
its loan to the Life Insurance Corporation? This may appear necessary because of the increasing over-dues of loan instalments, which the primary societies have not paid in time. If the Life Insurance Corporation allows a period of 25 years to the Finance Society, while the latter allows a period of 20 years to the primaries, some cushion will be allowed to the apex society, for contending with the ever-increasing overdue instalments from the primaries.

Before April 1966, repayments of loan could be made by the primary societies before the due dates only, by giving six months' notice. From April 1966, advance repayments could be made by giving 3 months' notice. But it was necessary, to repay at least the amount equal to 1/10th of the principal amount outstanding. From May 1970, the latter proviso has been waived and repayments can now be made by giving 3 months' notice, in the multiples of thousand rupees. This appears to be a right step towards simplification of the loaning procedure. The condition regarding 1/2% rebate for regular repayments of loans instalments, exists from the beginning. This clearly acts as an incentive for punctual repayments. There is, however, no provision for payment of interest on advance repayments, as is made, by the Bombay State Co-operative Land Mortgage Bank Ltd.
XI.21 : Share Capital Contribution ... An Important Component Of The Outlay On The Housing Scheme:

Condition No. 20 : "The borrowing societies, will have to invest in the shares of the Finance Society, at the following scale:

(a) For the Societies from Greater Bombay, Town of Thana and Poona ....
10% of the amount of loan disbursed.

(b) For the Societies from other areas ....
5% of the amount of loan disbursed, if the amount of loan sanctioned does not exceed Rs.10 lakhs.
6% of the amount of loan disbursed, if the amount of loan sanctioned exceeds Rs.10 lakhs.

"The borrowing societies will have to invest in the shares of the Housing Finance Society at the above rate, before any or part payment of the loan amount is made. This amount shall not be refunded till the repayment of the entire amount of loan".

The provision for investment in the shares of the Finance Society by the primary societies in proportion to the amount borrowed, is in consonance with Co-operative practice.
and discipline and also in accordance with the provisions of
bye-law No. 101 of the Finance Society. This practice is
being followed also by the apex primary structure dispensing
short/medium and long-term agricultural credit. It is,
however, the rate of such investment that is most important.
Before April 1966, this rate was 2 per cent. This was there­
after raised to 4%. This rate was made differential in its
application to the areas situated in different parts of the
State for the first time since November 1967. This differential
application was not only area-wise, but also out-lay wise,
the schemes involving sanctioned amounts exceeding Rs.10 lakhs
being required to invest in shares at a higher rate. This
rate since May 1970 has been stepped up from 6% to 8%, steeply
to 10% of the amount of loan drawn for the societies from
Greater Bombay, Thana City and Poona. This will inevitably
raise the outlay on the schemes in these areas. The rate of
5 to 6% has been retained for societies situated in mofussil
areas. In Chapter VI the analysis of the actual collection
of share capital had shown that the average rate of the share
capital collection was considerably lower\(^{12}\) than the rate of
3.33 per cent for the creation of self-generating borrowing
capacity during different years. The advances to societies
from Bombay, Poona and Thana areas are almost 80% of the total
disbursement and it appears that the society will now have a

\(^{12}\) Chapter VI, Para VI,8.
self-generating borrowing capacity for the first time without availing of the Government Share Capital Contribution. This is, however, indirectly connected with the larger issue of the Life Insurance Corporation policy. If, however, Life Insurance Corporation agrees to a borrowing limit at 18 times the owned funds, instead of at the present rate of 12 times, the self-generating borrowing capacity can be created, broadly speaking, if share capital is collected at an average rate of 5.56 per cent in proportion to the loans advanced.

It was also seen in the concluding part of that analysis, that this differential approach which is both area-wise and outlay-wise has not been made income-group-wise, with a provision for benefitting the schemes formed by low-income-group people. It is further clear that this differential approach has introduced considerable sophistication in the basic tenets which guided the formulation of the conditions for loans.

XI.22 : No Return Of Share Capital :

It is, however, provided that unless the whole amount of loan has been repaid, the share capital subscribed by the primary cannot be returned. Section 29 of the Maharashtra Co-operative Societies Act 1960 provides that the shares held by a member cannot be transferred at least for one year; and refund of the share capital — within the prescribed limit cannot be made unless the membership ceases or the member is
disqualified or expelled. In the mortgage deed executed by the borrowing society, it is specifically **covenanted** that the share capital cannot be refunded unless the whole loan amount is repaid. The table given below shows the effect of the operations of this condition:

**Table No. XI.1**

Operations Of A Loan Account For Rs.1.00 lakh
Advanced To A Primary Society In Relation To Its Share-Holding For Twenty Years

<table>
<thead>
<tr>
<th>At The End Of The Year</th>
<th>Principal Amount Outstanding At The End Of The Year</th>
<th>Share Capital Contributed By The Primary Society At The End Of The Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Rs.</td>
<td>97,810/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>2nd Rs.</td>
<td>95,445/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>3rd Rs.</td>
<td>92,891/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>4th Rs.</td>
<td>90,133/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>5th Rs.</td>
<td>87,155/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>6th Rs.</td>
<td>83,940/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>7th Rs.</td>
<td>80,468/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>8th Rs.</td>
<td>76,719/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>9th Rs.</td>
<td>72,671/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>10th Rs.</td>
<td>68,300/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>11th Rs.</td>
<td>63,581/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>12th Rs.</td>
<td>58,581/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>13th Rs.</td>
<td>52,981/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>14th Rs.</td>
<td>47,038/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td>15th Rs.</td>
<td>40,622/-</td>
<td>10,000/-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount As % of the Principal Amount Outstanding</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>10.22</td>
</tr>
<tr>
<td>2nd</td>
<td>10.47</td>
</tr>
<tr>
<td>3rd</td>
<td>10.76</td>
</tr>
<tr>
<td>4th</td>
<td>11.09</td>
</tr>
<tr>
<td>5th</td>
<td>11.47</td>
</tr>
<tr>
<td>6th</td>
<td>11.91</td>
</tr>
<tr>
<td>7th</td>
<td>12.42</td>
</tr>
<tr>
<td>8th</td>
<td>13.03</td>
</tr>
<tr>
<td>9th</td>
<td>13.76</td>
</tr>
<tr>
<td>10th</td>
<td>14.64</td>
</tr>
<tr>
<td>11th</td>
<td>15.72</td>
</tr>
<tr>
<td>12th</td>
<td>17.06</td>
</tr>
<tr>
<td>13th</td>
<td>18.87</td>
</tr>
<tr>
<td>14th</td>
<td>21.25</td>
</tr>
<tr>
<td>15th</td>
<td>24.61</td>
</tr>
<tr>
<td>Date</td>
<td>Amount</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
</tr>
<tr>
<td>16th</td>
<td>33,695/-</td>
</tr>
<tr>
<td>17th</td>
<td>26,217/-</td>
</tr>
<tr>
<td>18th</td>
<td>18,140/-</td>
</tr>
<tr>
<td>19th</td>
<td>9,417/-</td>
</tr>
<tr>
<td>20th</td>
<td>NIL</td>
</tr>
</tbody>
</table>

* Even after the loan is completely repaid share capital will still be held till procedural formalities are completed.

It can be seen from the above table that the impact of the share capital holdings becomes onerous for the borrowing primaries. It is more onerous, especially after 17 years when the share capital holdings exceed 50 per cent of the outstanding loan amounts. Similarly, it is extremely penalising for those members of the primary societies, who want to clear their loans by advance repayments. From this point of view, this procedure although it has the obvious merit of keeping the share-capital of the apex society intact over the twenty years' period, indirectly to some extent acts as a disincentive for partial advance repayments. This impact is worst for a society operating more than one completely separate schemes, for different groups of members. An actual example of one society can make the position clearer. This society had obtained loans under two different schemes. Members of scheme No. 1 repaid the entire loan balance of Rs.7.5 lakhs ahead of the normal repayment schedule. Members of scheme No. 2, who had obtained loan, however, decided to utilise the loan facility
for 20 years. The primary society, therefore, cannot cease to be a member of the Finance Society for 20 years. Because of the legal requirement referred to as above, the share capital of the primary society contributed by the members of scheme number one remains blocked for 20 years. A dividend of 3.1/2 per cent must appear to be a poor solace in such a situation. The alternative course open to the members is to bifurcate the two schemes and have two separate societies. A more rational and a constructive solution would, however, appears to be that instead of repaying the entire share capital it may be refunded in proportion to the reduction in the loan amount outstanding, over the twenty years' period. This is sure to affect the share capital base of the apex society, and, therefore, also its borrowing capacity. This situation can be remedied by the Government share capital contribution to the apex society, to the extent of the amount refunded by it to the primaries every year.

XI.23 : Valuation Fees and The Incidental Expenditure :

Condition No. 21 : "All legal costs, Architects' fees and other charges incidental to the mortgage shall be borne by the borrowing society irrespective of whether the loan is ultimately disbursed or not for any reason whatsoever".

Condition No. 22 : "The society applying for the loan from Greater Bombay and Town of Thana shall have to deposit
in advance a sum of Rs.2,500/- towards the valuation fees, legal costs, remittance charges and for miscellaneous adjustments etc. The societies from other areas shall have to deposit Rs.1,500/- towards the valuation fees, legal costs, remittance charges and for miscellaneous adjustments etc. The deposits will not carry any interest. The borrowing societies will have to deposit additional amount in case the amount already deposited is found insufficient to meet the actual cost".

These conditions lay down that the borrowing society will have to bear expenses for legal matters (investigation of title/drafting and execution of mortgage deed/receipts for drawing instalments) and valuation of property. These are procedural requirements, and in any kind of credit dispensation the borrower has to foot these bills usually. In actual practice, the solicitor's charges are paid by the borrowing society directly, while the valuation fees are paid by the Finance Society to the Architects after the due scrutiny of their bills. The actual experience has shown that it is really advantageous for the borrowing society to have a scrutiny of the bills of the solicitors at the level of the Finance Society as these are sometimes considered high by them. The Finance Society has laid down that the charges or fees which the solicitors should collect should be in accordance with the rules prescribed by the High Court. It is, however, a fact that the Finance Society does not have any direct control on
the bills paid to the solicitors. It also appears that if the Finance Society undertakes to scrutinise every bill of every borrowing society it may add considerably to its work. In actual practice, therefore, it has limited itself to the payments of the bills from the architects from out of the amount deposited by the primaries. Where, however, a society has represented about high amounts billed by the solicitors, the Finance Society has intervened to the advantage of the borrowing society.

**XI.24 : Valuation To Be Made By The Architects On The Panel Only :**

**Condition No. 23 :** "Valuation of the property to be mortgaged shall be made by the valuer appointed by the Finance Society".

The Finance Society has a panel of Architects. The work of valuation must be done by these Architects only. This ensures a mechanism, for third-party objective performance according to technical rules -- and the provision is ultimately security-oriented. In Madras the valuation is done by the "Surveying Directors" of the Primary House Mortgage Society.

**XI.25 : No Revision Of Estimates And Plans :**

**Condition No. 24 :** "No advance or further advance as the case may be will be made out of the sanctioned loan, in case it is observed that the borrowing society has revised its
original plans and estimates and proceeded with the construction work without informing and obtaining approval in writing, of the Finance Society or to the said revised plans and estimates and also of the local authority, sanctioning the said plans”.

A borrowing society should not change its estimates and plans without the consent of the Finance Society and the local authority. It will otherwise be committing a breach of the provisions of the mortgage deed. Such a provision safe-guards the interest of the Finance Society, and creates conditions for proper utilisation of loan. As seen earlier, the provision is also security oriented, as a structure built unauthorisedly can be demolished by the local authorities. It will also not have the occupation and the completion certificate from the concerned municipality nor the last instalment of the sanctioned loan from the Finance Society for want of the same.

XI.26 : Insurance Of The Property - A Must :

Condition No. 25 : "The mortgaged property shall be insured only through the agency of the Finance Society for the amount of its present and future value above the plinth in the joint names of the Finance Society and the borrowing society with the Insurance Company to be named by the Finance Society, against the risk of riots and civil commotion and against the earthquake damage including the fire damage caused thereby throughout the period, the mortgage is in force".
The property in mortgage must be protected from loss due to hazards - and should, therefore, be insured. The Life Insurance Corporation has further stipulated, that the insurance must be made with the General Insurance Department of the Life Insurance Corporation. Insurance is a common stipulation in all kinds of lending operations involving hypothecation/pledge or a mortgage and keeps the interest of the lender secure.

XI.27: The Outgoings Must Be Paid Regularly:

Condition No. 26: "All Municipal Taxes, Charges, Bills etc. as also other charges, in respect of property shall be paid regularly by the borrowing society".

The Municipal dues must be paid by the borrowing societies in time. A local authority has prior claims even if the property is mortgaged and in practice may not wait for the Finance Society to communicate its dues in case of an auction of the property. According to the provisions of the mortgage deed even the Finance Society can pay off such dues on behalf of the mortgagor society.

XI.28: Additional Security If Necessary:

Condition No. 27: "If for any reason the Finance Society is of the opinion that the security originally furnished for the loan borrowed from it has become inadequate or is about to become inadequate, the Finance Society shall be competent to call upon the debtor society to furnish additional
security to the Finance Society's satisfaction, within a specified time. Failure to comply with the notice shall entitle the Finance Society to recall the loan at once, notwithstanding the original terms on which the loan was advanced”.

The Finance Society can require a debtor society to furnish additional security, during the currency of the loan. This provision is security-oriented and safe-guards the interest of the Finance Society, against shifts in the property-market. The loan can be recalled in case of a failure to furnish additional security. The recall of loan is the ultimate weapon in the armoury of the Finance Society. In practice, it is seen that in cases, where the borrowing primaries had committed breach of the conditions of the loan and of the provisions in the mortgage deed, the Finance Society issues a show-cause notice, asking why the loan should not be recalled. However, no loan has been recalled even in a single case during the ten years of its operations.

XI.29 : Inspection Of The Records And The Property Of The Mortgagor Society :

Condition No. 28 : "The Finance Society shall be competent to inspect all the records of the debtor society including the Minutes of all the meetings and its property or make such inquiries, regarding financial position of the debtor society as and when deemed necessary. The Finance Society shall inspect the mortgaged property at least once a year. The borrowing societies during the subsistence of the
mortgage shall send a copy of their Annual Report, Balance Sheet and Audit Report to the Finance Society every year”.

The Finance Society has a right to inspect the records and the property of the debtor society. The obligation to inspect the property at least once a year is not being pursued in actual practice. The right does, however, subsist. The borrowing society should send the copy of the annual report, balance sheet, audit report to the Finance Society every year. This is similar to the Registrar’s powers according to the provisions of Section 79 of the Act, to enforce performance of obligations and to send informations/statements etc. to him. These enable the Finance Society to see whether the property in mortgage has been maintained in a state of good repairs and whether the affairs of the society are being properly managed or not. If they are not, corrective steps can be taken through the Co-operative Department by maintaining proper co-ordination and liaison. In some cases it was seen that the Finance Society was able to get the administrator appointed by superseding the Managing Committee of the borrowing society under an order from the District Deputy Registrar under Section 78 of the Co-operative Societies’ Act. Lack of proper management may adversely affect the normal process of repayment of the loans advanced by the Finance Society. It has thus a vital stake in the satisfactory management of the debtor society and the inspection is one means of restoring the affairs to normalcy.
XI.30 : Recall Of Loan :

Condition No. 29 : "The Finance Society shall have the power to recall the loan with interest upto the date of payment in the event of :

i) the loan granted for the specific purpose being misapplied, and/or

ii) the suppression of particulars or submission of incorrect particulars by borrowing society, and/or

iii) the scheme is not completed within three years from the date of the last drawal".

The recall of loan is contemplated where it is misutilised, in case of suppression of information or submission of incorrect information or where the scheme is not completed within 3 years from the date of drawal of the last instalment. It is also contemplated as seen above, under Condition No. 27, where the borrowing society fails to furnish the required additional security. The conditions do not expressly provide that this measure is applicable in such cases where the debtor society does not abide by the conditions of loan. This is, however, provided in the mortgage deed, which is the instrument for creating a legal obligation on the part of the borrowing societies. Also as mentioned above, there were cases where loans were defaulted, membership interest was transferred and flats were sub-let or given on leave and licence unauthorisedly and without the consent of the Finance Society. Although show cause notices were issued in such cases asking them to
state reasons why the entire loan balance should not be recalled, the loans were never actually recalled, nor were there such cases vigorously pursued.

XI.31 : No Change In The Bye-laws, Membership, Flats, Plots, etc. :

Condition No. 30 : "During the continuance of the mortgage the borrowing society shall not add to, alter or amend any of the bye-laws, rules and regulations, without the Finance Society’s previous consent in writing, and also will not admit and/or enroll any new members without the Finance Society’s consent in writing and shall also not effect any transfers of plots, flats and or shares to new members without the Finance Society’s consent in writing”.

By executing a mortgage deed, a debtor society undertakes to abide by the rules in the manner prescribed. Later on, it must not act in a way prejudicial to that undertaking. Changes in bye-laws or rules not in harmony with the provisions of the mortgage deed may create legal complications. Admission of new members without the consent of Finance Society encourages malpractices -- especially trafficking in flats. Where bungalow-type constructions in a tenant-ownership type of society are concerned, individual members have to join in executing the mortgage deed, admission of a new member and transfer of interest to him without a rectification deed, may create legal complications. The loan is also sanctioned with reference to an assumed repayment capacity of a member. The
new member must also have adequate repayment capacity. From this point of view also consent from the Finance Society is necessary. In practice it is seen that quite a number of societies approach the Finance Society for permitting the proposed transfers. It is, however, anybody's guess (a fact also proved by the findings in the survey of the borrowing societies\textsuperscript{14}) that the number of societies not approaching for the consent of the Finance Society is vastly more.

XI.32 : Economic Rent :

**Condition No. 31** : "The borrowing society shall collect Economic Rent, from all the borrowing members, such rent shall be communicated to the Finance Society".

The earlier condition which became effective from April 1966, provided that "the borrowing society shall collect either Standard or Economic Rent from all the tenant members, who shall occupy the tenements. Such rent shall be got approved from the Finance Society before possession of the tenement is given to any tenant member". The present condition, therefore, appears to be a considerably diluted version of the earlier requirement. Approval to the standard or economic rent by the Finance Society also meant invitation to legal proceedings. It would also require creation of a separate cell consisting of technically qualified staff for attending to this specific work. The actual experience shows that during the ten years of its working

---

14. Chapter XXI on "Survey Of The Borrowing Societies".
the Finance Society did not get a single concrete case for approval of the standard or economic rent - as required under old conditions. The old condition was, therefore, an inoperative provision, without any practical possibility of its fulfilment. It is seen that the bye-laws of a primary society also make a provision for fixation of rent in Form A and Form B, in the following manner:

Form A: pertaining to Tenant Co-partnership Type of Societies:

Rule 24: "The rent shall be calculated as follows and shall be paid on the day of each calendar month:

a) A rent of 6.1/4 p.c. per annum (which shall not be increased during the tenancy) on the cost including the building, land, roads and other items, such cost, to be certified by the Committee, whose decision shall be final and conclusive and to be paid by 12 equal calendar monthly payments;

b) A further rent during the term of 25 years of ... per cent per annum (which shall not be increased during the said term of 25 years except for a new tenant) on the said cost such rent to be applied to the share account of the tenants and to be paid by 12 equal calendar monthly payments are made the dividend on the shares will be equal to the rent paid under

-------------------------------------------------------------------------------------

15. Bombay Co-operative Housing Societies' Federation Ltd.

"Model Bye-laws for Co-operative Housing Societies".
Clause 24(a) hereof.

(c) A further rent equal to the proportion (applicable to the tenement) of the expense incurred from time to time in insurance against fire, tempest or violence by any army or mob or other irresistible force and in the management of the society and the maintenance and repair of the society's estate, such expenses and proportion thereof payable by the tenant, to be determined by the certificate of the Committee whose decision shall be final and conclusive, such further rent to be paid on the 1st day of the calendar month next following the date of the said certificate;

(d) A further rent equal to the proportion applicable to the tenement of the sum or sums from time to time paid by the society in respect of the assessments and rates such proportion to be determined by the certificate of the Committee whose decision shall be final and conclusive, such further rent to be paid on the 1st day of the calendar month next following the date of the said certificate".

Form B : pertaining to The Tenant Ownership Co-Operative Societies :

Rule 5 : "The rent shall be calculated as follows :

a) A rent of Re.1/- per annum, if demanded for site;

b) A further rent equal to the proportion (to be certified by the Committee whose certificate shall be final and conclusive) applicable to the house of the assessments and
rates and insurance and of the expenses incurred from time to
time in the management of the society and the maintenance of
the roads, sewers and drains and the amenities of the Society's
Estate".

A cursory glance at the rules shows that these do not
provide for the specific amortisation requirements of the
Finance Society. Similarly, it will be advantageous for the
borrowing primaries if the Finance Society provides some guide­
lines, either in the conditions themselves, or through some
published material as to how the economic rent should be
 calculated. This will indirectly help the cause of the regular
repayments by the primaries to the Finance Society. Further
these provisions in Form A and B of the model bye-laws have
now become obsolete and need to be revised, by the Co-operative
Department. There are some other considerations besides.
There is for instance a larger issue of the ingredients of the
Standard or economic rent - and the manner of its fixation -
and the Courts have given their verdict laying down the
principles. With the number of borrowing societies ever on the
increase and the large number of professional promoters
operating in the field - giving rise to disputes regarding cost
of construction etc. with the individual member - a provision
that the Finance Society should accord approval to the standard
or economic rent before the possession is handed over to the
individuals would surely have boomeranged on the Finance
Society by creating a host of legal problems. The present
provision is, therefore, utterly realistic, in that it creates an obligation on the part of the primary societies to fix and communicate the economic rent to Finance Society, without any responsibility on the part of the latter. It will, however, be desirable for the Finance Society to see that the rent provides for all the outgoings and its loan repayments and recovery of penal interest from individual members in case of default.

XI.33 : No Loans For Shops And Garages :

Condition No. 32 : "No loan will be granted for construction of shops/garage/godown/hall which shall continue to be the property of the applicant society. The occupants of shops/garages/godown shall become nominal members of the society".

In the beginning the Finance Society sanctioned loans on the total scheme cost including the cost of the shops/garages etc. From April 1966 it was specifically provided for not giving any loans for them. The Architects must show the valuation for shops/garages etc. which is deducted from the total valuation before disbursement of the loan. This appears necessary, if residential accommodation is to have top priority over other requirements and if affluence is not in a way to be rewarded by the use of concessional institutional finance. The provision to enroll the occupants as nominal members is in harmony with the requirements of Section 91 of the Maharashtra Co-operative Societies' Act 1966 for facilitating arbitration proceedings, in case of dispute with such a person.
XI.34 : Supreme Authority For The Finance Society :

Condition No. 33 : "The borrowing society shall have to accept such other terms and conditions as may be reasonably required by the Attorneys of the Finance Society".

Condition No. 34 : "Communication of acceptance of the borrowing society's application for loan and/or of the sanction of a loan thereto shall not create any obligation or contract on the part of the Finance Society to advance any loan, the Finance Society exercising absolute discretion to advance the loan as stated in bye-law No. 101 of the Society's Bye-laws."

Condition No. 35 : "The Finance Society shall have the full authority to reject an application for loan without assigning any reason".

These conditions have an effect of protecting the Finance Society from legal liabilities, in case certain circumstances warrant change in the conditions. For instance, if release of

16. Bye-law No. 101 is as under :
"The amount of each loan to be advanced by the Society to a Co-operative Housing Society may be determined by the Board in its absolute discretion provided, however, that no such loan or advance shall be paid to the applicant society unless the applicant society holds shares or debentures of the Society for the amount which is not less than 2 per cent of the amount of loan to be paid in any one case". (Bye-laws of the Maharashtra Co-operative Housing Finance Society Ltd.)
funds is to be made by the Life Insurance Corporation and the primary societies are to be financed from a cash credit accommodation from the State Co-operative Bank, at a higher rate of interest, it will mean changing the rate of interest charged to the primaries. The conditions also enable the Finance Society to rescind an earlier sanction (especially the provisional) for certain reasons (such as defects in the title etc.,) or to stop further disbursement until certain compliances are made by the borrowing societies as required.

XI.25 : Higher Quantum Of Finance For The Low Income-Group:

"Loans to the extent of 80% of the cost of construction inclusive of the cost of land will be granted to any society in the State of Maharashtra for construction of houses, tenements for such members whose income does not exceed Rs.500/- per month and the carpet area of any house/tenement to be constructed for such members does not exceed 350 sq.ft., excluding the area of balcony and verandah. Provided further the maximum loan to be sanctioned to any individual member of the society shall not exceed 36 months' income of the said member".

The condition is based on social and economic considerations. It was introduced in March 1989. Compared to conditions regarding quantum of finance available to societies from Bombay/Thana areas (i.e. upto 65% of the scheme-cost) it will be a considerable facility and will reduce members' contribu-
tion substantially (from 35% to 20%). There are, however, no other concessions. There are also no specific benefits to societies from other areas of the State as these are already entitled for finance upto 80%. The condition of 36 times the monthly income, for determining individual eligibility, has been made uniformly applicable to societies from all the areas of the State. The new conditions will, therefore, help the societies from Greater Bombay/Thana area only in getting finance upto 80%, instead of upto 65/70 per cent under the general scheme.

XI.36: When will transfers be permitted?

Condition No. 37: "No borrower society or its member shall be permitted to transfer, assign or otherwise deal with flat or tenement or a bungalow therein to any person except with the prior permission in writing of the Finance Society, which permission may be granted only in circumstances such as death, retirement, transfer of service or dire and uneconomic condition of the member concerned".

The condition has the intention of preventing malpractices in the co-operative housing sector and thus indirectly to curb the tendency to utilise the membership of the primary society as a source of investment. It appears that the issue of sub-letting the flats was taken with the Finance Society by the State Government. The Board of Directors in this connection resolved on 8th October 1965 that:
"The Maharashtra Co-operative Housing Finance Society may include a condition in the order of sanction of loan to the Co-operative Housing Societies that if a member intends to sub-let or give on leave and licences basis, either the whole or part of his tenement, the offer should first be made to Government and that Government shall pay the compensation as fixed by the Managing Committee of the borrowing society and that in any event the Government will have to pay compensation from the date of the offer".

"Further resolved, that if Government fails to agree to take up the tenements within a month of the offer made, it will be competent for the borrowing society, to decide the case according to its bye-laws".

This provision was retained, when the conditions were revised in April 1966, and was dropped in the new conditions which became effective from May 1970. The old conditions seem to have been inserted with a view to secure accommodation for Government Servants to whom allotments of flats would be made by the Controller of Accommodation from out of such offers.

It is seen that the Finance Society has been allowing transfers under the circumstances like death, retirement, transfer of service or dire and uneconomic reasons and a number of primary societies approach it for approval in this behalf. The condition appears to be in harmony with the spirit of recommendations made by "Committee on Co-operation".  

It is, however, felt that a mere consent from the Finance Society will not make co-operative housing less attractive as an investment proposition, which really is the bane of the movement. Such consent will at best sanctify the process of transfer. A more punitive and a deterrent legal provision - such as sharing the additional sale proceeds - as suggested by the Committee appears necessary. The Committee on Co-operation was of the opinion that:

"Subletting should be totally prohibited except in special circumstances with the approval of the managing committee. When such approval is given the rent also should be fixed (Para 17.V.)"

"Transfer by sale should be prohibited except under certain circumstances such as death of the member or financial distress, necessitating sale of property to meet unavoidable legal obligations. The circumstances should be laid down in rules and each specific case of transfer should be approved by the managing Committee. The transfer in all cases must be subject to all the legal restrictions regarding further sale and subletting to which the original members were subject. The society should have a share of the additional sale proceeds".18

XI.37 : No Charge On Mortgaged Property :

Condition No. 38 : "During the currency of the mortgage, the loanee society shall not create any charge on the mortgaged property without the consent of the Finance Society".

The provision is security-oriented. It is desired that the mortgagor society as a corporate unit should not incur additional liability by creating further charge on the property mortgaged. Such conditions are imposed by mortgagees. In a co-operative organisation, it is ultimately the individual members who have to meet all the liabilities of the institution. If they exhaust their means or incomes in meeting the liabilities incurred by creating further charge, the repayments to the Finance Society in respect of the loans advanced may suffer. In practice, therefore, it appears that the consent of the Finance Society for the creation of further charge is absolutely necessary.

XI.38 : Lesser Quantum Of Finance For Bombay And Thana ?

It has been noted above that the rules for grant of loans make out a differential approach. This approach has crystallized itself in respect of the following items specifically :-

(a) The quantum of finance to the societies from Greater Bombay and Thana City areas is limited up to 65% and 70% of the scheme cost respectively. It is up to 80% in other areas of the State. (Condition No. 10).
(b) The carpet area of flats in the society in Greater Bombay and Thana City areas must not exceed 750 sq.ft. While the limit is 1000 sq.ft. in Poona and 1500 sq.ft. in other areas of the State. (Condition No. 13).

(c) The sanctioned loan amount is disbursed in the Greater Bombay/Thana City in 4 instalments of 30%, 30%, 30%, and 10%. In other areas of the State it is disbursed in four instalments of 20%, 30%, 40% and 10%. (Condition No. 14).

(d) The share capital to be collected from the borrowing societies in proportion to the amount of loan advanced has been fixed at 10 per cent of Greater Bombay/Thana (and Poona) areas while it has been kept at 5 to 6 per cent for other areas of the State. (Condition No. 20).

(e) The deposit which the societies from Greater Bombay and Thana areas have to keep for valuation and incidentals has been fixed at Rs.2500/-. It is fixed at Rs.1500/- for societies from other areas of the State. (Condition No. 22).

What are the reasons for this differential approach? Is it based on the presumption that there is greater affluence in Greater Bombay and Thana areas? Is it because Bombay and Thana are almost like two parts of one and the same metropolitan area of the State which is relatively highly developed in several respects? Is the restriction on the carpet areas of the flat, a means for creating conditions for construction of a maximum number of tenements in an area.
where land is scarce? Are these stipulations meant for creating better conditions for the development of co-operative housing in other areas of the State?

The Differential approach does not appear to have been based on a scientific survey of the economic conditions of the residents in different areas; but nevertheless there appear to be positive and negative sides of this differential approach.

The analysis of loan disbursements shows that by 30th June 1971, out of the total amount of Rs.42.22 crores an amount equal to 69.82% was advanced in Greater Bombay District, 10.62% was advanced in Thana District (mainly Town of Thana and Dombivali), 6.04% in Poona District and 13.52% in other areas of the State. The yearwise trend, however, shows that if we consider cumulative loan advances up to 1969-70, it is seen that, the average annual disbursements in Greater Bombay every year were 87% and in other areas 13% only. This trend changed considerably and consistently also; so that 58.71% of the total advances went to Bombay societies in 1969-70 and 58.10% in 1969-70. The percentage of the loan advanced to societies from other areas of the State was correspondingly 41.29% in 1969-70 and 41.90 in 1970-71. It appears that this trend in the pattern of disbursement was consciously engendered by creating facilitating conditions to attract applications of...

19. Discussed in Chapter XVII on The Disbursements Of Loans in details. Please see Table XXII on Page 522-23.
societies from other areas of the State. This appears to be
the positive aspect of the differential approach. This aims
at creating incentive-oriented conditions for development of
other areas and also at ensuring quantitatively a more equi-
table spread of the available finance. The press-note issued
by the Finance Society on 27th April 1970, to mark the intro-
duction of the new conditions from May 1970, bears out a
testimony to this approach when it points out:

"Besides, in revising the conditions, it has
been a conscious policy of the Board to ensure
equitable distribution of available funds and
to adopt an incentive-oriented and differential
approach for the people with modest incomes and
for undeveloped and mofussil areas of the State".

The negative aspect of this differential approach is to avoid
congestion of finance in one area only, and to prevent its
utilisation for bigger size flats - especially when land is
scarce and costly and the problem of housing shortage invul-
nerable.

The geographical situation of Thana may be considered.
The Greater Bombay district extends up to Mulund, and Thana is
the next station on the Central Railway, while proceeding from
Bombay V.T. to Kalyan. Thana station is at a distance of
32 kilo-meters from Bombay. The new Eastern Express Highway
extends up to Thana. The old Agra Road passes through Thana,
so also the road going from Bombay to Poona and Bangalore branches off from this place. The town of Thana and its enclosure areas have become a hub of industrial development - and the socio-economic situation has considerable similarity to the situation in Greater Bombay. Its close proximity to the Greater Bombay area and the verisimilitude in the economic and social conditions have made it almost an inalienable adjunct of the vast metropolitan expanse, that is Bombay. The rigour of the differential approach is sought to be reduced by providing for a scheme under which 80% loans to low-income group people (monthly income below Rs. 500/- for flats upto 350 sq.ft. carpet area). Similarly, yet another solace is that the restrictions are applicable to Thana City only. For societies in Dombivali/Bhivandi/Kalyan/Ulhasnagar/Ambarnath 80% loans with 5 to 6 per cent share capital contribution are available.

XI.39 : Conditions Of Loans Of The Gujerath Co-operative Housing Society Limited, Ahmedabad:

It has been mentioned earlier that the Gujerath Society also was established as a separate housing finance society for the State of Gujarat, as a sequel to the reorganisation of States. A part of the assets and liabilities of the erstwhile Bombay Co-operative Housing Finance Society Ltd., Bombay were transferred to it. Both the Maharashtra and the Gujerath Societies inherited the same broad pattern of the methodology of dispensing the mortgage finance as was developed and followed
by the Bombay Society, which was the mother institution. The two societies also started operations practically at the same time and have fared well, especially in comparison with the other housing finance societies in the country. This is amply proved by the fact that out of the total disbursements of Rs. 70,00 crores to housing finance societies, made by the Life Insurance Corporation of India, in India, nearly 85% of the amount has been drawn by the Maharashtra and Gujarat Societies, only. The pace of the development in the operations of the two societies is generally the same and so also the magnitude of their performance. These two societies by their pioneering methodology of co-operative housing finance through the two-tier structure have evolved and set a pattern for other States to follow. Although, the broad methodology remains almost the same, there are different policy and operational nuances, which have crystallized themselves in the conditions for loans. The important differences can be studied with advantage by comparing the specific items of difference in the conditions of two societies. The items are enumerated in the statement given below:

### Statement No. XI.1
Comparison of the Loan Conditions of the Gujerath and Maharashtra Housing Finance Societies.

<table>
<thead>
<tr>
<th>Item</th>
<th>Conditions of Gujerath Housing Finance Society</th>
<th>Conditions of Maharashtra Housing Finance Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Quantum of loan to be sanctioned</td>
<td>No loan will exceed 60% of the aggregate value of land and buildings to be mortgaged. (Condition No.9).</td>
<td>1. Upto 65% to societies from Bombay; 2. Upto 70% to societies from the Town of Thana; 3. Upto 80% to societies from other areas. (Condition No.10). 4. Not more than Rs.25 lakhs to any society; 5. Upto 80% of the scheme-cost for societies of low-income-group people. (Condition No.36).</td>
</tr>
<tr>
<td>2. Maximum loan per beneficiary member</td>
<td>Loan exceeding Rs.25,000/- will not be sanctioned per member of the applicant society (Condition 9.1).</td>
<td>Rs.27,000/- or 36 times the monthly income or 65/70/80% of the scheme cost whichever is least according to the area in which the society is situated (Condition No. 10).</td>
</tr>
<tr>
<td>3. Scheme-cost per tenement/flat allowed</td>
<td>The cost of a tenement excluding the cost of land should not exceed Rs.50,000/- (Condition No. 9.2).</td>
<td>No loan will be advanced to any co-operative Housing Society, for its member if the cost of construction of his flat or tenement or a building exceeds Rs.50,000/- (including the cost of land). (Condition No.12).</td>
</tr>
<tr>
<td>4. Area of the flat.</td>
<td>Total built-up area should not exceed 225 sq.yards or 2025 sq.ft.</td>
<td>Carpet area excluding balconies and verandah should not exceed for 1 flat/tenement/bungalow: 750 sq.ft. in Bombay/Thana 1000 sq.ft. in Poona City 1500 sq.ft. in other areas (Condition No.13) 350 sq.ft. in case of low-income-group societies (Condition No.36).</td>
</tr>
</tbody>
</table>
5. Release of the loan amount

The sanctioned loan amount will be made available to applicant society after it has collected and invested full 40% of the entire scheme from amongst its members; each member having paid his quota provided further that if there are several buildings to be erected by the borrowing society, the funds to the extent of 60% of the cost of each of such buildings including land will be made available for the completion of each unit. (Condition No.16).

6. Rate of investment of share capital.

4% of the amount of loan advanced will have to be invested by the borrowing society in the shares before the loan amount is paid. (Condition No.8).

Amount sanctioned will be released to societies from Greater Bombay and Thana in 4 instalments of 30%, 30%, 30% and 10%. First instalment after the societies have collected 35% of the amount of scheme cost from members and invested in land and construction. (Condition No.14).

To societies from other areas of the State: in 4 instalments of 20%, 30%, 40% and 10% of the sanctioned amount. The first instalment to be released after the society has collected full 20% of the amount of scheme cost from the members and invested in land and construction. (Condition No.20).

Only the items in respect of which there are differences have been indicated in the above statement. Otherwise the procedures and the provisions broadly remain the same. These points of differences may now be examined. The first important point that is immediately noticeable is that the Maharashtra Society has adopted differential approach while the Gujerath
society has not. The differential approach pertains to the quantum of loan sanctioned, areas of the flat, the amount of loan instalments to be released and the rate of share capital investment. Further, the differential approach applies area-wise and also income-group-wise. It has imparted a certain degree of sophistication to the underlying considerations and has tended to make the conditions a conscious tool of policy. The conditions of the Gujerath Society are uniform in their application and these do not make distinction as between areas or income-groups. This has certain advantages from the point of view of having a simplified loan procedure. Secondly, the Gujerath Society has not prescribed any ceiling on the maximum amount which can be advanced to any society. It pari passu means that there is no indirect control on the physical size of the housing scheme, as was seen in the case of the Maharashtra Society's rules. Thirdly, the Gujerath Society does not link up individual incomes with the loan eligibilities of the societies, nor does it exclude members above a particular income-level while granting loans. Fourthly, the maximum loan permissible is slightly lower than the Maharashtra limit of Rs.27,000/- under the new conditions. Before May 1970, the Maharashtra limit was little lower, at Rs.24,000/- as compared to Rs.25,000/- of the Gujerath Society. Fifthly, the Gujerath society has a liberal provision of considering a flat or bungalow having a construction-cost of Rs.60,000/- against Rs.50,000/- of the Maharashtra Society. Sixthly, as regards
the flat area, the Gujerath Society has imposed a broad uniform limit of 225 sq.yds. in respect of the built-up area (i.e. about 2025 sq.ft.). Deducting a maximum of 25% or 500 sq. ft. approximately, we get a ceiling of 1500 sq.ft. for the carpet area. The Maharashtra Society has placed different ceiling of 750/1000/1500 sq.ft. Seventily, loans will be released according to Gujerath Society's rules, at the rate of 60% of the valuation, as compared to the disbursement in four instalments of the Maharashtra. (It may be mentioned that the latter society's mode of disbursement was broadly the same till May 1970. But the quantum was not necessarily 60%. It could be lower because the loan eligibilities ultimately depended upon the level of incomes of the individual members). Finally, the Gujerath Society collects share capital at the rate of 4 per cent of the amount of loan advanced. This rate has important implications. It proportionately reduces outlay on housing schemes - as compared to Maharashtra provisions. The collection of share capital at this rate, however, considerably falls below, the rate of 8.33 per cent necessary to create the self-generating borrowing capacity. The main reasons why the Gujerath Society appears to have held ground in this respect seem to be threefold:

(a) it has received munificent share capital contributions from the State Government to compensate for the lower rate of collection of share capital from the primaries;
(b) it also collects all the share capital at the rate of 4% before hand for all the amount to be released in future;

(c) a comparatively better recovery performance has also enabled it to plough back more amounts in fresh advances, contributing in their own way towards the generation of borrowing capacity, by proportionate additional collections of the Maharashtra Society the borrowing capacity will be self-propelled. On the whole, it may be correct to say that the various nuances described above have imparted considerable degree of sophistication to the policy and procedures followed by the Maharashtra Society.
<table>
<thead>
<tr>
<th>Chapter XII</th>
<th>Broad Procedure For The Grant Of Loans.</th>
<th>347 - 370</th>
</tr>
</thead>
<tbody>
<tr>
<td>XII.1</td>
<td>Introductory</td>
<td>347</td>
</tr>
<tr>
<td>XII.2</td>
<td>The Loan Application</td>
<td>347</td>
</tr>
<tr>
<td>XII.3</td>
<td>The Provisional Sanction</td>
<td>348</td>
</tr>
<tr>
<td>XII.4</td>
<td>The Certification Of Title To The Property</td>
<td>349</td>
</tr>
<tr>
<td>XII.5</td>
<td>The Request For Valuation</td>
<td>349</td>
</tr>
<tr>
<td>XII.6</td>
<td>The Final Sanction</td>
<td>350</td>
</tr>
<tr>
<td>XII.7</td>
<td>The Calculation Of The Amount To Be Released</td>
<td>351</td>
</tr>
<tr>
<td>XII.8</td>
<td>The Actual Release Of Instalments</td>
<td>352</td>
</tr>
<tr>
<td>XII.9</td>
<td>The Insurance</td>
<td>353</td>
</tr>
<tr>
<td>XII.10</td>
<td>The Accounting Part</td>
<td>353</td>
</tr>
<tr>
<td>XII.11</td>
<td>The Reconveyance</td>
<td>354</td>
</tr>
<tr>
<td>XII.12</td>
<td>Loaning Procedure Followed By The Madras Co-operative Central House Mortgage Society Ltd.</td>
<td>355</td>
</tr>
<tr>
<td>XII.13</td>
<td>Comparison Between The Procedures Followed In Maharashtra And Madras</td>
<td>364</td>
</tr>
</tbody>
</table>
CHAPTER XII.
BROAD PROCEDURE FOR THE GRANT OF LOANS.

XII.1 : Introductory :

After enumerating the conditions for grant of loans and examining their implications, the actual loaning procedure may now be mentioned. The examination of every individual aspect of the loaning procedure in details, has been made in the chapters which follow, as it is important for the study of the methodology. The broad procedure delineating the sequence of formalities has been mentioned below.

A co-operative housing society registered in the State of Maharashtra - if it has an intention to obtain a loan from the Finance Society - has first to apply for membership. The application should be accompanied by a resolution passed by the managing committee of the society for becoming a member and a remittance of Rs.500/- which is the face value of one fully paid-up share. (There is no separate entrance fee). The Board of Directors then pass a resolution admitting the applicant society as a member.

XII.2 : The Loan Application :

The application for loan from a society can be taken up for scrutiny, when it has been admitted as a member of the Finance Society. The loan application has to be made in the
prescribed form. It is priced at Rs.2/- per copy. The application is almost a self-contained document with a number of enclosures from A to N giving details about the housing scheme. These are to be correctly filled up. If the form is incomplete, the necessary information is called for from the applicant society.

XII.3: The Provisional Sanction:

If the loan application is complete, it is entered into the Register of Loan Applications, and after the scrutiny of the essentials, it is placed in the ensuing meeting of the Board of Directors for Provisional Sanction. Usually the provisional sanction is accorded for the full amount of the loan applied. (The relevance of this procedure is examined in the next chapter.) The enclosure to the letter communicating the provisional sanction mentions the detailed conditions subject to which the loan has been sanctioned.

The copy of the letter is addressed to the society and endorsed to an Advocate on the Panel of Finance Society requesting him to investigate the title of the society to the property proposed to be mortgaged.

After receiving the copy of the letter communicating the provisional sanction, the applicant society has to pass a resolution of its managing committee accepting the conditions of the loan and send it to the Finance Society.
It has also to make a remittance of Rs.2500/1500\textsuperscript{1} to the Finance Society, as deposit for defraying the expenses on account of the solicitors'/advocates' and architects' fees, i.e., for legal matters and valuations respectively.

XII.4 : The Certification Of Title
To The Property:

On receiving the copy of the letter of provisional sanction, originally addressed to the borrowing society, the solicitor/advocate sends a requisition in respect of which the information is required by him. They have to take search of the records relating to the land for at least 60 years, and if there is nothing objectionable, they have to certify that the borrowing society's title to the property is clear and marketable.

XII.5 : The Request For Valuation:

If the borrowing society has already commenced construction and has invested the prescribed 35\% of the scheme cost (30 per cent for societies from Thana; and 20 per cent for societies from other areas) in purchase of land and construction it can request the Finance Society to instruct its architect

\textsuperscript{1} Rs.2500/- for societies from Greater Bombay and Thana City and Rs.1500/- for societies from other areas of the State.
for the valuation of the property.

Normally, the Finance Society does not instruct the architect for valuation unless, the Title Certificate is received. However, if the society requests that valuation may be done at its risk and cost, such instructions are issued even before receiving the title certificate.

On receiving instructions from the Finance Society, the architect visits the site; takes the necessary measurements of the work done; sees the documents for the purchase of land; approved plans and estimates, commencement letter and obtains necessary information regarding the amounts collected from members and invested in the scheme. He then sends the valuation report to the Finance Society. The procedure of valuation takes place according to new rules normally for four times because the sanctioned loan is released in four instalments. The amount of loan to be released through each instalment has vital connection with each valuation.

XII. 6 : The Final Sanction:

When the title of the borrowing society to the property is certified by solicitor/advocate as clear and marketable and valuation report is received from the architect, the application is again taken up for detailed scrutiny - this time for the calculation of the amount of final sanction (and also of the first instalment to be released on the basis of the
valuation report). The loan section in the Finance Society ascertains whether the domicile and income certificates have been received in all the cases of members for whom the loan has been applied. For the domicile a resolution passed by the managing committee of the society to that effect is sufficient. Similarly for the incomes of members for whom loan applied is Rs.15,000/- or less, the managing committee of the society can likewise pass and send a resolution certifying the incomes. The loan eligibility is calculated according to present rules at 36 times the monthly incomes or Rs.27,000/- or 65 per cent/70 per cent or 80 per cent of the scheme-cost whichever is least - for every individual member. The total of such individual eligibilities is made for all the members and this becomes the eligibility of the society for the final sanction.

XII.7: The Calculation Of The Amount To Be Released:

On the basis of the first valuation report and with reference to the amount of final sanction calculated as above, the amount of the first instalment to be released is also calculated. The final sanction accorded to the society and the first instalment to be released are communicated in one and the same letter. According to procedure adopted with effect from 1-5-1970 the first instalment of 30 per cent of the sanctioned amount is to be released to societies from
Greater Bombay and Thana City, provided that the societies have collected and invested a minimum amount equal to 35 per cent of the scheme-cost in land and construction. The second instalment of 30 per cent, the third instalment of 30 per cent and the last instalment of 10 per cent are to be released on receiving valuation reports provided the societies have invested the amounts advanced earlier through each instalment. For the societies from the other areas of the State the four instalments in which the loan is released are 20 per cent; 30 per cent; 40 per cent and 10 per cent of the sanctioned amount. The last instalment is not released unless the occupation/completion certificate is received by the society.

XII.8 : The Actual Release Of Instalments :

On receiving the letter of final sanction, the Society has to fix up a date for execution of the mortgage deed with the Solicitor/Advocate. The cheque for first instalment is then sent to the solicitor/advocate who hands it over to the society only after it executes the necessary mortgage deed, and admits execution. The second and the third instalment cheques/drafts are sent to the society directly by Registered Post A.D. along with a printed receipt which the society has to return duly signed. Unless this receipt is returned by the society, the next instalment is not released to it. The cheque or draft for the last instalment is also not sent to it directly, but
is sent to the solicitor/advocate, who hands it over to
the borrowing society after it executes the final receipt.

The borrowing society has to purchase additional shares
in proportion to the loan amount drawn by it. The rate is
10 per cent for societies in Greater Bombay, Thana City and
Poona City and 5 to 6 per cent in other areas of the State.

XII.9 : The Insurance :

The borrowing society has to arrange for the insurance
of the property in mortgage with the Life Insurance Corporation.
The insurance has to be in the joint names of the Housing
Finance Society and the borrowing society for the amounts
communicated by the former. The amount of insurable value is
mentioned by the architects of the Housing Finance Society
in all their valuation reports. The risk covered is fire and
earthquake. It is obligatory on the borrowing society to
keep the mortgaged property duly insured during the currency
of loan.

XII.10 : The Accounting Part :

Every instalment disbursed to a borrowing society is
treated as a separate loan account. The rate of interest is
7.75% initially (on 30-6-1970). If a society repays four
consecutive quarterly equated instalments regularly in a year,
it gets 1/2% rebate. The repayment of the loan begins
immediately after three months from the date of the actual
drawal of the instalment. The equated instalment is Rs. 24.69 per thousand rupees per quarter for the interest rate of 7.75 per cent per annum. The loan is to be repaid in eighty quarterly equated instalments in 20 years. A society desiring to make advance repayments before the due date can do so by giving a notice. Such payments need to be in the multiple of thousands.

XII.11 : The Reconveyance :

If the borrowing societies repay the loan amount fully in advance the property in mortgage can be reconveyed. However, for tenant ownership type of societies where they have repaid only a part of the loan in advance even part of the property can be reconveyed to the society with Government permission. This is necessary in view of the provision of the floating charge deed executed by the Housing Finance Society. For tenant co-partnership society with vertical structure (number of flats in one building) there is no question of reconveyance of the part of the property.

When a borrowing society has fully repaid the loan amount and the interest thereon the property mortgaged to the Housing Finance Society can be reconveyed and similarly the share amounts contributed by it can also be refunded. The Bombay Co-operative Housing Finance Society Ltd. was established in 1952, and its assets and liabilities were transferred to the new Maharashtra Society. It is, therefore, clear that the
loans advanced in 1952 will complete the full 20 years' repayment period in 1972.

XII.12 : Loaning Procedure Followed By The Madras Co-operative Central House Mortgage Society Limited:

(a) Preliminary:

In Madras State also a two-tier structure exists. The Central House Mortgage Society serves as the apex and the primary house mortgage society serves as the second tier. In Maharashtra also the Co-operative Department has prepared the model bye-laws for the primary house mortgage societies, which will have a taluka as its area of operation. For cities having a population of one lakh and above a separate Primary House Mortgage Society may be registered. The object of the Primary Society will be to grant loans to individual members for the construction of a new house and repairs to, alterations of and additions to the existing house on the security of the mortgage of the property.

The Department has also framed conditions of loans which will be advanced to these primaries and are identical to those prepared by the Housing Finance Society and which have been studied in the last chapter. There are at present no plans to have a separate central house mortgage society to serve as an apex institution. On the other hand, these primary house mortgage societies will be affiliated to the Maharashtra Co-operative Housing Finance Society Ltd. for obtaining finance.
Although, model bye-laws of the primaries as also the conditions for grant of loan by them have been framed, the exact loaning procedure has yet to be prescribed. Since the Maharashtra Co-operative Housing Finance Society Ltd. has to continue as an apex society for the primary house mortgage societies all over the State of Maharashtra, it will be fruitful to study the procedure followed under the Madras pattern and note its salient characteristics. The loaning procedure of sanctioning of loan application at the level of the primary house mortgage society and that of the central house mortgage society is described broadly in the following para:

(b) Sanction Of Loans:

Any individual owning house or house site within the area of operations of a primary house mortgage society is eligible to become a member of the primary house-mortgage society and apply for loan for the purpose of (i) construction of new houses, (ii) repairs and improvements to the existing house and (iii) discharge of prior mortgage debts. A separate printed loan application form is prescribed for the purpose. The loan application form contains all details regarding the purpose of loan, property owned by the applicant, encumbrances over the property, income earned by the applicant, family budget of the applicant and his genealogy table etc. The loan application form after being filled up by the applicant is sent to the primary society along with all the relevant title
deeds of the house or house site owned by the applicant, certificates of income earned by the applicant and other certificates. If the loan is for construction purpose, a plan and estimate prepared by a qualified engineer and duly approved by the Municipality or Corporation as the case may be should be sent along with the loan application. Loan application for clearing prior mortgage debts, should be accompanied by a true copy of the mortgage bond executed by the applicant to his creditor.

For construction of a new house, a member is eligible for a loan upto 70% of the estimate of the proposed building plus the value of the site subject to a maximum of Rs.20,000/-. In the case of loan applications for making improvements and additions to the existing house, a member is eligible for a loan upto 50% of the value of the existing house subject to a maximum of Rs.10,000/-. In respect of loans for clearing prior mortgage debts, a member is eligible for a loan upto 50% of his house subject to a maximum of Rs.5,000/-. 

On receipt of loan application, the Secretary of the primary society scrutinises, whether the member has furnished all the relevant documents and then obtains an encumbrance certificate on the property of the applicant for a period of 13 years, prior to the date of the loan application. The loan application along with other documents and encumbrance certificates is then sent to the Legal Adviser of the primary
society who gives his detailed opinion about the applicant's title to the property. If the Legal Adviser gives his clearance about the applicant's title to the property, the Supervisor or the Secretary of the society inspects the building or site and gives his report in the form prescribed. Then the file is given to two Directors of the society called "Surveying Directors", who inspect the property and give their report of valuation of the property according to the rates of valuation prescribed by the Central Housing Mortgage Society. Thereafter the co-operative Sub-Registrar for house mortgage societies scrutinises the loan application, inspects the property and recommends the application in the form prescribed. Then the file is placed before the Board of Management of the primary house mortgage society for sanction of the loan to the member and also for applying for corresponding loan from the Central House Mortgage Society. The loan file with all enclosures is sent to the Central House Mortgage Society with an extract of the resolution passed by the committee of the primary house mortgage society applying for loan on behalf of the member. The Central House Mortgage Society after scrutinising the loan file in its office sends the file to its Legal Adviser for scrutinising the validity of the applicant's title to the property. After the applicant's title is passed by the Legal Adviser, the file is placed before the meeting of the Executive Committee of the Central House Mortgage Society for sanction.
While checking the loan application, emphasis is laid on the repaying capacity of the applicant. In order to assess the repaying capacity correctly, the family budget given by the applicant in the application form with all documentary evidences is checked carefully and the net income and repaying capacity are assessed and then only the loan is sanctioned. The following procedure is adopted in this regard:

(1) Loan is sanctioned to all members below 50 years of age, repayable in a period of 15 years, if the applicant has sufficient repaying capacity.

(2) If the age of the applicant exceeds 50 years and is below 55 years, loan is sanctioned repayable in a period of 10 years, if he has got sufficient repaying capacity accordingly.

(3) If the age of the applicant exceeds 55 years, no loan can be sanctioned to him. But if the applicant is able to secure a co-executant below 50 years of age with sufficient repaying capacity to execute the mortgage deed along with him, then the loan is sanctioned to him repayable in 16 years irrespective of his age.

(c) Disbursement Of Loan:

After sanction of the loan in the meeting of the Executive Committee, the loan sanction order is communicated to the primary house mortgage society with necessary conditions imposed on it along with the member's loan application. On receipt of the loan sanction order, the primary house mortgage society, arranges to get the mortgage deed duly executed by the applicant as specified in the loan sanction order and obtains a further encumbrance certificate from the last date
of the previous encumbrance certificate up to the date of registration of the mortgage deed. The primary society, after fulfilling all the conditions imposed in the loan sanction order sends back the file along with encumbrance certificate and mortgage bond to the Central House Mortgage Society for disbursement of loan. A fire insurance policy is also obtained on the property offered as mortgage for the loan. On receipt of the file, the Central House Mortgage Society, after due scrutiny disburses the loan amount to the primary house mortgage society as mentioned in the following paragraph.

If the loan is for clearing prior mortgage debts, a cheque for the full amount of loan is sent to the primary house mortgage society which passes on the amount directly to the creditor of the applicant and gets back the discharge bond from him. In the case of loans for construction of new houses and additions, the sanctioned loan is disbursed in three instalments: first 50%, second 40% and third and final 10% of the sanctioned loan amount according to the progress of construction work. The final instalment of 10% of loan is disbursed only after the completion of the building. The disbursement of the loan in instalments is made as recommended by the co-operative Sub-Registrar who has to satisfy himself whether the extra cost of the estimate over and above the loan sanctioned has been utilised in the construction of the building and whether the amount already drawn as first or second
instalment as the case may be, has been spent properly in the construction of the building. Before disbursement of the final instalment, the primary society will also obtain a fire insurance policy on the building and send it to the Central House Mortgage Society.

(d) Discharged Voucher Files:

After the loan is disbursed to the borrower, the primary house mortgage society sends the discharged vouchers along with the following documents to the Central House Mortgage Society for taking to locker for safe custody.

1) In respect of loans for discharge of prior debts, discharge endorsement on the promissory or mortgage deeds as the case may be, is obtained from the creditor and the signature of the borrower is also obtained under the discharge endorsement on the document for having discharged the loan in his presence as the loan amount is directly paid to the creditor by cheque in person. The attestation of the Secretary and the Treasurer of the primary house mortgage society are also obtained in the discharge endorsement on the document for having discharged the loan in their presence.

In respect of loans for new construction, additions and alterations, the certificate of the inspecting committee of primary house mortgage society is obtained to the effect that the amount was properly utilised for the purpose for which it was borrowed.
2) **Final Receipt**: Final receipt is obtained from the borrower for the total amount of the loan disbursed noting the date of payment and the amount of payment made to each creditor in respect of loan for discharge of prior debts and in cases of construction loans the date and amount of each instalment is noted in the final receipt.

3) **Primary Society Secretary’s Certificate**: A certificate of disbursement of loan is obtained from the Secretary of the primary house mortgage society to the effect that the loan amount sanctioned by Central House Mortgage Society on behalf of the member has been disbursed fully.

4) **Co-operative Sub-Registrar’s Certificate**: A certificate from the Co-operative Sub-Registrar for house mortgage societies is obtained to the effect that the discharged vouchers have been verified and the loan amount has been duly cancelled and filed in respect of loans for discharge of prior debts. In respect of loans for construction, additions etc., a certificate is obtained to the effect that the loan amount has been utilised by the borrower properly and fully in the construction of the building, and the building has been completed according to approved plan.

5) **Encumbrance Certificate**: A third encumbrance certificate is obtained and sent by the primary house mortgage society for a period of four months from the date of registration of mortgage deed in favour of the primary society. This
is intended to see that the property offered as security has not been alienated by the borrower after the execution of mortgage deed in favour of the primary society.

6) List of title deeds: A list of title deeds is prepared by the primary house mortgage society which contains full particulars of title deeds, mortgage bond, other documents etc., which are deposited with the Central House Mortgage Society under the equitable mortgage system by which the Central House Mortgage Society secures its claim over the hypotheca.

(e) Insurance Policy:

A fire insurance policy in the joint name of Mortgagor (Borrower) and Mortgagee (Primary House Mortgage Society) is obtained for the value of the mortgaged building less the value of the site noting the description of the property and the location.

On receipt of the above mentioned documents from the primary house mortgage society the same are checked in the office and clubbed with the loan file in which the mortgage deed, second encumbrance certificate and other certificates furnished for the drawal of the loan are kept. The original loan application of the member which will be sent back to the primary house mortgage society, along with the loan sanction order is also returned to the Central Society with the Discharged Voucher File. All the documents are attached together neatly.
After getting the orders of the Secretary for taking the file to the locker, it is put in a specially made cloth cover and kept in Godrej Almirah for safe custody in the Locker Room of the Society under double lock. The key of one lock is with the Assistant Secretary and the other one with the Manager of the Society. If any file is to be taken out of locker the permission of the Secretary has to be obtained. The physical verification of the files is also done once in a half year.

XII.13 : Comparison Between The Procedure Followed In Maharashtra And Madras :

The salient features and points of distinction and importance in respect of the procedures followed in the two States, may be summed up now :

(a) The loans from a primary house mortgage society in Madras cover the need of all such individuals who have to repair or alter their existing houses or do not want to join a flat-type society or even a tenant-ownership type society or of such individuals who can arrange for a plot of his own but wants a loan or who has to discharge a mortgage debt. This realm, therefore, represents one step of progress for the co-operative housing movement in Maharashtra.

(b) Many of the annexures to the loan application are similar in intent in both the States. In Madras, the genealogy table of the applicant is required. The genealogy table is not required in Maharashtra because the solicitors or advocates
on the panel attend to this and go to the root of the title to the property by taking the necessary search before they certify that it is both clear and marketable.

(c) In Madras the ceiling for loan for construction of a new house is 70 per cent of the cost of the land plus construction subject to Rs.20,000/-.

There is no differentiation as regards the quantum of loan to be sanctioned in different areas. In Maharashtra it is 36 times the monthly income, Rs.27,000/- or 65% or 70% or 80% of the cost whichever is least.

In Madras a loan upto 50% of the existing value or Rs.10,000/- can be granted for repairs and 50% of the value or Rs.5,000/- for the redemption of prior debt. In Maharashtra no provisions have been made so far (till September 1970) for such types of loan.

(d) In Madras the encumbrance certificate and the legal adviser's certificate are to be obtained a number of times.

At the level (i) First encumbrance certificate for
of Primary 13 years prior to the date of application is obtained.
House Mortgage Society

At the level (ii) Legal Adviser of the primary society has to give his opinion about the applicant's title to the property.

At the level (iii) Legal Adviser of the Central House Mortgage Society scrutinizes and passes the applicant's title to the property.
(iv) When the loan is sanctioned by the Central Society and the mortgage deed is being executed by the primary society, the second encumbrance certificate is obtained.

(v) A third encumbrance certificate is obtained by the primary society for a period of four months from the date of execution of the mortgage deed.

In Maharashtra the title to the property is certified by the panel solicitors/advocates usually once only. If there is a considerable time-lag between the date of the certification and the actual date of disbursement of loan a short search for the period is usually taken. However, in Maharashtra, the search of the record is taken for 60 years, and not for 13 years.

(e) In Madras the task of valuation of the property is entrusted to the Directors of the primary society who are called "Surveying Directors". The architects appointed by the Housing Finance Society on its panel, who are technically qualified people, do the valuation in Maharashtra. They have to certify that the work has been carried out in accordance with the plans approved by the competent authority. It appears that rules for valuation have been prescribed in Madras. In Maharashtra also the instruction of broad lines in accordance with the requirements of the rules and the formal report are given by the Finance Society. (Most of the valuers on the panel of Housing Society in Maharashtra are chartered architects.)
(f) In Madras the repaying capacity of the individual applicant is taken into consideration. This is inter-alia based on his family budget. A reference has been made to this 'consumption factor' in the earlier chapter. In Maharashtra only the income of a member is considered but not his expenditure nor the 'surplus' in the family budget, that can be utilised for repayment of loans.²

(g) In Madras no loan is sanctioned to an individual whose age exceeds 55. The repayment period is up to 10 years for individuals above 50; the maximum period of loan repayment is 15 years only. This distinction has not been considered while framing rules for House Mortgage Society in Maharashtra or in the general rules followed by the Housing Finance Society.³

(h) In Madras, for a construction of a house the sanctioned loan is disbursed in 3 instalments of 50%, 40% and 10%. In Maharashtra the sanctioned loan amount is disbursed in 4 instalments of 30%, 30%, 30% and 10% in Greater Bombay/Thana City and of 20%, 30%, 40% and 10% in other areas of the State.

-----------------------------

2. The importance of the "Consumption Factor" and the "Age Factor" has been discussed while examining the conditions 6 to 13 in Chapter XI.

3. ibid.
(i) In Madras the Co-operative Department comes in the picture:

a) after the surveying directors of the primary mortgage society have inspected the property. The co-operative Sub-Registrar for house-mortgage society, scrutinises the loan application, inspects the property and recommends the application in the form prescribed;

b) when the loan amount is fully disbursed, the Co-operative Sub-Registrar has to give a certificate that the discharged voucher file has been verified and the loan amount has been properly disbursed, that the amount has been properly utilised and that the original documents have been duly cancelled and filed in respect of the discharge of prior debts. In respect of construction, additions etc. he has to give a certificate that the loan amount is fully and properly utilised and that the construction is as per approved plans. Thus in inspecting the property and also certifying that the construction is as per approved plans he is seen to be performing a semi-technical job.

In Maharashtra when a loan application is received by Housing Finance Society, a letter is addressed to the concerned Deputy Registrar of the district, to communicate his objections
if any, within one month, for sanctioning the loan to the applicant society. Although the Maharashtra Co-operative Housing Finance Society Ltd. started functioning in 1960, this procedure came to be introduced in 1968. Hardly any Deputy Registrar communicates his objection. There is yet another instance when the Co-operative Department comes in picture with reference to the loaning procedure. A large number of housing societies had to be registered for the purpose of rehabilitation of the people affected by Fanesh flood disaster in Poona in 1961. The Collector of Poona granted land. The office of the Deputy Registrar registered the societies and scrutinised and forwarded the loan applications to the Housing Finance Society which grants 100 per cent finance subject to a maximum of Rs.10,000/- for every individual. This is more in the nature of a safeguard to ensure that only those enrolled as flood-affected should take benefit of finance.

It has been mentioned earlier that the Co-operative Department in Maharashtra has framed the 'model' bye-laws for house mortgage societies in the early half of 1970.\(^4\) The details regarding registration etc. of the primary house mortgage society have been described in the Chapter IV on 'The Maharashtra Pattern'.

---

\(^4\) The details regarding registration etc. of the primary house mortgage society have been described in the Chapter IV on 'The Maharashtra Pattern'.
formation of these schemes satisfy a long standing demand for financing individual plot-holders through a primary house mortgage society. However, finance for the redemption of earlier loans or for alterations or additions to the existing houses have not been considered at present. The Madras State has the two-tier structure in existence since 1959, and the loaning procedure followed by it has considerable relevance for the pattern of co-operative housing finance and its modulations in Maharashtra.
<table>
<thead>
<tr>
<th>Chapter XIII</th>
<th>The Provisional Sanction Of Loan</th>
<th>371 - 383</th>
</tr>
</thead>
<tbody>
<tr>
<td>XIII.1</td>
<td>Membership - A Primary Require-</td>
<td>371</td>
</tr>
<tr>
<td></td>
<td>ment</td>
<td></td>
</tr>
<tr>
<td>XIII.2</td>
<td>The Loan Application</td>
<td>371</td>
</tr>
<tr>
<td>XIII.3</td>
<td>Items which Can Be Deleted</td>
<td>374</td>
</tr>
<tr>
<td></td>
<td>Or Modified</td>
<td></td>
</tr>
<tr>
<td>XIII.4</td>
<td>The Preliminary Scrutiny</td>
<td>376</td>
</tr>
<tr>
<td>XIII.5</td>
<td>The Propriety Of Provisional</td>
<td>378</td>
</tr>
<tr>
<td></td>
<td>Sanction</td>
<td></td>
</tr>
<tr>
<td>XIII.6</td>
<td>Doing Away With The</td>
<td>380</td>
</tr>
<tr>
<td></td>
<td>Provisional Sanction</td>
<td></td>
</tr>
<tr>
<td>XIII.7</td>
<td>Other Necessary Concomitants</td>
<td>381</td>
</tr>
</tbody>
</table>
CHAPTER XIII.

THE PROVISIONAL SANCTION OF LOAN.

XIII.1: Membership - A Primary Requirement:

The borrowing co-operative housing society has to become a member of the Finance Society, before its loan application can be taken up for consideration of a sanction. If this application is complete and is accompanied by a remittance of Rs.500/- it is placed in the next meeting of the Board of Directors, for admitting the applicant society to membership.

The application for membership and the application for loan are not considered in the same meeting. The meetings are usually taken once every month. Thus, a period of about a month or so may pass between the date of enrolment as a member and the date of the first, i.e., provisional sanction. The borrowing societies would, therefore, do better to become the member of the Finance Society as early as practicable after registration. This will help reduce the time required for making the first disbursement of loan.

XIII.2: The Loan Application:

The application has to be in the prescribed form. The specimen of the Loan Application appears as Appendix 7. Broadly speaking it contains information on the following items:
Items 1 to 4: Name and address of a society, number and date of registration; whether enrolled as a member and type of society?

Items 4 to 8: Number of members of the society, number of members for whom loan is required; number of members owning land or building; and number of tenements, shops, garages or godowns proposed to be constructed.

Item 9: Particulars of the land (both free-hold and leasehold).

Items 10 & 11: Names of the Solicitors/Architects engaged by the society.

Item 12: Details regarding approval to the plans; commencement certificate and the Floor Space Index (F.S.I.).

Items 13 to 18: Particulars of the whole scheme: Estimated cost of buildings; number of buildings, number of floors and floor area; number of tenements; types of tenements; carpet area; estimated cost of construction of tenement/garages/shops; total cost of construction; cost per tenement; amount spent till the date of application; total cost of scheme; amounts collected from members; amount of loan required and its percentage to the total cost.

Items 19 to 22: Miscellaneous information. Details about the bye-laws, period for which the loan is required; the amounts deposited by promoters in the Bank account; whether property is affected by alignments laid down by Public
Authorities and betterment charges.

The concluding part of the loan application is a kind of a declaration on the part of the borrowing society to the effect that the information supplied in the loan application is correct and will form the basis for a contract between the borrowing society and the Finance Society. It further states that, in case, it is found that incorrect and misleading particulars are given by it, the Finance Society can terminate the contract notwithstanding anything contained in the mortgage deed, executed by the borrowing society. The application is to be signed by the Chairman of the Society. The statements to be enclosed with the loan application are to be signed by the authorised members of the managing committee of the society.

The main application is accompanied by sixteen enclosures from A to N. These broadly are: managing committee resolution for borrowing loan; Registration Certificate; list of members; names of members communicated to the Co-operative Department at the time of Registration; details of incomes of all members and the loan required by them, etc.; Conveyance Deed; site plans; building plans; detailed estimates; letter from local authority approving the plans; the commencement certificate; balance sheet etc.; bye-laws; extracts of bank accounts and domicile and income certificates.
The study of the loan application forms and discussions with the officials of the loan section in the Finance Society have revealed that certain items can altogether be deleted while certain other items can be suitably modified. These items broadly are as follows:

(i) **Appendix C-1**: It is a list of members whose names were communicated to the Assistant Registrar/Deputy Registrar of Co-operative Societies, duly certified by these officers and can be deleted. Formerly there was a condition that the **loanee members** should at least be equal to 80 per cent of the members whose names were communicated to the Assistant Registrar at the time of registration. Since this condition has been done away with, this appendix is not necessary.

(ii) There are two different types of forms of Appendix D, for tenant co-partnership (flat type) and tenant ownership (bungalow type) societies.

Appendix D forms the basis for sanctioning loans with reference to incomes of individual members etc. The borrowing societies require information about loans sanctioned in case of every member. If two copies are prescribed, one can be returned with the necessary entries regarding loans sanctioned in case of every individual. This will facilitate the work of the borrowing societies.
(iii) Appendix 'C': It requires details regarding occupation, domicile, annual income and address of each member. The actual certificates regarding income and domicile are to be submitted as required under Appendix N and can, therefore, be omitted from Appendix 'C'.

(iv) It is mentioned that Appendix F, i.e., approved site plans; appendix G, i.e., approved building plans; Appendix H, i.e., detailed estimates and specifications; Appendix H-1, i.e., estimate of each block, flat or bungalow should be submitted in triplicate. The Finance Society has to send one copy of each to the Architect on its panel and one is to be kept for its record. Only two copies instead of three will suffice.

(v) Appendix L: It requires three certified copies of the bye-laws. Only one will be sufficient.

(vi) Appendix N: Certified copy of the domicile of each member was necessary according to old rules. Under the new rules, the managing committee can certify regarding domicile by passing a resolution. A printed copy of the text of resolution will be of help to the borrowing societies. Such resolution can be passed in respect of the incomes of the members below the taxation limits, where the loan required is not more than Rs.15,000/-. 

(vii) From the main body of loan applications, certain items can be omitted, as these were needed under old conditions
which are now deleted, e.g., item 12(d), asking whether full F.S.I. has been utilised.

(viii) Certain other items such as 13(a), number of floors and floor area, (3) number of tenements on each floor, (g) type of tenements might be deleted, as these are not useful in calculating the eligibility or the quantum of loan.

(ix) While asking details about the cost involved for different components of the scheme, specific mention may be necessary for such items as internal roads, amenities etc. It is also experienced that in case of several loan applications all the items are not included while preparing estimates and this may result in less amount of loan being sanctioned. It will be advisable for the Finance Society to publish model estimates for the benefit of borrowing societies. This has not been done so far.

(x) The application form does not provide for details of loan schemes envisaging redemption of old mortgage debt/purchase of new building/societies formed by tenants by purchasing property from the landlord.

It would be clear that modifications or deletion etc. of the items in the loan application on the above lines would be helpful to the borrowing societies.

XIII.4 : The Preliminary Scrutiny :

On receipt of the loan application, it is entered in the Register of Loan Applications. The application for loan
is taken up for preliminary scrutiny if the applicant society has become a member of the Finance Society. It is always likely that the applicant society has not filled up the application form completely or that the various enclosures are not sent or are incomplete. The Finance Society has a cyclostyled letter which mentions the various items in respect of which compliance is usually wanting. On the first scrutiny, the items in respect of which complete information is sent are struck off, from this letter, and the items in respect of which information is incomplete are ticked. The borrowing society on receiving the letter has to comply in respect of the items ticked up in this way. No further action can be taken unless this compliance is made.

In the course of preliminary scrutiny, it is broadly seen as to whether the applicant society has enclosed all the required statements. However, detailed scrutiny of each statement is not made. Customarily, if the following items are complied with the loan application, it is kept before the Board of Directors for provisional sanction:

(i) the society has been admitted as member;
(ii) there is conveyance of the property in the name of the society;
(iii) the site plans and building plans are approved by the competent authorities.

The Board of Directors accord provisional sanction to the loan application. This sanction is for the amount applied
by the primary society. The letter communicating this sanction mentions the following:–

(a) that the loan is sanctioned for construction of flats/tenements on the particular survey number on the detailed conditions mentioned in the enclosure to the letter;

(b) that the sanctioned loan cannot be disbursed unless the Solicitors certify that the Society’s title to the property is clear and marketable;

(c) that the loans would be disbursed depending on the availability of funds from time to time;

(d) that the society should send a resolution passed by the managing committee, accepting the conditions for loan;

(e) that the documents and other papers should be given to the Solicitors/Advocates;

(f) that if the society has invested the requisite amount in the purchase of land and construction it should write to the Finance Society for sending its Architects for valuation;

(g) that the society should make a remittance of Rs.1,500/- to Rs.2,500/- for covering the bills of the Solicitors/Architects for legal and valuation work.

XIII.5 : The Propriety of Provisional Sanction:

The system of giving provisional sanction was introduced in May 1967. In past, loans were sanctioned at a flat rate of 60% per cent of the estimated costs, and only the final sanction was being communicated. This became necessary because the final sanction, according to revised rules, came to be linked up with incomes of individual members. This among other things entails scrutiny of income certificates. The
borrowing society may not be in a position to send all these certificates at the time of applying for loan. The provisional sanction may not wait for this and the society can send these before it requests the Finance Society for valuation/final sanction.

It is also pointed out that the Finance Society comes to know about the demand for loans and the pace at which its commitments are increasing because of the system of Provisional sanction. The other advantage of the system of Provisional Sanction is stated to be that it acts as a psychological boost for the members. The management of the Society can then press the members to make their contributions to the required extent. Finally, on the strength of the Provisional Sanction letter the primary societies can approach some agency like the District Central Bank for interim finance until it receives loan instalment from the Finance Society. (In practice, however, it is seen that such an agency requires a special 'No objection certificate' from the Finance Society.)

The provisional sanction, given for the entire amount applied, is in most cases different from the amount of final sanction, which is accorded with reference to the incomes of the beneficiary members. It became clear on examining the procedure, that the Finance Society sends this letter to communicate its willingness to advance loans on the conditions mentioned in the letter. It was, however, evident from the
discussions with the representatives of the primary societies that in some cases this procedure had the following effects:

(1) Where the management of the society has not comprehended thoroughly how the amount of final sanction is calculated, the provisional sanction creates complacency, and they do not collect the necessary amounts from members;

(2) The professionals who have promoted the co-operative society are prompt to advertise that the 'Government loan' has been sanctioned. If they have a programme of promoting several schemes as they usually have, sanction of loan in one case - provides a considerable bait for hooking members for other scheme.

XIII.6: Doing Away With The Provisional Sanction?

On carefully examining the entire loaning procedure it is felt that by effecting a little change, the Finance Society can think of doing away with the system of provisional sanction. (There is no system of Provisional Sanction in Gujarat and Madras in respect of the loans advanced by the apex housing finance societies.) This appears to be all the more possible in view of the new procedure of not releasing the first instalment unless the primary society has collected and invested fully the amount representing the difference between the entire scheme-cost and the loan sanctioned. The following steps appear necessary in this context:

(1) The primary society should submit the loan application complete in all respects, with all the enclosures and especially the income certificates. The Appendix 'D' on the
to the foreclosure procedure. The foreclosure society should
a better arrangement for marking the loan procedure known
that, however, emphasis that the finance society has

XIII, 17: Other Necessary Consequences

minimum

entire loan and for release of first overdraft can be done
valuation. When this is done, the final sanction for the
shares of contributions and request the Finance Society
collections from the members which are their proportionate
being done, the primary society can continue with the necessary
estimation of title takes about one or two months. While this is
society to join on the latter’s terms and cost. This involves
to instruct the solicitors to examine the title of the primary
He, 2,500/- to Rs, 5,000/- to the Finance Society, and request
what the application for membership, make a necessary deposit of
the title will have to be certified as clear. The society may
(2)
Before the first investment can be released, the
the estimated cost.

to the difference between the loan ticket to be sanctioned and
from members and invested in land and construction, amount equal
sanctioned to the members. The society will have to collect
society can have the correct idea of how much loan can be
allowed to be changed. If this form is properly filled, the
give the information on the final form and this should not be
basis of which the calculation of loan is calculated should
especially known, how the individual eligibility of loan is calculated with reference to incomes and other criteria, so that it will normally apply only for such amount of loan which can be sanctioned according to rules. This process can be helped by supplying with the loan application a brochure setting out an example which shows, by the use of hypothetical data, how the loan amount is sanctioned with reference to different criteria—like the cost of the flat and the incomes of individual members.

Similarly it appears necessary that the Finance Society should open branches at all the four divisional places in the State—initially. The staff at these places can give spot guidance to the primary societies; guide in the preparation of loan applications and make preliminary scrutiny. A rule may be made that no application would be entertained unless it is routed through the Branch Office. Although the Finance Society has opened branches at Nagpur and Aurangabad (for Viderbha and Marathwada regions), the primary societies still continue to send their applications directly to the Head Office. This has tended to make these branch offices as more or less information centres only without any real role being assigned to them in the loaning procedure. This has also increased the work at the Head Office without any measure of deconcentration.

The steps of opening branch offices and accepting loan applications through them only, may be coupled with measures
for delegating powers to branch managers in certain respects. For example, if the power to instruct the solicitors and the architects for investigation of title and valuation of property respectively is delegated to the branch manager, the sanction and disbursement of loan will be expedited.
<table>
<thead>
<tr>
<th>Chapter XIV</th>
<th>The Certification Of Title</th>
<th>384 - 422</th>
</tr>
</thead>
<tbody>
<tr>
<td>XIV.1</td>
<td>The Need For A Good Title</td>
<td>384</td>
</tr>
<tr>
<td>XIV.2</td>
<td>Instructions To Solicitors/Advocates</td>
<td>384</td>
</tr>
<tr>
<td>XIV.3</td>
<td>The Requisition</td>
<td>387</td>
</tr>
<tr>
<td>XIV.4</td>
<td>The Need For Legal Assistance</td>
<td>392</td>
</tr>
<tr>
<td>XIV.5</td>
<td>The Form Of Certificate</td>
<td>394</td>
</tr>
<tr>
<td>XIV.6</td>
<td>Time and Cost</td>
<td>395</td>
</tr>
<tr>
<td>XIV.7</td>
<td>The Number Of Solicitors/Advocates</td>
<td>397</td>
</tr>
<tr>
<td>XIV.8</td>
<td>The Legal Fees</td>
<td>399</td>
</tr>
<tr>
<td>XIV.9</td>
<td>A Lacuna</td>
<td>401</td>
</tr>
<tr>
<td>XIV.10</td>
<td>Some Other Important Points</td>
<td>402</td>
</tr>
<tr>
<td>XIV.11</td>
<td>Case Studies In Investigation of Titles</td>
<td>407</td>
</tr>
<tr>
<td>XIV.12</td>
<td>The Practices Followed By The Bombay State Co-operative Land Mortgage Bank Ltd.</td>
<td>418</td>
</tr>
</tbody>
</table>
CHAPTER XIV

THE CERTIFICATION OF TITLE

XIV.1: The Need For A Good Title:

The long-term finance, under study, is essentially a mortgage finance. The property in mortgage, constitutes security for advancing the loans. It is, therefore, natural, that the financing institution should see, that the mortgagor has a good title to the property. The Finance Society has prescribed in its conditions that loans would be advanced against the property with a clear and marketable title. This broadly means that the Vendor is the absolute owner of the property. It also means that the Vendor or the lessor has the right to sell or to lease out the land; that its sale or leasing out would be good in law and the interest in land can be transferred from the Vendor or the lessor to the purchaser or the lessee. The property, which is to be mortgaged, should be free from any encumbrance. This requirement, that the property should be unencumbered was in force from the beginning. However, in the new conditions, which became effective from 1st May 1970, it was provided that loans could be advanced for redeeming prior mortgages.

XIV.2: Instructions To Solicitors/Advocates:

The copy of letter, under which the first sanction is communicated to the society, is endorsed to the Solicitors/Advocates on the panel. This is the first intimation to him,
that the case of the society is entrusted to him for the investigation of the title of the purchaser society to the land which is to be mortgaged to the Finance Society. After the necessary investigations, he is to certify whether the title is clear and marketable. The same Solicitors/Advocates have also to draft the mortgage deed, and get it executed from the borrowing society, before handing over the cheque of the first instalment of loan to its representatives. He has also to get the necessary legal receipt executed in case of the last disbursement of loans.

The Finance Society has prescribed the procedure, which the Solicitors/Advocates have to follow and the books and records on which they should normally depend. These instructions are broadly as follows:

(1) The period of search should be 60 years;
(2) Records and documents on which search should be based normally are:
   a) Entries in the Revenue Record, with special reference to the Records of Rights and Diary of Mutation.
   b) Record in Sub-Registrar's Office with special reference to the entries in Index No.2.
   c) Original conveyances transferring the land from one party to the other during the period of 60 years to the date of the present owner of the land.
   d) Such other documents as Will, Partition-Deed, Testamentary documents, Court Records, Decrees.
etc. as may be necessary to establish the title of the parties, over the land, transferring it from one person to the other.

(3) Besides the scrutiny of the above documents, it is necessary, to specifically examine the following points:

a) whether the land is (i) free hold, (ii) Lease hold or (iii) granted by Government.

b) In case of free-hold land, whether the purchaser society has purchased the land from (i) Government (ii) Private Trust, (iii) Company, (iv) Individual.

c) In case of land purchased from Government whether any restrictions have been imposed on (i) transfer (ii) alienation or (iii) its disposal by any other mode.

d) In case of land from Trust, Companies and Firms whether their respective constitution allows the sale of the land.

e) In case of land purchased from individuals whether the Vendor has sold the self-acquired property or whether the land pertains to Joint Hindu Family; whether the title of each respective vendor is affected by the interest of the minor and if so, whether the orders of the Competent Court have been obtained.

f) In case of land belonging to Joint Hindu Family whether the vendor has obtained the land by subdivision. If so, whether partition deed has been obtained, and if so, whether it confers clear title on the vendor.

g) In case of lease-hold property, it may be necessary to examine the title of the lessor and also the
period of the lease granted. The Finance Society will not be in a position to grant loan against the leasehold property if the period of leasehold property is less than 50 years from the date of sanction of the loan. It will also have to be examined whether any restrictions have been imposed on the lessee prohibiting any transfer, creation of charge etc.

h) In case of agricultural land subjected to tenancy rules, it may have to be ascertained whether the Collector of the District has granted permission for sale of land and that Collector's Orders are obtained for N.A.

(4) The above suggestions and instructions are not complete and exhaustive. The Solicitors/Advocates on the Panel will have to look into further details, as may be required to ascertain the marketability of the title in accordance with the Law. They will have to get themselves satisfied that there are no antecedents that would defeat the title of the society to its property.

(5) After the investigations are completed and the Advocate is satisfied, he will have to issue a certificate stating that the title of the Society, to its property is clear and marketable. The Certificate should invariably be addressed to the Maharashtra Co-operative Housing Finance Society Ltd. Bombay and should contain the Schedule, giving the exact description of the property in respect of which the title has been certified.

XIV.3 : The Requisition:

When the solicitors/advocates are instructed by the Finance Society to investigate the title, they send a requisition to the
borrowing society. This is a long list of items in respect of which details pertaining to the property are to be furnished by the primary society. Whenever purchasers buy some property, the solicitors engaged by them, always obtain information in the form of "Purchasers' Requisition On The Vendors' Title". When they are instructed to investigate the title by the Finance Society, the only difference is that the Requisition is to be made on the Mortgagor's Title on behalf of the future Mortgagee i.e. the Finance Society. The items in a Requisition broadly refer to the following:

1. Correct survey, Hissa No. with plan - showing the demarcation of the land.

2. List of documents, traced in the Sub-Registrar's Office. These documents are to be produced. Reasons why they were not produced are to be given. Names and addresses of persons in whose custody the documents remain are to be furnished. Reasons why they are in possession of persons other than the purchaser society, are to be given. Similarly it is also to be confirmed that these are not deposited with any party for the purpose of creating a security and that they are free from any lien.

3. Any other documents, papers and proceedings including final orders passed by a Court, orders confirming sale, Sale Certificates issued by a Court - wherever applicable.

4. In case of lease-hold lands, whether the lease-rent has been paid upto date. Documentary evidence that the persons
concerned were really authorised to collect rent.

(5) In case of Kazi-Inam lands, sanction of the Collector under the Vatan Act 1874 for granting a lease.

(6) Death Certificates, if Vendor or lessor has died recently and the names of the heirs.

(7) Whether the property concerned was not at any time declared as an Evacuee property, and whether any one or more of the predecessors in title of the Vendor was declared an evacuee.

(8) How the persons concerned with the title during the search period died? Intestate or leaving a will? Will and/or Probate has to be produced.

(9) Certified copy of the order if any of the persons concerned was declared of unsound mind.

(10) Names of the other members, if the Vendor is a member of a Joint Hindu Family.

(11) Whether the property in investigation forms part of the property of the Joint Hindu Family.

(12) Certified copies of Record of Rights.

(13) Details regarding any charge, lien, mortgage writ, encumbrance, prejudicial circumstances, suit or legal proceedings, lease, tenancies, holding in relation to the property.

(14) Details about the persons in occupation and their interests and how vacant possession can be given.

(15) Details if any of the persons interested in property have been adjusted as insolvent.
(16) Notice issued by Municipality, local body, town planning authority, Notified area or Defence Committee, Public Body, Government of India and the State Government affecting the property.

(17) Particulars of all adverse claims; previous litigation, settlement, deed, act, omissions, judgement, crown debt, annuity, lispendence, bankruptcy, insolvency, or charges, prohibitory orders, under Income or Sales Tax, material defect, circumstances, easements, rights of common profits, restrictive covenants or rights affecting the property or preventing Vendor to sell the property.

(18) Bills and Receipts in respect of Municipal, Government and other dues and whatever property is attached.

(19) Tenure.

(20) Assessment, dues, duties, revenue and/or charges levied and leviable, paid and payable.

(21) Area, boundaries and Municipal, revenue, survey and hissa numbers.

(22) Set-back and set-forward in respect of the property.

(23) Consent, if necessary, concerned with the property.

(24) Interest or rights of the owners of the adjoining property, in the property under investigation.

(25) Details regarding road, foot-paths, sewers abutting the property, wires, cables, electric lighting, gas-pipes, drains affecting the property.
(26) Full particulars, if the property is affected by Rent Control Act.

(27) Necessary writing from each mortgagee, allowing the sale, if money is due on the equitable security of the property.

(28) If any of the persons concerned with property died on or after 15th October 1953, certificate from the Estate Duty Authorities that the duty has been duly paid.

(29) Permission:

a) of the Municipal Authority for sub-division and lay-out.

b) Collector - under the provisions of the Bombay Tenancy Agricultural Lands Act 1948. (Not necessary for T.P. Scheme).

c) for 'Non-Agriculture' permission under the provisions of the Maharashtra Land Revenue Code, 1966.

d) to sell under the provisions of the Maharashtra Agricultural Lands (Ceiling On Holdings) Act, 1961 and Bombay Prevention of Fragmentation and Consolidation of Holdings Act, 1947.

e) Permission of the Charity Commissioner under Section 36 of the Bombay Public Trust Act 1951.

(30) Resolution passed, for sale of the land, if the Vendor is a corporate organisation.

(31) Certificate under Section 230-A of the Income Tax Act, regarding clearance in respect of the tax dues. The Vendor's Vendor will also have to produce the same.
The discussions with the representatives of the primary societies revealed that they thought that the Requisition was too long and too complicated. As it is the points given above form only a summary. The actual requisition is much longer. Discussions with the representatives of Solicitors/Advocates made it clear that there cannot be a standard form of requisition, because the requirements will be different, depending on the nature of the property.

XIV.4 : The Need For Legal Assistance:

It can be easily seen that the office-bearers of a primary society cannot by themselves provide all the information required by the requisition. This will be more particularly so, if the members belong to backward classes or are uneducated. In either case, the primary societies will require competent legal assistance. The societies formed by the middle-class or the affluent people may be able to secure legal assistance by engaging lawyers internally and to pay their necessary fees. This may not be possible for societies formed by the economically weaker sections. A solution will have to be found out, however, to secure such legal assistance for them. One way is to get the title of the land examined from the Advocate/Solicitors on the panel of the Finance Society before it is purchased. The latter may entrust the work of investigation and certification of title to the same Advocate/Solicitor. This may have to be accompanied by the following measures:-
1) The panel of advocates will have to be expanded sufficiently - so as to have adequate number in every district;

2) Wide publicity will have to be given to the names of the advocates so appointed;

3) The scale of fees for certification of title will have to be fixed on a lower scale in cases where they had in past internally, invested the title for the borrowing society, when the land was purchased. (If this is not done the primary societies will have to bear a double burden of payment - firstly for internal work and secondly the full payment according to Finance Society's rules. This will defeat the purpose of the suggestion made above.)

Where the schemes have been initiated for the rehabilitation of those rendered homeless, because of some natural calamities like floods or earthquakes, the State Government can think of bearing the legal costs. In practice, the Finance Society has so far borne the costs on account of payments for solicitor's as well as architect's expenses (for valuation) for Poona Flood Societies. These expenses have run into several thousands of rupees. This scheme has, therefore, developed certain undertones of social housing (the societies not being required to bear these costs.) The Finance Society has, however, its own limitations. The State Government may, therefore, bear such expenses in case of relief-oriented schemes, as a routine practice.
XIV.5 : The Form Of Certificate :

When the investigation of title is complete, and the Solicitors/Advocates are satisfied, they issue certificate, regarding the title of the property. There is no prescribed form of this certificate. But it is usually of the following type :

Re : Loan to Govardhan Nagar Co-operative Housing Society Ltd.

and

Mortgage of property situated at Mulund bearing plot No. 235-A of Survey No.1000, at Kasturba Marg, Mulund.

This is to certify that we have investigated the title of the above society to its above property more particularly described in the Schedule hereunder written and we find that the title of the above society to the leasehold property described in the schedule hereunder written is marketable and free from encumbrances subject to the usual Declaration to be made by the Secretary of the Society at the time of the completion of the matter.

THE SCHEDULE HEREBIN-ABOVE REFERRED TO

All that piece or plot of the land or ground forming part of the Mulund Development Scheme situate lying and being at Mulund, Bombay 80, in the Registration Sub-District of Bandra District Bombay Suburban Taluka Kurla and being part of entry No. 1000 and bearing Plot No. 235-A of the Estate of Vijaya
Co-operative Housing Society Ltd., and containing by admeasurement 912.43 Sq.Yds. equal to about 763 Sq.Mts. or thereabout and bounded as follows :-

On the North by Plot No. 235-B on the estate of Vijaya Co-operative Housing Society Ltd.;
On the South by road;
On the East by plot No. 236-A of the Estate of the said Vijaya Co-operative Housing Society Ltd. and
On the West by the public road known as Kasturba Road.

(Solicitors)

XIV.6 : Time And Cost :

The Finance Society has also issued instructions to Solicitors/Advocates regarding the time allowed for certification of the title; execution of the mortgage deed and/or receipt. The instructions are broadly that :

a) the work of certification of title should be completed within 45 days from the date of receipt of the conveyance deed from the society. If more time is required, extension should be specifically asked from the Finance Society;

b) for solicitors from Bombay, if the bill of costs exceeds Rs.1,000/-, a copy of the detailed bill should be sent to the Finance Society for information.

In practice, however, it appears that in a number of cases the title was not certified in the prescribed time limit of 45 days.1 In such cases permission for extension of

1. This is clear from the findings of the Survey given in Chapter XXIII, Para 2331.3. vii
time-limit was also not sought from the Finance Society. The period of 45 days, however, starts from the date on which the primary society gave conveyance to the Solicitors. The Finance Society does not have the details of these dates. It, therefore, cannot have any check in this matter, unless the borrowing society itself complains about the delay.

This applies also to the bill of costs. The discussions with the representatives of the primary societies, as also the findings of the survey, show that in a large number of cases in Bombay, the bill of costs exceeded Rs.1,000/-, and most of the societies continued to pay these costs, with a view that the certification of the title and the execution of the mortgage deed should be completed as early as possible. The case study\(^2\) of a co-operative housing society has also brought this out. This procedure of the primary societies, directly paying the costs of the Solicitors, continued from the beginning,\(^3\) till the closure of 1970, i.e., for more than ten years. According to the present procedure the staff of the Finance Society scrutinises the bills received from the Solicitors/Advocates and makes payments to them from out of the amount deposited by the primary societies. The cost is borne by the latter.

2. Chapter XXI, Para XXI.10.
3. The Finance Society was registered on 15th August 1960.
In the State of Maharashtra the Solicitors are working in Bombay only, although they can undertake work from any area. Formerly, the work regarding the certification of title, execution of mortgage deed etc., was being attended to by the Solicitors only, for societies from all the areas of the State. The Finance Society, however, took steps to appoint advocates for work in the other areas of the State in 1967 following a popular demand. The Collectors of the different districts as well as the District and Session Judges were consulted confidentially in this regard and those advocates, whose names were recommended by them, were appointed on the Panel. This number has tended to grow steadily, depending normally on the increase in the loan cases from a particular district. The position as regarding the number of appointments and the number of borrowing societies was as shown below, on 30th Nov. 1970:

**STATEMENT XIV.1**

Solicitors/Advocates Appointed By The Maharashtra Co-operative Housing Finance Society Ltd.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>District</th>
<th>No. of Solicitors/Advocates</th>
<th>No. of Borrowing Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Greater Bombay</td>
<td>20</td>
<td>705</td>
</tr>
<tr>
<td>2</td>
<td>Thana</td>
<td>1</td>
<td>77</td>
</tr>
<tr>
<td>3</td>
<td>Nasik</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>Dhulia</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>Ratnagiri</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>District</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Jalgaon</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Kolaba</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Poona</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Sholapur</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Sangli</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Satara</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Ahmednagar</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Kolhapur</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Aurangabad</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Bhir</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Nanded</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Parbhani</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Osmanabad</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Nagpur</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Amraoti</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Yeotmal</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Akola</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Chandrapur</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Wardha</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Buldhana</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Bhandara</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>66</strong></td>
<td><strong>1055</strong></td>
</tr>
</tbody>
</table>

The information given above indicates that the Advocates have been appointed in all the districts except Bhandara. There were no borrowing societies in that district. However, an advocate can be appointed without much delay. The policy decision to appoint advocates at the district level was a very important step. It constituted a departure from the past practice of relying exclusively on the Solicitors from Bombay.
It was an important step towards decentralization of work. It has also appreciably reduced the time involved, as also the costs for the borrowing primaries, as the fees charged by the advocates were fixed at a lower level. There is also reduction in the out-of-pocket expenses involved in travelling from and to Bombay.

XIV.8 : The Legal Fees:

The two agencies which attend to the legal work involved in the dispensation of the long-term credit under study are: the Solicitors and the Advocates. The Finance Society has fixed the fees, which should be paid by the borrowing primaries. For the solicitors, the Board of Directors have made the following rules. Their bills should be paid in accordance with the High Court Rules subject to the following special rebate, being given to the borrowing societies:

1. **Under Own Scheme:**

   (1) 25% surcharge, levied according to the High Court Rules.

   (2)(a) 20% Rebate on the amount that remains after giving the surcharge rebate to the societies, where the quantum of loan is **less than** Rs.3 lacs (Three lacs).

   (b) 15% Rebate on the amount that remains after giving the surcharge rebate to the societies where the quantum of loan is **more than** Rs.3 lacs (Three lacs).
2. Mofussil Scheme:

(1) 25% surcharge levied according to the High Court Rules.

(2) 20% rebate on the amount that remains after giving the surcharge rebate to the societies.

Provided, however, the ceiling of the profit fees charged by the Solicitors will be limited to Rs.1,000/-.

Provided, however, the Solicitors be allowed to prepare a separate bill for the work done by them for rectifying the Title of borrowing society's property.

(ii) The legal fees incurred for the societies formed by the people affected by Panshet flood should be borne by the Finance Society.

(iii) The legal fees incurred for the societies formed by the Ex-Servicemen should be borne by the Finance Society.

(iv) For the Advocates, the maximum fee chargeable was fixed at Rs.400/- in the first instance, (Rs.250/- for investigation of title; Rs.150/- for preparation and execution of the mortgage deed at the time of advancing the first instalment of loan) and Rs.50/- for the preparation and execution of receipt at the time of subsequent disbursements of loan.

4. These scales were fixed by a resolution in the Board of Directors' Meeting of the Finance Society, held on March 16, 1963.
XIV.9 : A Lacuna :

It can be said that the Finance Society had taken steps to frame rules fixing the scales of fees as given above. However, in practice the primary societies were required to settle these bills directly. The Solicitors/Advocates recovered these bills from them directly. The Finance Society did not know whether these bills were prepared by them correctly or whether they have recovered amounts above the prescribed limits. In other words, the Finance Society had no control on the Solicitors/Advocates even if they over-charged, unless the borrowing societies complained against them. There are grounds to believe this and it is confirmed by discussions with the representatives of the primary societies that they refrained from complaining against the Solicitors/Advocates. They were afraid that if they complain against them the Solicitors/Advocates may raise some technical objection because of which the disbursement of loan might be delayed.5

Yet another aspect of this lacuna is the absence of publicity given by the Finance Society, during the period mentioned above, to the scales approved by it and according to which the primary societies should make payments to Solicitors/Advocates. With the knowledge of the approved scales the societies could perhaps face Solicitors/Advocates better, in case they charged excessive fees.

XIV.10: Some Other Important Points:

Generally it is accepted by all that there is a great need to be careful in dealing with property matters. This is all the more so for an agency, which has to advance loans on a large scale, on the security of the property in mortgage. The procedure on the above lines may became necessary as a matter of prudent finance, and abundant care. The discussion with the representatives of the primary societies, Solicitors/Advocates and the study of actual loan cases show that the following points merit attention:

(i) The period of search: The Finance Society has stipulated period of sixty years for investigating the title. There is no provision of law which requires that in the matter of sales and mortgages of immovable properties, the search of the record of the Sub-Registrar be taken for a particular number of years. How then was the period of sixty years decided upon? Whether even a sixty year's search is sufficient? Whether the rule of sixty years can be applied uniformly in all the cases?

A Solicitor's opinion in this case can be sited with advantage:

"It is true that the period of sixty years was fixed for taking search at the Sub-Registrar having regard to the provision in the Limitation Act, which allowed sixty years' time to the Mortgagor to release property mortgaged by him. The Limitation Act mainly deals with periods within which suits and other proceedings are
to be taken in a Court of Law. It has nothing to do with the investigation of title to an immovable property for which search is to be taken in the Sub-Registrar's Office. The period of search may vary in each individual case. In the case of lease granted by Government or Local Authorities, one does not go behind the date of the lease. Where the title is lost in antiquity, full search for 105 years (1865 to 1969) may even be necessary".

It had been represented to the Finance Society that a thirty years' search would be sufficient, in view of the following changes effected by the Limitation Act, 1963, which has come into force from 1-1-1964:

(a) The right of the Mortgagee to file a suit for recovery of the moneys for which originally limitation was sixty years is now reduced to twelve years.

(b) In case of a suit by a Mortgagee for foreclosure, the period of limitation is thirty years from the date when the money secured by the Mortgage becomes due.

The Finance Society referred the matter to other financing institutions and also to its Solicitors. The State Industrial and Investment Corporation of Maharashtra Ltd. informed that it agreed with the general practice adopted by its Solicitors, i.e. to conduct search for a period of 60 years. The Maharashtra State Financial Corporation informed: "The Solicitors and
advocates are following normal conveyancing practice and as such they insist a search for a period of years as may be required in each particular case depending on the root of the title". The Finance Society after considering all the legal opinions and details, decided to stick to the practice that was being followed by its Solicitors (i.e., of conducting search for 60 years).

It is experienced by the societies in mofussil areas that the records at the village level and even in the Sub-Registrar's office are not available or may not be complete. It is, therefore, difficult for the representatives of the Solicitors/Advocates to find them out, and investigate the title. The inevitable result is the delay in the certification by them. The responsibility for the delay is placed at the doors of the Finance Society. The primary societies which have already received the letter communicating the provisional sanction, find it incomprehensible that the first instalment of loan is delayed so much (for want of the certification of title). This leads to allegations, counter-allegations and misunderstanding.

A better course under the circumstances is that the borrowing society should get the title of the land duly investigated and certified internally at the time of purchase only. This work may be entrusted by them to Solicitors/Advocates on the panel of the Finance Society. The latter in its turn may entrust the case to the same Solicitors/Advocates only, for
investigation of title. This will reduce some costs for the borrowing societies because the Solicitors will not charge the full-fees when they have once investigated the title in past. This can be necessarily so, because when he investigates the title for the second time he will have to take only a short search of the record. The Finance Society should, however, take a policy decision to entrust this work to the same Solicitor/Advocate, who earlier investigated the title internally, for the borrowing society. Another important gain that will inevitably accrue to the primary society, and also the Finance Society is that the time between the date of giving the instructions to Solicitors for the investigation of Title and the date of actual certification by them will be reduced considerably.

(ii) Liability of the Solicitors/Advocates: What is the security for the Finance Society, if at some future date, some defect is noticed in the title and as a result it has to suffer a pecuniary loss? In fact, during the last ten years of its working no such occasion has arisen in reality. However, such a possibility cannot be wished away and may arise in future. In the process of expansion of the business of the Finance Society, it is required to expand its Panel by making appointments of several advocates on it. They are generally experienced and competent. But there is no agreement between the Finance Society and the Solicitors/Advocates mentioning the responsibility and liability of each of the parties. It was seen that the code of conduct of the Solicitors has been defined by
their Charter. (This appears to be similar to the provisions in the Charter for the Chartered Accountants). Even if it is accepted that according to these provisions some kind of punishment may be inflicted on the Solicitors, the Charter does not provide a basis, for indemnifying the Finance Society for any pecuniary losses, resulting out of their negligence or some lapse on their part. Further, there is no such charter applicable to the Advocates. An agreement with the Solicitors/Advocates appears to be absolutely necessary. The absence of such an agreement seems to be a lacuna in the administration of the finance under study.

In this context, a suggestion is also aired that the Finance Society should create a cell, within its organisation for attending to the work of investigation of title and execution of a mortgage deed. This will necessitate appointment of a trained staff for the purpose, in a sufficiently large number, so as to be able to attend to the loan cases of several societies from different parts of the State simultaneously. It appears logical that a large and an expanding organisation should have its own arrangement for attending to such work. A nucleus of an experienced, competent and a dependable complement of staff will be the sine qua non for such an arrangement. The borrowing societies may also welcome it for obvious reasons. Suitable scale of fees can be prescribed by the Finance Society.
XIV.11 : Case Studies in Investigation of Titles:

In most of the cases, where matters were referred to them, the Solicitors/Advocates have certified the title as clear and marketable. In some cases, however, they could not do so and suggested safeguards to protect the interest of the Finance Society. The Finance Society after prolonged deliberations and reference to the Co-operative Department/Government of Maharashtra, finally decided to advance loan. The process involved considerable difficulties and delays for the borrowing societies. The cases, therefore, make out a good material for a case-study which gives a glimpse of the technical requirements associated with the task of investigation of title. Three such cases are given below:

(i) Case Study No. I - Society Code No. 999:

This is a co-partnership type of society, situated in Khar - a suburb in Greater Bombay. The society had purchased a piece of free-hold land, for construction of flats for its members. The society applied for a loan for this purpose. Its application for loan was received by the Finance Society on 27-6-1968. On 17-7-1968, that is, within 20 days from the date of receiving the application, the Finance Society communicated the provisional sanction to the Society, endorsing a copy of its letter to the Solicitors on its Panel, instructing them to investigate the Title. The chronology of events after this
being important for the case study, is given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>17-07-1968</td>
<td>The Finance Society instructs Solicitors to investigate the title of the society to the land</td>
</tr>
<tr>
<td>23-07-1968</td>
<td>The society informs the Finance Society that the building was <em>firm</em> fast near completion; that funds were borrowed from non-members and bills of the contractors were pending and funds were needed urgently. It suggested that the case might be entrusted to other solicitors whose name was also suggested. (It transpired that the society was promoted by professionals. It further appears that they had sensed there were technical shortcomings in the purchaser society's title. Hence the suggestion for a change of the Solicitors)</td>
</tr>
<tr>
<td>27-07-1968</td>
<td>Case allotted by the Finance Society to other solicitors (not to the solicitor whose name was suggested by the applicant society.)</td>
</tr>
<tr>
<td>29-07-1968</td>
<td>The Solicitors write to the primary society to make available papers and fix up appointment.</td>
</tr>
<tr>
<td>24-04-1969</td>
<td>The Solicitors inform: &quot;<em>We</em> send herewith report on Title to the Mortgagor society's above property which we are unable to certify (for reasons recorded in the report.)&quot;</td>
</tr>
</tbody>
</table>
| 30-04-1969 | The Society wrote to the Finance Society "As you are aware, M/s ....... Solicitors have declined to certify our title to
the property situate at Khar, although
the same was certified by the other firms
of solicitors on your panel (?). We have,
therefore, to request you to forward our
case, to another firm of Solicitors, who
are on your panel so that our title to
the said property intended to be mortgaged
to the Finance Society can be reconsidered
and if necessary a counsel opinion be taken
so that the society has a full opportunity
of placing their case to their satisfaction

The Finance Society entrusted the case to
other solicitors on its panel. (Solicitors
changed for the second time.) The
Finance Society sent the report of the
earlier solicitors to the new solicitors
and instructed them to keep it in view.

The new Solicitors sent their report on
the Society's title to the property, the
relevant extracts from which were as
follows:

"A true copy of the accounts from the
books of accounts of the family business
relating to the purchase of the property
by them and the sale thereof ought to have
been annexed to the Declaration. Owing to
the absence of this and the absence of an
order of the Court a technical doubt arises
as to whether the sale was, in fact, effected
for legal necessity and/or for the purpose
of the family business. In view of this
technical doubt, we are not in a position to
certify the title of the society to be free
from reasonable doubt".

The Solicitors were, however, of the opinion
that if certain safeguards on the following
lines are adopted the title may be cured:

a) In view of the likely claims from the
minors, a deposit of Rs. 35,000/- in the
joint name of Attorney of the mortgagor
and mortgagee may be deposited by the
mortgagors for a period of 5 years.
b) An indemnity may be taken from the mortgagees against any claim of the minors;

c) An indemnity from the members of the society may be taken.

26-09-1969 The Finance Society again referred the matter to Solicitors enclasing the extracts of its bye-laws No. 96, which stated that Finance can be given on the security of immovable property with the permission of the Government.

29-09-1969 The Solicitors informed the Finance Society that with the safeguards recommended by them the advance to the Society can be protected.

08-10-1969 Board of Directors of the Finance Society resolved that the advice of the Government should be obtained as suggested by the Government nominee on the Board i.e. the Joint Registrar of Co-operative Societies, Maharashtra State, Poona.

10-10-1969 The Solicitors wrote to Finance Society that there were three mortgages outstanding against the property for Rs.1,00,000/-; Rs.39,000/- and Rs.49,000/-. 

25-10-1969 The Finance Society wrote to the Commissioner for Co-operation and Registrar, G.S., with a request to move the Legal Department of the Government to inform whether advance of loan would contravene the conditions of loans and the bye-laws of the Finance Society.

5. The text of Bye-law No. 96 of the Finance Society is as follows:

"The funds of the Society shall be utilised primarily for the purpose of granting loans or advances to Co-operative Housing societies registered in the State who are members of the Society on the security of immovable property or such other security"
23-01-1970 The Registrar Co-operative Societies wrote to Finance Society that the Government had informed that since it had its own Solicitors to advise on the title of land etc., it was entirely within its discretion to be satisfied about the title, with such safeguards as may be suggested by the Solicitors.

22-04-1970 The Finance Society informed the Solicitors that the Board had accepted their opinion. They were deducting Rs.35,000/- from out of the loan instalment to safeguard the interest of the Finance Society.

16-09-1970 First instalment of Rs.2,53,000/- was released to the Society after making necessary deductions.

(ii) Case Study No. II:
Society Code No. MM.181.

This is a tenant ownership type of a co-operative society. The land is situated in Mehroon village in the outskirts of Jalgaon City. The society wanted to construct bungalow-type dwelling houses for the members. On 4th Dec. 1967, the provisional sanction was communicated to the Society. On 9th Jan. 1968 the local advocate on the panel of the Finance Board may determine and on such terms and conditions as may from time to time be determined in accordance with these bye-laws, and with the previous approval of Government for the purposes of acquiring and developing lands for housing programmes.
Society was instructed by it to investigate the title. The chronology of the events after this date being important is reproduced below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>09-01-1968</td>
<td>The local advocate was instructed to investigate the title.</td>
</tr>
<tr>
<td>26-02-1968</td>
<td>The society informed the Manager of the Finance Society that the Advocate had asked for the following papers:</td>
</tr>
<tr>
<td>14-06-1968</td>
<td>The advocate informed that for the following two main reasons the title could not be certified as clear:</td>
</tr>
</tbody>
</table>

1. 7:12 extracts from 1950.
2. Mutation (कृपांकित) from 1950.
4. Details about tenants and any surrenders by them.
5. Sale deeds since 1950.
6. Land rent and charges in it since 1950.
7. Copy of the application at the entry No. 5572.

They further stated in the letter that the record for the period prior to 10 years was not available with the Talathi, and the papers before that could not be made available.

1) The land was purchased by the Vendor from a Partnership firm.
having 11 partners. Only one partner had signed the sale-deed. He had no implied authority to do it, in accordance with the Section 19 of the Indian Partnership Act and as in the absence of any usage or custom; or trade to the contrary, the implied authority of the partner does not empower him to transfer immovable property belonging to the firm;

2) Out of 11 partners, 4 were minors. Permission of the Court for effecting sale was not produced and, therefore, this transaction also appears illegal.

The title could, therefore, be attacked in the Court of Law. He, however, suggested certain safeguards to protect the interest of the Finance Society.

27-09-1968 The Finance Society informed the Society about the report of the Advocate.

21-12-1968 A Deed of Indemnity was executed by the partners of the Vendor firm. (It was seen from the enquiries that the Vendor firm was a professional dealer in the land.)

07-02-1969 The Finance Society enquired with the Advocate, whether the society had made out a clear and marketable title.

01-08-1969 The Advocate informed that the existing defects "though not completely cured appear to be protected by the Indemnity Bond and Consent Deed". Hence the title was certified as clear, marketable and free from reasonable doubts.

12-09-1969 The Board of Directors of the Finance Society resolved to advance loan in view of the Indemnity Bond and the consent deed. But the Advocate was requested to give opinion in view of the provision of Bye-law No. 96.

22-09-1969 The letter of final sanction of Rs.1,63,000/- and of the first instalment Rs.33,000/- was issued to the Society.

11-10-1969 Opinion of the Advocate was received (in reply to Finance Society's letter of 12-9-1969) that because 8 out of 11 partners have executed the Consent Deed the society has full ownership to the extent of 8/11th share in the property.

25-10-1969 Reference was made to the Registrar C.S., Poona in view of the provisions of Bye-law No. 96, with a view to move the Government to accord permission for grant of loan.

23-01-1970 The Registrar after consulting the Government informed that the Finance Society was competent to deal with the matter with the necessary safeguards.

04-04-1970 Cheque of Rs.33,000/- as the first instalment was released to the society.

(iii) Case Study III:
Society Code No. 207-MM.

This also was a society from Jalgaon. The relevant developments in its case were as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-03-1968</td>
<td>Provisional sanction letter sent to the Society and the Advocate also informed to investigate the title.</td>
</tr>
</tbody>
</table>
The primary society requests for the change of Advocate as he was using delaying methods.

Advocate changed as per request

Reminder issued to society to supply papers to the Advocate

The Society could not do this.

The title still remained uncertified. It was disclosed by the Advocate in the course of discussions that there was interest of a widow in the property and also the question of her maintenance. Unless this was settled or the widow was herself prepared to forego the claim the title could not be certified as clear and marketable.

(iv) Conclusions from the case-studies: The three case-studies given above lay bare the contours of the procedure and difficulties in investigating the title. The findings have been summarised and the deductions have been made in the following paras:

1) It was experienced by the Finance Society that when matters have been referred to the Government, for their opinion, as to whether loans should be granted in the particular cases, the latter did not assume any responsibility. The Government informed that the Finance Society was competent to deal in the matter. This was in the nature of a test-case and a precedent.
(2) Depending on the nature of a particular case, it was seen that although a title may not be absolutely clear and marketable, steps can be taken to cure the defects and to create safeguards for protecting the interest of the Finance Society.

(3) In both the first two cases the interest of the minors were involved. Similarly, absence of a copy of the accounts from the books of vendors, absence of a Court Order for effecting sale where minors were concerned; existence of earlier mortgages; absence of an authority from the partnership firm for the sale deed signed by only one of the partners were the main hindrances in the certification of titles.

(4) The time lag involved between the dates on which the instructions were first issued to solicitors/advocates and the dates on which the first instalment could be released was inordinately long in both the first two case-studies. It was 734 days in the case of the first society and 816 days in the case of the second society. In case of the third society, the title was never certified, and neither the society nor the advocate showed any follow-up of the case. The amount contributed by the individual members was, therefore, fruitlessly locked up for a long time.

(5) Besides the legal difficulties involved, there were other factors which also contributed to the overall delay.
These were:

(i) Delay in submission of their report by the solicitors (264 days for the first report of the first society; 121 days for the first report of the second society.)

(ii) The state of unpreparedness and absence of establishment approach to such cases as well as absence of any precedents or conventions for dealing with such cases, at the level of the Finance Society. This necessitated interpretation of Bye-law No.96, in the context of advancing loans; and reference to the Government through the Co-operative Department. The time-lag of 90 days was involved between the dates of actual reference to and clarification from the Government.

(iii) Absence of any follow-up action from the borrowing society (particularly). Paradoxically enough, where professionals are concerned from the promotion level they try to remove the technical obstacles, by getting indemnity bonds, declarations etc. executed and maintaining follow-up (clearly because their interest is at stake).

(6) It also became evident that although the Finance Society showed willingness to change the Solicitors/Advocate
a number of times, they could at best suggest safeguards for protecting the interest of the Finance Society, but could not certify the title as clear and marketable. Change of legal experts merely, cannot cure the defects.

XIV.12 : The Practices Followed By The Bombay State Co-operative Land Mortgage Bank Ltd. :

(i) Preliminary :

The Bombay State Co-operative Land Mortgage Bank Ltd. grants long-term loans for agriculture. This is an apex institution, with an area of operation, extending to all the 26 districts in the State. The primary land development banks in different districts are affiliated to it. The loans are granted to individuals, by the primary land development banks on the security of land. A mortgage deed is executed by the farmer in favour of the primary bank. This is re-assigned in favour of the State Land Mortgage Bank. Since this type of credit is also essentially a mortgage finance, it will be of interest to know, as to what procedure is followed in investigation of the title of the borrower to the land.

(ii) The Provisions In The Co-operative Societies' Act :

Under the Maharashtra Co-operative Societies' Act 1960 a separate chapter is included for the land development banks. It shows the importance of this form of organisation and the work done through it. Section 113, prescribes the "mode of
dealing with application of loans". The section is to be read with Rule 93 of the Maharashtra Co-operative Societies Rules 1961. The broad procedure for dealing with the loan applications is as follows:

(a) The enquiry into a loan application made to the primary land development bank is to be made by the Enquiry Officer appointed for the purpose. (Section 118(1)).

(b) The Enquiry Officer has to give a public notice of the application, calling upon the persons interested to present their objections to the loan, if any, in person at a time and place fixed therein. This notice published in the prescribed manner, shall be deemed to be a proper notice, to all persons having or claiming interest in the land to be offered as security for the loan. Rule 93(8) stipulates that the Public Enquiry Officer shall give at least 8 days public notice in form 'S' calling upon the persons interested to present objections. The notice shall be given by beat of drums and shall be affixed at the Chavadi. The copy of it is also to be affixed at the concerned office of the land development bank and the officer giving the notice. If the interested persons fail to appear, the questions will be decided in their absence and will
have no claim, till such time as the entire dues are paid in full by the loanees. (Section 118(1) and Rule 93(8)).

(c) The prescribed officer has to consider every objection submitted to him, and to make an order in writing either upholding or over-ruling it. If the officer feels that the objection is such as cannot be decided except by a Civil Court, he shall postpone the proceedings on the application until the question has been decided. (Section 118(2)).

(d) After the Enquiry Officer has completed the enquiry the application together with his report, shall be submitted with the certificates regarding outstanding Government dues, or any other relevant certificate (Rule 93(12)).

(e) The Bank has to satisfy that the enquiry has been properly conducted and get deficiencies removed. It has to pass final orders, within 30 days and to communicate decision to the applicant within 7 days thereafter. (Rule 93(13) and (14)).

(f) All the applications received by a Land Development Bank are to be disposed off within a maximum period of 4 months. A report is to be made to Registrar if it is unable to do so. (Rule 93(15)).
(g) Reasons for rejection are to be communicated by the Bank to the applicant. Similarly, sanction is to be communicated and the loanee is asked to remain present for the execution of the mortgage deed and for receiving first instalment, ordinarily within 15 days from the date of communicating the sanction. (Failure to comply time-limits does not affect validity of sanction given by the Land Development Bank.) (Rule 16 and 18).

Rule 93 of the Maharashtra Co-operative Societies' Rules 1961, spells out the procedure for submission and consideration of applications for loans, from Land Development Banks.

A glance at the provisions mentioned above, makes it clear, that an attempt has been made to simplify and streamline the procedure of dealing with loan applications; definite time limits have been prescribed and responsibilities fixed at all levels in that regard. A separate Chapter No. XI in the Maharashtra Co-operative Societies' Rules 1961, show that considerable importance has been attached by the Government to the operations of the Land Development Banks and the long-term credit dispensed by them. It may be mentioned here that in Madras State, there is separate Act for the Land Mortgage Banks.
(iii) Application of Rules To Co-operative Housing Sector:

One reason why such enquiry in relation to the examination of claims by interested persons are concerned is facilitated, is that the property in villages does not change hands as fast and as many times as it does in urban areas. Can the procedure be adopted in the sphere of co-operative housing credit, administered through the two-tier structure? For this two questions may have to be answered. Firstly, is housing shortage in rural areas to be regarded as important? Secondly, is co-operative housing to be regarded as the only possible solution in such a situation of shortage? If the answer to these questions are in the affirmative there is apparently much in the procedure adopted by Land Development Banks under the provisions of the Maharashtra Co-operative Societies Act, that can commend itself for adoption, mutatis mutandis, in the realm of long-term, co-operative housing credit, as far as investigation of title is concerned. In the urban areas, the sheer frequency of the sale of immovable property, may make investigation of title through a regular search of all the records for the required number of years. Considering the provisions of various Acts, etc., which such transactions may attract, the collection of information through a detailed requisition may also appear inevitable.
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>XIV</td>
<td>The Final Sanction Of Loan</td>
<td>423 - 449</td>
</tr>
<tr>
<td>XIV.1</td>
<td>The Preconditions</td>
<td>423</td>
</tr>
<tr>
<td>XIV.2</td>
<td>The Actual Calculations</td>
<td>424</td>
</tr>
<tr>
<td>XIV.3</td>
<td>Case Study No.1</td>
<td>431</td>
</tr>
<tr>
<td>XIV.4</td>
<td>Case Study No.2</td>
<td>432</td>
</tr>
<tr>
<td>XIV.5</td>
<td>Need For Inspection</td>
<td>437</td>
</tr>
<tr>
<td>XIV.6</td>
<td>The Timing Of The Inspection</td>
<td>439</td>
</tr>
<tr>
<td>XIV.7</td>
<td>Communication Of Final Sanction</td>
<td>440</td>
</tr>
<tr>
<td>XIV.8</td>
<td>The Evolution Of Final Sanction</td>
<td>443</td>
</tr>
<tr>
<td>XIV.9</td>
<td>The Difficulties</td>
<td>446</td>
</tr>
</tbody>
</table>
CHAPTER XV

THE FINAL SANCTION OF LOAN

XV.1: The Pre-conditions:

When the borrowing society receives the letter communicating the provisional sanction, it has to pass a resolution in its Managing Committee meeting that the conditions of loan are acceptable to it. The resolution is to be sent to the Finance Society. Secondly, the Solicitor/Advocate to whom the case of the Society has been entrusted has to certify the title as clear and marketable, after the necessary investigations. Finally, the primary society, which has started the construction work and invested the members' contribution in it, has to request the Finance Society, to depute its Architect for valuation. The Architect, having been instructed, in the matter, has to submit his valuation report to the Finance Society after visiting the site. If these three items are complied, the file of the Society is taken up for calculating the amount of final sanction, as also the amount of first instalment to be released to the society.

The procedure inevitably requires a little more time. As is seen in Chapter XIII relating to the Provisional Sanction, this time-lag can be reduced if:

(a) the societies, which have applied for membership of the
Finance Society, themselves remit a further deposit of Rs.2500/1500, and request it to get the title to the property examined at its risk and cost.

(b) By doing away with the system of Provisional Sanction.

This means that the Finance Society should give the final sanction straightaway, as was being done in past, i.e., before 1967. The second measure will have a salutory effect in considerably reducing the paper work at the level of the Finance Society (giving sanction once instead of twice; avoidance of cross references for compliances etc.).

XV.2: The Actual Calculations:

However, the procedure in calculating the amount of final sanction needs to be studied. The information compiled in Appendix D of the loan application forms the basis for such calculations. The procedure is to calculate the eligibility of the individual member first, and then to take the total of such individual eligibilities. This total becomes the amount of final sanction to be given to the Society. But how is the eligibility of each individual calculated? It is calculated according to the following formula:

1. Rs.2500/= for the societies situated in Bombay and Thana City and Rs.1500/= for the societies situated in other areas of the State.
(a) 36 times the monthly income of the members; or
(b) 80%/70%/65% of the scheme cost according to the area in which the society is situated; or
(c) Rs. 27,000/- whichever is least.

This can be made clearer by working out a schematic example as show below:

**Statement XV.1**

**Calculation Of The Amount Of Final Sanction**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the member</th>
<th>Annual Income</th>
<th>3 times the annual income</th>
<th>Scheme cost of a bungalow (including the cost of land)</th>
<th>80% of the scheme cost</th>
<th>Loan for which one is eligible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>4,500</td>
<td>13,500</td>
<td>40,000</td>
<td>32,000</td>
<td>13,500</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
<td>8,000</td>
<td>24,000</td>
<td>40,000</td>
<td>32,000</td>
<td>24,000</td>
</tr>
<tr>
<td>3</td>
<td>C</td>
<td>10,000</td>
<td>30,000</td>
<td>40,000</td>
<td>32,000</td>
<td>27,000</td>
</tr>
<tr>
<td>4</td>
<td>D</td>
<td>6,000</td>
<td>18,000</td>
<td>40,000</td>
<td>32,000</td>
<td>18,000</td>
</tr>
<tr>
<td>5</td>
<td>E</td>
<td>5,500</td>
<td>16,500</td>
<td>40,000</td>
<td>32,000</td>
<td>16,500</td>
</tr>
<tr>
<td>6</td>
<td>F</td>
<td>7,900</td>
<td>22,700</td>
<td>40,000</td>
<td>32,000</td>
<td>22,700</td>
</tr>
<tr>
<td>7</td>
<td>G</td>
<td>11,000</td>
<td>33,000</td>
<td>40,000</td>
<td>32,000</td>
<td>27,000</td>
</tr>
<tr>
<td>8</td>
<td>H</td>
<td>24,500</td>
<td>73,500</td>
<td>40,000</td>
<td>32,000</td>
<td>Not eligible*</td>
</tr>
<tr>
<td>9</td>
<td>I</td>
<td>9,000</td>
<td>27,000</td>
<td>40,000</td>
<td>32,000</td>
<td>27,000</td>
</tr>
<tr>
<td>10</td>
<td>J</td>
<td>7,400</td>
<td>22,200</td>
<td>40,000</td>
<td>32,000</td>
<td>22,200</td>
</tr>
</tbody>
</table>

Total 1,97,900

or spy 1,97,900

* Income of the member exceeds Rs.24,000/- per annum. Hence he is not eligible for any loan.
In the hypothetical example worked out above, the final loan amount sanctioned to the Society would be Rs.1,97,000/= (rounded up to the next lower thousand).

While calculating the amount of Final sanction, the following rudimentary things are to be borne in mind:

(a) Need For A Domicile:

Every individual member for whom the loan is applied, must have a clear domicile of ten years in the State of Maharashtra. (The condition is relaxed only in case of those members of the borrowing societies who are employees of the Central Government, or its undertakings; are transferable in different States; but have an intention to settle down in the State of Maharashtra).

In past the original certificates duly signed by Justice of Peace; M.L.A./M.L.C., Gazetted Officer, Honorary Magistrate, were required to be produced, in case of every member, for whom the loan was applied. The printed form in which the domicile certificate is usually issued by the Presidency Magistrate was not acceptable to the Finance Society, because it did not mention the period of 10 years. In the revised conditions of loans, introduced with effect from May 1970, the Finance Society simplified its requirements. Now, the resolution passed by the Managing Committee of the borrowing society, certifying that the members mentioned have such a domicile of 10 years is sufficient.
The Finance Society also provides the specimen form of such a resolution along with the printed loan application. Discussions with the representatives of the Primary Societies have shown that this measure was an important step in simplifying and rationalising the loaning procedure.

(b) **Ceiling On Construction Cost**:

If the construction cost of a Flat or a bungalow including the cost of land exceeds Rs. 50,000/- no loan can be sanctioned to such a member. This rule seems to have been made to ensure that the institutional finance does not help the construction of costly or luxurious flats.

In Gujarat the construction-cost permitted by the Finance Society is Rs. 60,000/- and in West Bengal it is Rs. 1 lakh. There is thus no uniformity in the approach adopted by different Finance Societies in the country. Since the issue of fixing up a ceiling for the construction cost, where concessional institutional finance is to be availed of has social undertones, it will be advantageous, to have a national level policy in this behalf. The National Building Organisation, the Central Building Research Institute, Roorkee and the Town and Country Planning Organization, New Delhi can help in evolving areawise criteria and standards in this regard.
(c) **Ceiling On The Income**:  

Where the income of an individual member exceeds Rs.24,000/- per year, no loan can be sanctioned to him. Here also the underlying intention is to restrict the use of finance to beneficiaries with incomes below Rs.24,000/- per annum. This again is in accordance with the findings and the recommendations of the Committee on Co-operation (Mirdha Committee) appointed by the Government of India. The findings of the Survey of the income groups of the beneficiaries mentioned in Chapter XXI show that nearly 95 per cent of them, fall in the low and middle income groups.

There is no such restriction on the income level of the individual members of the borrowing society in the rules framed by the Gujarat Finance Society. In fact the loan eligibilities are not linked up with the incomes. These are calculated at a flat percentage of the scheme-cost. This has rendered the loaning procedure of the Gujarat Society immensely easier. On the other hand, the linking up of loan eligibilities basically with incomes subject to other ceilings has imparted sophistication to the loaning procedure of the Maharashtra Society.

(d) **The Proof Of Income**:

The primary borrowing society has to produce a proof

---

of incomes by submitting the income certificates of the individual members. According to present rates:

i) for employed people, the salary certificate from the employer is necessary;

ii) for income derived from agriculture, the certificate from the Revenue Mamlatdar is necessary;

iii) for income derived from business, Income Tax Assessment Order or Income Tax Return, certified by Income Tax authorities is necessary;

iv) if the loan required in case of a member is upto Rs.15,000/= only, the resolution passed by the Managing Committee of the borrowing society certifying the income, is accepted. This has some important implications. It means that whatever may be the source of income and whatever the actual income (of course, below Rs.2,000/= per month) if the loan required for an individual member is Rs.1,500/= or less, the resolution passed by the borrowing society as regards the actual income is sufficient.

The last condition has inevitable effect of simplifying and facilitating the loaning procedure. But then the procedure may also be conducive for the malpractices of the professionals in the housing construction line. A professional may start construction on his own, promote a society by enrolling his own puppet members initially and apply for loan showing them as members in the loan application. The Managing Committee is also formed and controlled almost entirely by these puppets. A
resolution may be passed showing some income against each of the members and also keeping the demand for loan within Rs.15,000/= for each of them. The clear intention is to get the loan sanctioned and released; complete the construction and at a latter stage earn profits by selling away the flats to outsiders.

The Finance Society has no machinery to verify, nor would it be physically possible for it to ascertain, whether the primary society has correctly certified the incomes. It is a clear situation where the Finance Society finds that its desire to simplify the loaning procedure and its inability to control certain malpractices have to subsist side by side.

In past for incomes below Rs.450/= per month (i.e. for incomes normally below the then taxable limits), a self-declaration by the individual member, certified by a Gazetted Officer, M.L.A., M.L.C., Honorary Magistrate, J.P., was accepted. The self-declaration was not necessarily on a stamp paper. It was on plain papers and in different forms - which were not at all uniform. It was seen that this facility for self-declarations was being mis-utilised - although prima facie the records might appear perfect and conforming to the procedural requirements. A few cases of loan applications may be cited with advantage in this connection.
IV.3 : Case Study No. 1 :

This is a tenant co-partnership type of a society, situated in Juhu area of Bombay. It was registered on 27-7-1962. An application for loan was received on 5.4.1965 by the Finance Society. The loan amounting to Rs.2,10,000/- was sanctioned on 10-6-1966, for the construction of flats for 18 members. It was seen from Appendix D giving details about individual members, that for most of them, the annual income was shown at Rs.4,800/=. A more interesting thing was noticed about these individuals, who have shown their income of less than Rs.400/- per month, was that some of them were well-known film actors, actresses and those connected with film industry. It is inconceivable that these luminaries had monthly income as low as Rs.400/- or even less. The incomes shown were clearly false. Another interesting thing disclosed during the course of discussions with a consultant who was closely associated with the builders/promoters was that some of the film-actresses had their other flats in posh localities in Bombay proper. They did not utilise the flats in the society (under study) on all the days in a week. They visited these flats at the week-ends, stayed there for a night or two and went back to the city on the next day. The flats for which the loans were advanced can, therefore, be described as "Week-end Flats".
Code No. 998
Society

This is a tenant co-partnership type of a society. It is situated in Bombay suburb, near Vikroli Bambkhana. The society was registered on 5-4-1965. The application for loan was received by the Finance society on 27-6-68. A total loan of Rs.15,88,000/- was sanctioned to the primary society provisionally on 10-7-68 for the construction of 2 buildings of 150 flats. The analysis of Appendix D, which forms the basis for granting the final sanction, showed that out of 90 members for whom information was sent initially, 37 were ladies. The occupation of many of them was shown to be household duties. It was seen that all the members had incomes ranging between Rs.330/- to Rs.400/- per month. Since this was below Rs.400/- there was no need to produce original income certificates. It is an important thing to note that even though more than 6 years have passed after the registration of the society, the construction work has not been completed. Only columns and slabs for all the floors have been completed and the work has been suspended at least from about May 1969 as could be seen from the valuation report. The valuation report received from the Architects of the Finance Society revealed that the society had invested Rs.1,35,000/- less in construction than the amount of Rs.12,71,180/-, which represented Rs.6,29,180/- collected from members plus Rs.6,42,000/- advanced by the Finance Society. Obviously the funds were diverted to some illegitimate use other than construction.
An enquiry into associate matters, therefore, became necessary. It was seen that a professional builder promoted one society (Code No.943) in the same area. This society submitted a loan application for five buildings consisting of 180 flats, collected money from 101 persons and submitted information only for 79 initially. However, very big pieces of land, quite disproportionate to the size of this membership were purchased. It appears that the clear intention behind such a big purchase was to make large profits by selling the surplus land. On careful scrutiny of the Conveyance Deed it was seen that originally the land was purchased by Code No.943 society at Rs.22/- per square yard, for a total amount of Rs.11,97,000/-. The original vendor had sold this land at Rs.11/- per square yard i.e. for Rs.5,72,000/-. But the price was increased to Rs.22/- per square yard by joining three confirming parties (i.e. intermediaries). The first confirming party increased the rate from Rs.11/- to Rs.16/- per square yard and the cost to Rs.8,32,000/-, increasing it by Rs.2,60,000/-. The second confirming party did not increase the rate. Our professional builder was the third confirming party and obtained an additional price of Rs.3,65,000/- increasing the rate from Rs.16/- to Rs.22/- per square yard and cost from Rs.8,32,000/- to Rs.11,97,000/-.

For selling away the surplus land, the promoter builder organised two more societies, to which the lands were sold
by the parent (Code No. 943) society at still higher rates.

The land deals may be explained schematically:

<table>
<thead>
<tr>
<th>Deal No.</th>
<th>Particulars</th>
<th>Per Square Yard Rate</th>
<th>Area</th>
<th>Amount</th>
<th>Profit in every deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vendor sold the land to the 1st confirming party</td>
<td>Rs. 11.00</td>
<td>52,000</td>
<td>Rs. 5,72,000</td>
<td>--</td>
</tr>
<tr>
<td>2</td>
<td>The 1st confirming party agrees to sell to the 2nd confirming party</td>
<td>Rs. 16.00</td>
<td>52,000</td>
<td>Rs. 8,32,000</td>
<td>Rs. 2,60,000</td>
</tr>
<tr>
<td>3</td>
<td>Second confirming party agrees to sell the land to the third confirming party</td>
<td>Rs. 16.00</td>
<td>52,000</td>
<td>Rs. 8,32,000</td>
<td>--</td>
</tr>
<tr>
<td>4</td>
<td>Third confirming party sells to the Code No.943 society</td>
<td>Rs. 23.00</td>
<td>52,000</td>
<td>Rs. 11,97,000</td>
<td>Rs. 3,65,000</td>
</tr>
<tr>
<td>5</td>
<td>Code No.943 Society sells to Code No. 998 Society</td>
<td>Rs. 30.5</td>
<td>10,960</td>
<td>Rs. 4,00,000</td>
<td>Rs. 1,58,880</td>
</tr>
<tr>
<td>6</td>
<td>Code No.943 Society sells to Code No. 1101 Society</td>
<td>Rs. 45.7</td>
<td>12,618</td>
<td>Rs. 5,77,000</td>
<td>Rs. 2,99,404</td>
</tr>
</tbody>
</table>

The total increase in cost as a result of the association of different parties in the land deal was, therefore, Rs.10,83,284/=.
The professional builder was interested in obtaining a construction contract for all these three units. The construction contract for all the three units could not be for less than Rs.53 lakhs.

The application for loan from Code No. 943 Society was received on 30-10-67. A loan was sanctioned on 21-11-68, for constructing 236 flats. The construction was carried out till the level of R.C.C. columns and slabs and was suspended from about May 1969.

Similarly the application for loan from Code No.1101 Society was received on 5-9-1969. A loan was sanctioned on 12-9-69, for constructing 116 flats. The construction was carried out till the plinth level and was suspended from about February 1970. The members of this society are the workers from a renowned foreign pharmaceutical concern. The society ran in heavy arrears. The Finance Society after giving the necessary notice initiated auction proceedings, which are in progress. During the course of discussions, the office bearers orally represented that the builder-promoter made huge profits in land deal and by securing contracts. He collected 'on' money from the members by representing that he had to make underhand payments to Municipal Corporation and Financing Bodies. He also obtained signatures of the Secretary on a blank piece of paper, which he was not prepared to part with. He was
prepared to part with that paper and hand over possession of the incomplete construction on the payment of Rs.60,000/-, which according to him was payable by the society. The fate of the members in securing their flats appears to be gloomy and uncertain, unless the Co-operative Department and the Finance Society act in unison in a determined bid to retrieve normalcy. Two conclusions follow logically. First that the promoters/professionals can 'cook up' all the details regarding incomes, flats owned by the members in any other society or in its areas of operation etc. necessary to ensure paper compliance of the rules of the Finance Society for the express purpose of obtaining finance by hook or crook. They have no moral scruples and the only compelling urge is to secure quick gains to the detriment of the interest of a large body of innocent members. Second, that the facility of concessional co-operative finance, in some cases, reaches that affluent section of the community where it is least required although on paper the compliances are perfect.

IV.5: Need For Inspection:

It has been mentioned earlier that after the receipt of the Title Certificate and the First Valuation Report, the case of the society is taken up for according the final sanction and also sanction for the release of the first instalment. On completion of the documents, the cheque is handed over to the
society. The analysis of the procedure has shown that there is no built-in-safeguard for the inspection of the working of the society before the first instalment is released. The Finance Society certainly obtains the Valuation Report from its Architects. This Report, however, more or less limits itself to physical inspection. This may at best be a guarantee for the security in the form of property already constructed and is no substitute for administrative inspection just mentioned. As soon as the application is received, the Finance Society writes to the District Deputy Registrar to communicate to it if there is any objection in sanctioning the loan to the Society. On review of the cases it was seen that in almost all the cases the Deputy Registrars had not replied to such letters. Even if they reply that they have no objection, it does not guarantee satisfactory working of the primary society. Its detailed full-fledged inspection by the Finance Society before the first instalment is released, appears to be necessary. Such inspection may inter alia cover the following items:

a) whether the membership is genuine or whether there is a large incidence of 'dummy' or spurious membership;

b) the interest of the promoters in the land deal;

c) the interest of the promoters in the contract for construction;

d) the interest of the promoters in flats;
e) whether proper collections have been made from the members as their contributions; whether these have been correctly accounted for and duly invested as has been represented to the Finance Society;

f) whether proper contractual arrangements have been made with the contractors and whether these are being observed;

g) whether the society has appointed its own internal architect and whether payments are made to the contractor on the basis of his report; whether retention money is being kept at a percentage stipulated in the contract; (This will be a safeguard against the contractor or bad workmanship).

h) whether the General Meetings of the Society are being called and held properly and regularly according to rules; whether the General Meeting has inter alia -

(i) resolved unanimously to apply for loan and accept liability on that account.

(ii) elected the managing committee properly and have authorised it to deal with the loan case.

i) whether the meetings of the Managing Committee of the Society are being called and held properly and regularly according to rules; whether the Managing Committee has inter alia -

(i) properly elected the office-bearers and have authorised them to do the needful according to rules for obtaining the loan and to sign all the necessary papers and documents;
(ii) properly resolved to accept the conditions of loans communicated by the Finance Society with the letter of provisional sanction;

j) whether there are changes in membership - with reference to the names communicated earlier to the Finance Society and on the basis of which the loan was sanctioned provisionally.

XV.6 : The Timing Of The Inspection :

When should the inspection be taken? It can be said with some justification and on legal grounds that before undertaking inspection, the primary societies should have accepted the conditions of loans, sent along with the letter communicating the provisional sanction. Condition number in the annexture to this letter stipulates that the Finance Society will have such authority for inspection. It would, therefore, be logical to conduct such inspection only after receiving the resolution of the Managing Committee of the primary society, accepting the conditions. This may, however, be too early, as the society might not have made any progress in construction nor made collection of amount from members fully (for the provisional sanction - these things are not necessary). The better time, therefore, appears to be to take up inspection after receiving the first valuation report. This will give an opportunity to the Finance Society to ascertain whether the information given to its Architects by the borrowing society was correct. It
will also help to exercise indirect control on the Architects - in drafting their valuation reports - with reference to which some of the items on the inspection may have to be verified.

XV.7 : Communication Of Final Sanction :

When the application and the various appendices and certificates regarding domicile and incomes; the title certificate as also the valuation report are scrutinised and the amounts of final sanction and the first instalment to be released are calculated, the case is placed before the Board of Directors for consideration of sanction. If the Board accords its approval, a letter communicating final sanction and the first instalment to be released to the society is issued. The letter is addressed to the Solicitors/Advocates, appointed on the Panel, and to whom the case of the society is entrusted. The contents of the letter are mostly instructions for Solicitors/Advocates and are broadly as follows:

1) The amount of the final sanction and the amount of the first instalment to be released from out of this on the basis of the valuation report;
2) A request to the Solicitors to ensure that -
   a) the society has a complete and unencumbered ownership of the property to be mortgaged;
   b) there has been no change in ownership after the investigation of the title;
c) no dispute has been raised in connection with the property;

d) in case of a previous charge on the property the society has liquidated the charge and has the reconveyance in its own name;

3) The solicitors should get the first legal mortgage executed from the borrowing society;

4) The date on which the mortgage deed is to be executed should be communicated to the Finance Society, so as to enable it to send a cheque;

5) It should be ascertained that the property valued by the Architect is the property that is being mortgaged (A copy of the valuation report is sent with the letter);

6) The rate of interest, the amount of quarterly equated instalment, the additional shares which the society will have to purchase, the amount to be insured and the amount of insurance premium;

7) The deduction on account of shares, insurance premium is to be made at source, and the balance amount is to be sent by a cheque. However, the receipt is to be got executed for the entire amount.

The letter is accompanied by a form of application for additional amount of shares.

The copy of the letter is endorsed to the borrowing society, with a request to approach the Solicitors/Advocates, for obtaining the loan instalment and also a request to it to send the copy of its Managing Committee resolution for the
purchase of additional shares.

The contents of the letter show that these almost
totally pertain to instructions to solicitors for the release
of the first instalment. It does not contain such vital details
as the number of flats for which the loan has been sanctioned,
and the percentage of loan sanctioned as against the permissible
limits of 65/70/80 per cent of the cost. It also does not give
information about the number of members for whom loan is not
sanctioned and the reason for that. To this extent the borrowing
societies remain in dark. Further, where the amount of final
loan sanctioned is much less than the amount of provisional
sanction, the reaction of the primary society is that of a
surprise. This lacuna in the procedure can be removed if the
copies of Appendix D⁴ are obtained in duplicate from the
concerned societies. This appendix gives details of all the
individual members. Some more columns such as 'amount finally
sanctioned by the Finance Society' and 'the reasons for not
sanctioning the loan' should be added. These details can be
filled up and a copy of the Appendix D returned to the Society
along with the letter of the final sanction. Such a procedure
will avoid further correspondence, help to develop a correct
approach on the part of the borrowing primary to the loan case

---

⁴ Specimen of the Loan Application Form: Appendix 7.
and reduce the visits of the representatives of the primaries to the Finance Society for clarifications.

**XV.8 : The Evolution Of Final Sanction :**

The study of the conditions of loan of the Finance Society and the loaning procedure, existing at different times have shown the following three different stages of evolution in the process of according the final sanction :-

(a) When there was no system of provisional sanction, the final sanction was being accorded at a flat rate of 60/80 per cent of the estimated cost of the housing scheme. This was prior to 1967. The first instalment was being released after the society had collected and invested the amount equal to 40/20 per cent of the estimated cost of the scheme (according to the area in which it was situated), and had brought the construction at least up to plinth level.

The system was very simple and, therefore, did not require much time for scrutiny of loan application, as the calculation of the amount to be sanctioned was at a flat rate of 60/80 per cent of the scheme cost. Its limitation was, however, that it did not calculate the amount to be sanctioned with reference to the repayment capacity of the individual members, as reflected in their incomes. Further, where the land was very costly, the construction could not be brought up to plinth level, within the 40/20 per cent amount collected from
members. In essence, therefore, some additional amount had to be initially inducted to bring the construction up to plinth level. In the alternative the contractor had to work on his own, and to bring the construction up to that level, as required by the Finance Society.

(b) In the second stage, which started from 1967, the system of provisional sanction was introduced. After the society has accepted the conditions of loan, the amount of final sanction was calculated. This was done after the title certificate and the first valuation report was received.

More important thing to be noted in this connection is that the amount to be finally sanctioned was linked up with the incomes of the individual members, subject to certain ceilings - like 60 per cent of the cost of flat etc. The amount of final sanction was the total of loan eligibilities of individual members calculated on the basis of their incomes and subject to these ceilings.

As stated earlier, the linking up of final sanction with these criteria introduced an element of sophistication in the processing of the loan-case. In a more general sense, some scientific basis came to be provided for calculating the loan eligibilities, because incomes could be said to some extent, a reflection of the repayment capacity of the individual beneficiary members.
(c) The third stage came to be evolved with the introduction of the new conditions with effect from 1-5-1970 and is still in force. Under these conditions all the nuances mentioned under stage two, were retained. Similarly, the amount of final sanction and the amount of the first instalment, are being communicated at one time, through one letter, as under stage 2. With reference to the latter an additional condition was imposed that the society would be required to collect from members and actually invest in the scheme in advance, amount equal to the difference between the (finally) sanctioned amount and the scheme cost. The first instalment of loan is not to be released unless this is done.

This system has the merit to ensure that adequate funds are collected by the borrowing society. This amount collected by the borrowing society from the members plus the loan to be disbursed by the Finance Society would be equal to the estimated scheme cost and would enable the borrowing society to complete the scheme. In past when money was not being collected from members to the extent of loan sanctioned and the scheme cost and invested in advance, the members in many cases backed out and the scheme remained incomplete, for several years, (adding to the misery of those who had invested their money). The present system also exercises certain checks on the professional promoters. Even if he 'floats' a society and submits an

5. A word often used by professional promoters.
application with the 'dummy' members, the final sanction will not be communicated to his society nor the final instalment released unless amount equal to the difference between the sanctioned amount and the scheme-cost is collected and invested in advance. This new condition can, therefore, be described as a right step towards making the scheme of housing finance 'fool-proof'.

XV.9 : The Difficulties :

There are certain difficulties in applying the new condition. These were mentioned in the course of discussion with the staff of the Finance Society.

The society which applies for loan does not calculate the amount of loan that would be sanctioned to it. (This is more particularly true of societies from mofussil and rural areas). It, therefore, does not know the amount of difference (popularly known as 'gap') between the sanctioned loan and the scheme cost. In essence, therefore, it does not know the amount that it should collect from members and invest in advance before it can qualify itself for communication of final sanction and release of first instalment. This in many cases adds to the correspondence between the borrowing society and the financing institution. This inevitably also increases the time lag between the date of application and the date of release of first instalment. A more rational system appears to
be under the new rules to do away the system of provisional sanction and introduce the procedure suggested in Chapter XIII.

There are some other aspects of the loaning procedure which are not properly attended to by the borrowing primaries. In many cases they do not probably comprehend the implications of these. A few such aspects which add to the time-lag and involve additional work may be mentioned.

(a) Incorrect Estimates Of Scheme-Cost:

The borrowing societies are not careful about the estimates. This is really the work of their internal architects. But it was seen that estimates were not carefully prepared and several important items were excluded.\(^6\)

In some cases the estimate for construction is made at a lower rate per cubic foot - giving a lesser overall estimated cost. The final sanction amount is also based on that. The Finance Society does not consider revision of the loan sanctioned even if rates of construction have gone high. In such cases, therefore, where the construction has continued for a very long time and the rates of actual construction have increased considerably as compared to the estimated rates, the societies have to suffer. The architects of the Finance Society, while valuing the property always stick to low old rates given at the

---

time of application for loan, irrespective of the actual rates of construction at the time of valuation. Representations have been made to the Finance Society and it was also mentioned in the discussion by representatives of primary societies while conducting survey that the Finance Society should consider the cases for granting increased loans where passage of time has increased the cost of the scheme, as compared to the estimates prepared at the time of loan application. It was pointed out that it would be unrealistic to stick to old estimates. This aspect has been more particularly dealt with in Chapter XVI on "The Valuations".

The Finance Society can avoid such situations by creating a competent machinery for guidance of the primary societies and for processing the loan application before it is submitted for final sanction. Conditions more propitious for such an arrangement can be created if the Finance Society associates itself with the primary society from the stage of its promotion on the lines of the HSB in Sweden.\(^7\) If this is done, there will be a greater identity of interest between the borrowing and the lending institutions.

(b) The Income Certificates:

The borrowing societies are not careful in submitting the income certificates of all the individual members, whose

---

\(^7\) Discussed in Para XX. 2.
names are shown in Appendix D at the time of submitting the application to the Finance Society. These are not submitted at one time, but at different times. The sponsors of these societies are, however, in a hurry to draw the first instalment and want the Finance Society to accord sanction on the basis of certificates already submitted. This necessitates revision of the loan amount from time to time. Every revision of loan means executing a further charge deed which requires signatures of the office-bearers. In case of tenant-ownership type of societies, this becomes all the more troublesome, because execution of such further charge-deed/rectification deed requires signatures of all the individual members as co-mortgagors. It is difficult to get all the members together at one time, for execution of the deed and for admission to the office of the sub-registrars. More such revisions means more inconvenience and trouble. (This has been more particularly discussed in Para XVII.10.0.)

The Finance Society can have a system suggested in Chapter XIII, under which the application will be so carefully prepared before it is submitted to it for consideration that it would not normally require any revision in the finally sanctioned amount.
<table>
<thead>
<tr>
<th>Chapter XVI</th>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>XVI.1</td>
<td>The Importance of Valuation</td>
<td>450 - 499</td>
<td></td>
</tr>
<tr>
<td>XVI.2</td>
<td>Conditions of Loan Governing Valuation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XVI.3</td>
<td>The Appointment of Architects</td>
<td>452</td>
<td></td>
</tr>
<tr>
<td>XVI.4</td>
<td>Guidelines for the Architects</td>
<td>455</td>
<td></td>
</tr>
<tr>
<td>XVI.5</td>
<td>Some Pre-requisites</td>
<td>462</td>
<td></td>
</tr>
<tr>
<td>XVI.6</td>
<td>Request for Valuation</td>
<td>462</td>
<td></td>
</tr>
<tr>
<td>XVI.7</td>
<td>Procedure Followed by the Architects</td>
<td>465</td>
<td></td>
</tr>
<tr>
<td>XVI.8</td>
<td>Arriving at the Valuation</td>
<td>466</td>
<td></td>
</tr>
<tr>
<td>XVI.9</td>
<td>Scrutiny of the Valuation Report</td>
<td>467</td>
<td></td>
</tr>
<tr>
<td>XVI.10</td>
<td>Scrutiny According to Old Rules</td>
<td>468</td>
<td></td>
</tr>
<tr>
<td>XVI.11</td>
<td>How Many Valuations?</td>
<td>471</td>
<td></td>
</tr>
<tr>
<td>XVI.12</td>
<td>Some Important Implications</td>
<td>476</td>
<td></td>
</tr>
<tr>
<td>XVI.13</td>
<td>Procedure Under the New Rules?</td>
<td>477</td>
<td></td>
</tr>
<tr>
<td>XVI.14</td>
<td>Difficulties for Bungalow Type Societies</td>
<td>479</td>
<td></td>
</tr>
<tr>
<td>XVI.15</td>
<td>Further Valuations</td>
<td>481</td>
<td></td>
</tr>
<tr>
<td>XVI.16</td>
<td>The Agency for Valuation</td>
<td>482</td>
<td></td>
</tr>
<tr>
<td>XVI.17</td>
<td>Fees Charged by the Architects</td>
<td>484</td>
<td></td>
</tr>
<tr>
<td>XVI.18</td>
<td>Difficulties in Valuation</td>
<td>486</td>
<td></td>
</tr>
<tr>
<td>XVI.19</td>
<td>Considering Increase in Scheme Cost</td>
<td>495</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER XVI

THE VALUATIONS

XVI.1: The Importance of Valuation:

The valuation of the property is one of the most important components of the methodology of the long-term finance under study.

As the very words connote, it is the estimate regarding the value of the property. This estimate has to be made by the experts in the line. The architects are the professional experts, who attend to the work of valuation entrusted to them, by the Finance Society. For the latter, the valuation of the property is important from the following points of view: -

1) It forms the basis for determining the quantum of finance to be released in relation to the progress of construction;
2) It has to point out, whether the amount collected from the members has been invested in the implementation of the project;
3) It has to mention further that the amount of loan drawn from the Finance institution has been invested in the implementation of the housing scheme;
4) It must point out whether the construction carried out is in accordance with the plans approved by the competent authority and the minor variations, if any, are likely to be approved by the authority.
5) For an institution not engaging its departmental staff for valuation, it is a third-party certification regarding the correctness or otherwise of the work carried out;

6) It has to indicate whether the actual outlays on any particular components of the scheme, such as land cost, occupancy price, construction cost are reasonable or not.

7) It should also mention whether the estimates prepared by the society and sent with the loan applications are correctly drawn up and whether they are too high or low.

XVI.2: Conditions of Loan Governing The Valuation:

Valuation of the property to be mortgaged is to be made by the valuer appointed by the Finance Society. (Condition No. 23 of the conditions For Loans). Costs on account of architect's fees are to be borne by the borrowing society. The architect's or valuation fees are to be as per rates prescribed by the Finance Society. Travelling and out-of-pocket expenses, if any, are recovered, in addition, from the borrowing societies. (Condition No. 21). The amount of out-of-pocket expenses is shown separately in the bill sent to Finance Society which pays it after due scrutiny and the approval by the Board. Initially before the letter for first valuation
is written by the Finance Society, a sum of Rs.1500/2500\(^1\) has to be deposited in advance to meet valuation and other charges. (Condition No. 23). After the completion of the scheme, when the last instalment is released to the borrowing society, on the basis of final valuation, the balance amount standing to the credit of the society is refunded. However, if the housing scheme is big, the valuation amount is considerable, and the deposit of Rs.1500/2500 is insufficient, to cover the charges of valuation, etc., additional amount is demanded from the borrowing society, as may be necessary from time to time.

XVI.3 : The Appointment Of Architects :

For the purpose of valuation, the Finance Society has appointed 64 architects (persons/firms) on its panel. Conditions regarding appointment, such as qualifications and experience, have been prescribed. These broadly are :-

1) The applicant architect should be a Chartered Architect and should have experience of at least 5 years/service on the panel of institutions of repute, or

2) He should be a retired Executive Engineer with 5 years' service as Executive Engineer or a retired Superintending Engineer of the State or Central Government, or

-------------------------------------------------------------------------------------

1. Rs.2500/- by societies from Greater Bombay and City of Thana; and Rs.1500/- by societies from other areas.
3) An Engineering Graduate with additional qualifications of architects having an experience of at least 5 years' service as a valuer for institutions with long standing and reputation.

Formerly, the work of valuation of societies situated in different parts of the State was being attended to by the Architects from Bombay. This added to the valuation costs, because the valuers included the travelling and out-of-pocket expenses in their bills, which, in the ultimate analysis, are paid by the borrowing society. There was another disadvantage also. Considerable time was required to fix up appointment with the Valuers, either through correspondence or through personal contact. The situation has, however, changed now — especially since 1967, when the Finance Society took the decision to appoint architects practically in every district. This was a correct decision and can be mentioned as one of the measures adopted by the Finance Society for the benefit of the borrowing primaries. This has also saved time and cost for the latter.

Is the number appointed in different district adequate? For this purpose, it will be necessary to view the number of valuers appointed in different areas with reference to the number of borrowing societies. The statement given below shows the position in this behalf:
<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>District</th>
<th>No. of Valuers appointed</th>
<th>No. of Borrowing Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Greater Bombay</td>
<td>32</td>
<td>705</td>
</tr>
<tr>
<td>2</td>
<td>Thana</td>
<td>1</td>
<td>77</td>
</tr>
<tr>
<td>3</td>
<td>Nasik</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>Dhubia</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>Ratnagiri</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>Jalgaon</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>Alibag</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>Poona</td>
<td>4</td>
<td>99</td>
</tr>
<tr>
<td>9</td>
<td>Sholapur</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Sangli</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>11</td>
<td>Satara</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>12</td>
<td>Ahmednagar</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>13</td>
<td>Kolhapur</td>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td>14</td>
<td>Aurangabad</td>
<td>2</td>
<td>23</td>
</tr>
<tr>
<td>15</td>
<td>Bhir</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>16</td>
<td>Nanded</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>17</td>
<td>Parbhani</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>18</td>
<td>Osmanabad</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>19</td>
<td>Nagpur</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>Amraoti</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>21</td>
<td>Yeotmal</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>22</td>
<td>Akola</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>23</td>
<td>Chandrapur</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>24</td>
<td>Wardha</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>Buldana</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>26</td>
<td>Bhandara</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
It may not be desirable to draw any further conclusions on the basis of the figures in the above statement for more than one reason. The Finance Society was registered in 1960-61 and the borrowing societies mentioned in Col. No. 4 obtained loan from that year. On the other hand, the decision to appoint valuers at district places was implemented from about 1967. It is also likely that in some districts, where there have been no additions to the number of borrowing societies - especially since 1967 - the new architects appointed might not have attended to valuation work of many societies. Similarly, in districts like Poona, a large number of societies were organised for persons affected by flood and their valuations in the first spurt of advances, by the Finance Society, were made by the architects from Bombay.

It was, however, clear from discussions, that the management of the Finance Society was willing to appoint additional valuers, wherever necessary. Similarly, cases of societies from one area can be entrusted to an architect from other area where circumstances so demand. This has introduced considerable flexibility in the approach of the management to the advantage of the borrowing societies.

XVI.4 : Guidelines For The Architects :

As in the case of solicitors, the Finance Society, has issued instructions to architects regarding the procedure to be followed by the valuers. These instructions/standing orders
have been summarised below:

(1) The object of valuation is two-fold:

(a) To ensure that the construction is being carried out in accordance with the regulations prescribed.

(b) To ensure adequate security for the loans advanced by the Finance Society.

(2) The Finance Society has prescribed the following regulations with regard to the construction to be carried by the borrowing societies:

(1) Restriction on the carpet area - The carpet area of the tenement or flat in a building should not exceed 750 sq.ft. in Greater Bombay and the town of Thana.

(2) Restriction on the cost of flat or tenement - The cost of construction of a flat, tenement or a building not to exceed Rs.40,000/- (now Rs.50,000/-).

(3) The pre-investment to be made by the borrowing society:

Before drawing the first instalment the borrowing society must have collected from its members and invested in the scheme, amount equal to the difference between the sanctioned loan and the scheme cost. Subject to this, the minimum contribution should be 40% of the scheme cost by the societies from Greater Bombay, 35% by the societies from Thana and 20% by the societies from other areas of the State.

(4) Restriction on grant of loans - Loans are not granted for the construction of shops, godowns, halls,
garages, but they are to remain as a property of the society.

(5) Restrictions on revision of plans and estimates; Construction to be made in accordance with the approved plans and estimates: The borrowing society has not to revise its original plans and estimates without informing and obtaining the approval from the Finance Society as also of the local authority sanctioning the said plan.

(6) Insurance: The property to be insured through the agency of the Finance Society for its present and further value above the plinth in the joint name of Finance Society and the borrowing society with an Insurance Company to be named by the Finance Society, taking the risk of fire, and against such other risks mentioned in the mortgage.

The above points are required to be observed at the time of valuation and the valuers have to mention in their reports that the construction has been carried out or is being carried out in accordance with the regulations prescribed by the Finance Society.

(3) Security: The land and the construction carried on the land are the only securities offered for the loan advanced by the Finance Society. It is, therefore, necessary to have a proper valuation of the property to ensure adequate security margin. According to the conditions loans are advanced in Greater Bombay with 35%, in Thana City with 30% and in other areas with 20% security margins. As the loans are to be repaid within a period of 20 years, it is necessary to see by proper valuation, that the prescribed security
margin would not be reduced by fluctuation in market price, of the real estate and the valuation is based on well accepted principles and with due regard and care to safeguard the interest of the Finance Society. The architects who have to work as valuers have to value both, the land as well as the construction carried thereon. It is, therefore, to be considered as to what basic principles should be adopted for the purpose of valuation of both land and the construction thereon. Before estimating the value of property, it would be quite necessary to ascertain whether the construction has been started after obtaining necessary sanction from the authorities concerned as the construction carried illegally would amount to no security for the loan. All valuers, therefore, have to examine the following points:

1) Building plans and site plans are approved by the concerned authorities and the plans are the same as produced before the Housing Finance Society.

2) The Survey Nos. and the site mentioned in the plan and those in the title deeds and the construction on which is carried out are the same for which the loan has been sanctioned.

3) The plans are approved in the name of the society.

4) Commencement certificate has been issued.

5) commencement The construction has been started with due compliance of the objections mentioned in the I.O.D (i.e., Intimation Of Disapproval)
6) Orders for N.A. have been obtained except for corporation area.

7) As regards actual valuation following points need to be noted:

i) Valuation of land: The land is to be valued on the basis of cost price or market price, whichever is less. For the purpose of ascertaining the cost price, the same should be ascertained from the conveyance. The purchase price which remains to be paid to the Vendors on the day of valuation should not be considered for valuation. In case of lease-hold land lease-rent should not be considered as cost of land.

ii) Valuation of the building: To ensure proper valuation, and safe-guard the interest of the Finance Society, it would be necessary for the valuers to go through the following records of the society and arrive at proper and reasonable cost of the building:

   a) Detailed specifications adopted by the society.

   b) The specifications mentioned in the agreement executed with the contractor, as also given in the tender.

   c) Material actually used in the construction as could be seen from the specifications.

   d) The type of construction carried out by the society with due regard to masonry work, craftsmanship and the standard of material used.

   e) Total cubical contents as could be ascertained from the actual measurement.
f) To ensure proper valuation, the valuation should be based with due regard to the cubical contents, the specifications, standard of material used, the standard of masonry, craftsmanship etc. The valuation arrived at may be tallied with the actual cost incurred by the society, ascertained from the bills and certified by the society's architects. In case the valuers are of the view that the cost incurred by the society is not reasonable, he should arrive at the reasonable valuation with regard to all the points mentioned above.

g) Expenditure on the following items is not be considered for valuation:

i) Advance for lift.

ii) Cost of material on site.

iii) Cost of only that portion of secure land married to the buildings should be taken into consideration.

iv) Cost of shops, godowns etc. should be excluded.

v) Cost of such flats which are in excess of prescribed limit should be excluded from valuation.

(4) Some of the Housing Societies obtain land from Government, Maharashtra Housing Board or from the Municipal Corporation, either free-hold or lease-hold. In such cases lands are granted subjected to certain conditions regarding type of construction to be carried, number of tenements to be constructed etc. In such cases, the panel architects should see that the construction is carried out with due compliance of the conditions prescribed by Government, Corporation or Housing Board. Any breaches committed should be brought to the notice of the Housing Finance Society.
(5) The architects should not take into consideration for the purpose of valuation solicitors' fees, as well as architect's fee not paid before valuation.

(6) If the panel architects appointed by Finance Society are also the internal architects of the borrowing society, they should not accept that valuation work from the former.

(7) The valuation report should be sent to the Finance Society within 15 days from the date of receipt of the instructions from the Finance Society.

(8) In respect of the first valuation the report should be received 8 days before the date of the Board Meeting. In respect of further valuations, the valuation report should be received at least 3 days before the meeting. The meeting of the Board would be held on Wednesday of the last week every month.

It is seen from the above, that the Finance Society has issued sufficient instructions to the architects for their guidance. However, certain items are not being observed. For example, in some cases, valuation reports are not being received within fifteen days, although there were not many cases of inordinate delays. Similarly, the Finance Society has not been able to hold meetings of the Board of Directors on fixed days, or observe the time limits of 8 or 3 days as mentioned for the receipt of the valuation report. If such definite procedure could be followed, it would certainly benefit the architects.
and the borrowing societies.

XVI.5: Some pre-requisites:

After the provisional sanction is communicated to the borrowing society, it has to accept the detailed conditions for loans through a resolution of its committee, to that effect. The three additional requirements to be complied by the borrowing society before the drawal of the first instalments are:

a) the domicile and income certificates of all the individual members for whom the loan has been applied for, are to be sent. The amount of final sanction depends on the total of eligibility of individual members calculated according to rules;

b) the certificate of the solicitors/advocates that the title of the society to the land is clear and marketable;

c) the first valuation in respect of the construction carried out must be received from the architects appointed by the Finance Society. This serves as the basis for calculating the amount to be released to the borrowing society. The amount of the final sanction and the amount of the first instalment to be released to the society are to be communicated to the society in the same letter.

XVI.6: The Request For Valuation:

When the borrowing societies have collected from its members and invested in land and/or construction, an amount equal to the difference between the sanctioned amount and the
scheme cost, it can request the Finance Society to instruct its architects for the purpose of valuation.

The request for valuation is not entertained if it has not remitted the necessary deposit with the Finance Society. This appears to be logical from the point of view of the procedure. But customarily, instructions are also not issued if the title certificate for the property is not received from the solicitors/advocates. This has the inevitable effect of adding to the time-lag between the dates of application for loans and the receipt of the first instalment. Since according to condition number 21 of loans: "All legal costs, architects fees and other charges, incidental to the mortgage, shall be borne by the borrowing society irrespective of whether the loan is ultimately disbursed or not", the extra precaution of waiting for the title certificate appears unnecessary. The resultant delay and the increase in the time-lag between the application for and disbursement of loans are therefore avoidable.

One more point needs a mention. Under old rules, i.e., before May 1970, the borrowing society had to comply with two conditions before it could request the Finance Society for a valuation:

1) It had to collect from members and invest in land and construction an amount equal to 20/30/40% of the scheme cost; and
ii) It had to bring the construction up to plinth level.

This procedure had some disadvantages and implications. Firstly, where land costs were very high and were more than 20/30/40 per cent of the scheme cost the members had to actually contribute more than that per centage, in order to bring the construction up to plinth level. In the alternative, they had to depend on the contractor to bring up construction up to plinth level, on his own, and keep his bills pending until the first instalment was actually released. The contractor charged interest when bills remained unpaid.

It is seen from the findings of the survey of borrowing societies that land costs ranged between 1.48% to 18.27% of the scheme cost. (Similarly independent studies carried out by the National Council for Applied Economic Research have shown that land costs amounted to 20.10 per cent of the total cost of a house in Hyderabad; 21.21 per cent of it in Madras; 24.70 per cent in Delhi; 27.90 per cent in Patna; and 34.86 per cent in Ahmedabad.) From this point of view the new rules

2. Chapter XXIV on "The Survey of Borrowing Societies" (Para XVIII.13.vi)
3. Ibid. (Para XXIV.6.i)
which do not insist that the construction should be brought at least upto plinth level before drawing the first installment are a definite improvement upon the old.

XVI.7 : Procedure Followed By The Architects :

When instructions are received by the architects from the Finance Society to send the valuation report, they have to visit the site for actual measurements, and for obtaining detailed information required by them. However, before the visit is actually made they send a requisition/letter indicating the items on which the primary society should keep the information ready. These items usually are :-

1) Copy of Conveyance (i.e. Sale Deed/Lease Deed etc.) with a copy of plan attached to it;
2) Non-agriculture order;
3) Letter from Deputy Director of Town Planning or Collector (for mofussil area) approving the layout or sub-division, along with the original plans for scrutiny;
4) Original building plans as approved by the Collector or Gram Panchayat or Municipality;
5) The letter of approval or the plans;
6) Commencement Certificate under the Town Planning Act;
7) Details regarding expenses indicating items as well as amounts. The details are to be kept ready along with the original voucher;
8) List of members of the borrowing society;
9) The copy of the building contract.
When the information is ready the primary society has to fix up the date of the actual visit by the architects.

The architect visits the site, takes measurements and the necessary notes and also collects the required information on the above lines. He then prepares the valuation report.

XVI.8: Arriving At the Valuation:

Every housing scheme has two major components. They are land and construction.

For the land, normally the document price is taken into consideration.

Discussions with architects have revealed that as far as construction is concerned, the following is the approximate break-up of the value of its different constituents in relation to the total cost of construction (excluding the cost of land.)

For normal work: Civil work accounts for 35/87 per cent of the construction cost; Drainage and plumbing for 9/10 per cent of the construction cost; and Electrical work for 4/5 per cent of the construction cost.

In respect of the civil work also, the following break-up is obtained:

<table>
<thead>
<tr>
<th>Particulars of work</th>
<th>Percentage to construction cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Plinth</td>
<td>8%</td>
</tr>
<tr>
<td>2. R.C.C. Frame work</td>
<td>32%</td>
</tr>
</tbody>
</table>
3. Brick work with frames 10/13%
4. Cement plaster (External and internal) 8%
5. Shutters (Doors, Windows) 10/12%
6. Pavement (Tiles, W.C., Bath) 12%
7. Other finishing items; water tanks; water proofing etc. 5/7%
8. Other expenses as may be necessary.

The valuers have to take the important circumstances of each case into consideration. The standard of work and the workmanship are very important aspects. He has to consider the type of structure, whether load bearing or R.C.C.; as also the items of development work involved. He should also state whether the estimates prepared by the society are too high, too low or reasonable.

XVI. 9 : Scrutiny Of The Valuation Report :

On receiving the valuation report, it is duly scrutinised and shortcomings, if any, have to be brought to the notice of the reporting architects and the required clarifications obtained. Among other things they have to report:

a) that 20/30/40 per cent of the scheme-cost has been duly collected from all the members and invested in land and construction. They have to state the actual amount collected from members and actually invested.

b) that the construction is according to the plans approved by the competent authority and that minor
deviations, if any, can be waived by it or can be regularized.

c) that (at the time of second or further valuations) the amounts collected from members and advanced by the Finance Society are duly invested.

If the report is in order, the whole data is compiled in the following form:

1. Scheme Cost
2. Loan sanctioned and date
3. Loan eligible
4. Present valuation
5. Amount to be disbursed
6. Amount already paid
7. Amount now to be paid

XVI.10: Scrutiny According To Old Rules:

The amount sanctioned being dependent on the actual incomes of the beneficiary members may be less than the maximum permissible limit of 60/70/80 per cent of the scheme cost. The percentage which the loan finally sanctioned bore to the scheme cost was important and pivotal.

This percentage remained sacrosanct till the completion of the scheme. The amount to be released was according to the progress of construction and the valuation of the total work, therefore, became important. The percentage which the sanctioned amount bore to the entire scheme cost was applied to the actual valuation received. Thus the amount that could
be released to the society was calculated on the basis of every valuation report. After the first instalment was released, at the time of the second or further valuations, the amount already released was deducted from the total amount, for which the society was eligible and the net amount for which the society would be entitled was arrived at. For a hypothetical scheme of Rs.10.00 lakhs the following statement will make the methodology clear:

Statement No. XVI.2.
Calculation Of The Amount To Be Released.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>First Valuation</th>
<th>Second Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Total scheme cost</td>
<td>Rs. 10,00,000/-</td>
<td>Rs. 10,00,000/-</td>
</tr>
<tr>
<td>b) Loan sanctioned finally</td>
<td>Rs. 5,80,000/-</td>
<td>Rs. 5,80,000/-</td>
</tr>
<tr>
<td>c) Loan eligible (%)</td>
<td>58%</td>
<td>58%</td>
</tr>
<tr>
<td>d) Present valuation</td>
<td>Rs. 2,00,000/-</td>
<td>Rs. 3,16,000/-</td>
</tr>
<tr>
<td>e) Amounts to be disbursed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>( \frac{d \times 58}{100} )</td>
<td>( \frac{d \times 58}{100} )</td>
</tr>
<tr>
<td>f) Amount already paid</td>
<td>---</td>
<td>Rs. 1,16,000/-</td>
</tr>
<tr>
<td>g) Now to be paid</td>
<td>Rs. 1,16,000/-</td>
<td>Rs. 60,960/-</td>
</tr>
</tbody>
</table>

The amount to be released is rounded up in thousands to facilitate calculations of 30 quarterly equated instalments over a period of 20 years.

In case the valuation received exceeds the scheme cost,
the latter alone is taken as a basis for calculating the amount to be disbursed. Customarily an amount of Rs.10,000/- was being withheld until the completion certificate was received.

From the establishment of the Finance Society, till about April 1966, loans were being sanctioned at the flat rate of 60% of the cost of the tenement/flats/bungalow in Bombay and 80% in mofussil area. For every valuation, therefore, the 60/80 percentage was being applied. When income criteria came to be accepted, the eligibility of each individual member for loan was calculated with reference to 30 times (now 36 times) his monthly income. The amount finally sanctioned to the society was the total of these individual eligibilities. The percentage which this sanctioned amount bore to the scheme cost was calculated. This percentage as applied to every valuation and the amount that could be released to the society was thus arrived at as mentioned in the foregoing paras.

It can easily be seen that if incomes of the individual members were low, and the scheme cost of the flat proportionately high, the society was eligible for loans of less than the permissible 60/65/80 per cent. Since this lower percentage was applied to the amount of valuation, proportionately lesser amounts could be released to the borrowing societies.

Under this procedure there was no limit on the number of instalments within which the loan had to be disbursed. (It is four at present.) The number of valuations and the number of instalments were, therefore, normally the same.
At the time of the first instalment, the valuation report has to establish that the amount collected by the society from the members, has been invested in the scheme. At the time of further instalments, the valuation report had to establish that the amount collected from members plus the amount advanced by the Finance Society have been fully invested in the scheme.

XVI:11: How many valuations?
(Under The Old Rules)

A question may be asked in relation to this procedure. If it is agreed, that the implementation of the housing scheme should be commenced by investing the contribution collected from members, and construction continued only out of the disbursement of loan from time to time, how many valuations would theoretically be necessary? This can be seen by taking a hypothetical example, where the scheme cost is Rs.1,00,000/- and the loan sanctioned to the society is 60 per cent. It is further presumed that the society is not in a position to secure any outside finance or even a contractor's credit and can continue its construction strictly out of the amount received from the Finance Society from time to time, meaning thereby that it gets a fresh valuation after it has invested fully the amount released early.

In the following paragraphs one example is worked out. It is a case where the borrowing society has been sanctioned loan equal to 60 per cent of the cost. (Figures have been
rounded up wherever necessary to facilitate the calculations.)

Scheme cost say Rs.1,00,000/-

Loan sanctioned
60 per cent.
Rs. 60,000/-

Collection from members
40 per cent.
Rs. 40,000/-

First Valuation:
60 per cent of the valuation to be released as first instalment.
Rs. 24,000/- (ii)

Second Valuation (i) + (ii)
60 per cent of (iii) Rs. 38,400/-
Less amount released Rs. 24,000/-
Amount now to be released as second instalment Rs. 14,400/- (iv)

Third Valuation (iii) + (iv)
60 per cent of (v) Rs. 46,800/-
Less amount already released Rs. 38,400/-
Amount now to be released as third instalment Rs. 8,400/- (vi)

Fourth Valuation (v) + (vi)
60 per cent of (vii) Rs. 52,200/-
Less amount released Rs. 46,800/-
Amount to be released as 4th instalment Rs. 5,400/- (vii)

Fifth Valuation (vii) + (viii)
60 per cent of (ix) Rs. 55,200/-
Less amount released Rs. 52,200/-
Amount to be released as 5th instalment Rs. 3,000/- (x)
Sixth Valuation (ix) + (x) Rs. 95,000/- (xi)

60 per cent of (xi) Rs. 57,000/-
Amount already released Rs. 55,200/-
Amount to be released as 6th instalment Rs. 1,800/- Rs. 1,800/- (xii)

Seventh Valuation (xi) + (xii) Rs. 97,000/- (xiii)

60 per cent of (xiii) Rs. 58,200/-
Less amount released Rs. 57,000/-
Amount to be released as 7th instalment Rs. 1,200/- Rs. 1,200/- (xiv)

Eighth Valuation (xiii) + (xiv) Rs. 98,000/- (xv)

60 per cent of (xv) Rs. 58,800/-
Less amount released Rs. 58,200/-
Amount to be released as 8th instalment Rs. 600/- Rs. 600/- (xvi)

Ninth Valuation (xv) + (xvi) Rs. 99,000/- (xvii)

60 per cent of (xvii) Rs. 59,400/-
Less amount released Rs. 58,800/-
Amount to be released as 9th instalment Rs. 600/- Rs. 600/- (xviii)

Tenth Valuation (xvii) + (xviii) Rs. 1,00,000/-

60 per cent of (xviii) Rs. 60,000/-
Less amount released Rs. 59,400/-
Amount to be released as 10th & last instalment Rs. 600/- Rs. 600/-

It can be easily seen from the above calculations that if a total loan amount of Rs. 60,000/- is to be released on the basis of the presumptions already made, at least ten valuations would become necessary. These are certainly too
many valuations.

It will be further revealing to examine the percentage which the amount of valuation and the amount to be released bears to the scheme cost as also the sanctioned amount. The following statement shows this:

<table>
<thead>
<tr>
<th>Valuation No.</th>
<th>Valuation amount</th>
<th>Percentage to be released</th>
<th>Percentage to the scheme cost as instalment</th>
<th>Valuation fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>40,000</td>
<td>40%</td>
<td>24,000</td>
<td>24.00%</td>
</tr>
<tr>
<td>II</td>
<td>64,000</td>
<td>64%</td>
<td>11,400</td>
<td>14.40%</td>
</tr>
<tr>
<td>III</td>
<td>78,000</td>
<td>78%</td>
<td>8,400</td>
<td>8.40%</td>
</tr>
<tr>
<td>IV</td>
<td>87,000</td>
<td>87%</td>
<td>5,400</td>
<td>5.40%</td>
</tr>
<tr>
<td>V</td>
<td>92,000</td>
<td>92%</td>
<td>3,000</td>
<td>3.00%</td>
</tr>
<tr>
<td>VI</td>
<td>95,000</td>
<td>95%</td>
<td>1,800</td>
<td>1.80%</td>
</tr>
<tr>
<td>VII</td>
<td>97,000</td>
<td>97%</td>
<td>1,200</td>
<td>1.20%</td>
</tr>
<tr>
<td>VIII</td>
<td>98,000</td>
<td>98%</td>
<td>600</td>
<td>0.60%</td>
</tr>
<tr>
<td>IX</td>
<td>99,000</td>
<td>99%</td>
<td>600</td>
<td>0.60%</td>
</tr>
<tr>
<td>X</td>
<td>1,00,000</td>
<td>100%</td>
<td>600</td>
<td>0.60%</td>
</tr>
</tbody>
</table>

It is seen from the above statement/from the fourth valuation onwards the amount to be released is an insignificant percentage of the total amount sanctioned to the society. The
impact, therefore, becomes onerous with every further valuation.

The impact is more severe for small schemes. It has further been noticed that the severity of the two-fold direction of this impact is all the more poignant for 20/80 per cent. scheme than for 40/60 per cent schemes. (The valuations may not be less than 18 in the former case.) Finally, the type of system adopted for construction is also important. If a society is doing the construction departmentally, it cannot get the advantage of contractor's credit and suffers more in the process.

In the light of the above we can conclude as follows:

i) If a society desires to carry out its construction programme, completely and exclusively out of the contributions collected from members, and the amounts released by the Finance Society from time to time, the number of valuations are large.

ii) The higher the percentage of loan sanctioned and lower the members' contributions (to start with), the larger are the number of valuations.

iii) As the valuations progress the amount to be released on the basis of the Valuation Report becomes less and less and bears a very low percentage to the scheme cost.

iv) The valuation fees that have to be paid become very disproportionate. They also bear a high percentage to the amount that can be released.
XVI.12: Some Important Implications:

In addition to the above, there are some more important implications of the above analysis. It means that the society cannot depend on the instalments released from the Finance Society, strictly in the above manner. This is quite clear because the average number of instalments in which a loan is released is much less – i.e. $\frac{3}{4}$ only.\(^5\)

It must, therefore, mean that the amount of valuations is higher than the total of members' contributions and the amount released by the Finance Society. What is this due to?

i) The societies must have been making arrangements for finance for the interim period, that is, until the instalment from the Finance Society is released. It is seen from the actual survey that the societies have borrowed money for that purpose both from members and non-members. This was availed of only by $40\%$ of the borrowing societies.\(^6\)

ii) The other possibility is that the contractors initially carry out construction on their own even before receiving payments from the society. The contractors are prepared to do this because they are sure that the loan would be forthcoming from the Finance Society. The contractor, therefore, plays an important role in providing short-term

\(^5\) Chapter XXIV: "The Survey of Borrowing Societies" (Para XXIVA.3.i)

\(^6\) Ibid. (Para XXIVB.5.iv)
credit. (If a builder is acting both as a promoter and contractor the execution of the housing scheme is essentially in the nature of an enterprise, considering the profits which he may earn in the undertaking and the short-term credit to the society through the period of waiting may be worthwhile.)

XVI.13 : Procedure Under The New Rules :

The system referred to in the above paragraphs, was applicable to the loan cases sanctioned prior to 1-5-1970. Even if, actual advances were made after that date, the same rules were applicable. For the loan cases sanctioned after that date the procedure is changed. Although valuation is necessary as before and is also taken into consideration, the amount to be released is not the result of application of the percentage of sanctioned loan to the valuation figure. The loan is now released in four instalments in amounts which bear a fixed percentage to the sanctioned amount of loan.

Procedure Under Old Rules.

Scheme Cost = Rs.1,00,000/-

Loan sanctioned upto 60% of the scheme cost Rs.60,000/- (in Bombay and Thana City)

Loan sanctioned upto 70% of the scheme cost Rs.70,000/- (in Poona City)

Loan sanctioned upto 80% of the scheme cost Rs.80,000/- (in Other Areas of the State)

Instalments were released by applying 60/70/80% to each progressive valuation and deducting the amount already released.

<table>
<thead>
<tr>
<th>Instal­ment Number</th>
<th>BOMBAY &amp; THANA</th>
<th>OTHER AREAS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage to the sanctioned loan.</td>
<td>Instal­ment amount Rs.</td>
</tr>
<tr>
<td>1</td>
<td>20</td>
<td>16,000/-</td>
</tr>
<tr>
<td>2</td>
<td>30</td>
<td>24,000/-</td>
</tr>
<tr>
<td>3</td>
<td>40</td>
<td>32,000/-</td>
</tr>
<tr>
<td>4</td>
<td>10</td>
<td>8,000/-</td>
</tr>
</tbody>
</table>

One important change in the new conditions needs to be mentioned. The first instal­ment is not released unless the society collects from members and actually invests in construction the amount equal to the difference between the sanctioned amount and the scheme cost. According to the procedure the release of the first instal­ment (or valuation) and the communication of the final sanction are simultaneous. When a society requests for the first valuation, it does not know the amount of final sanction. It does not, therefore, know the amount of difference referred to above. In such a case if the valuation is not sufficient, the case is not considered for first instal­ment or final sanction. Correspondance starts. The Finance Society informs the short-fall in investment. The society makes good the shortfall, and has to write again for valuation. This entails additional time and valuation fees. The Finance Society
therefore, must have some arrangement by which the borrowing society will come to know about the amount/sanctioned and the difference it must collect from members and invest in advance. (This has been discussed earlier in the Chapter No. XIII relating to Provisional Sanction.)

**XVI.14 : Difficulties For Bungalow Type Societies :**

The tenant ownership type of societies usually have separate plots, which they allot to individual members. Bungalow-type construction is undertaken on such plots. The amount of final sanction as well as the amount to be released from time to time is calculated with reference to the contributions by members and scheme-cost against the individual plot and structure thereon. The difficulty of not having collected and invested the difference amount referred to above (popularly known as the 'gap') gets proliferated with the individual plot holders. Naturally, according to rules, where the investment is short, the society is not eligible for any disbursement of loan against the particular plot. A case study of one such society from Poona (Code No. 319 MM) can make the position clear.
Calculation Of Loan Finally Sanctioned For A Tenant-Ownership Type Of Society

<table>
<thead>
<tr>
<th>Sr. Plot No.</th>
<th>Scheme cost</th>
<th>Loan finally sanctioned Rs.</th>
<th>Valuation at present Rs.</th>
<th>First Valuation required Rs.</th>
<th>Amount for which the society is eligible by way of first instalment Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>27</td>
<td>45,034</td>
<td>27,000</td>
<td>10,500</td>
<td>18,034</td>
</tr>
<tr>
<td>2</td>
<td>56</td>
<td>33,964</td>
<td>22,500</td>
<td>5,200</td>
<td>11,644</td>
</tr>
<tr>
<td>3</td>
<td>54</td>
<td>31,894</td>
<td>25,500</td>
<td>6,200</td>
<td>6,394</td>
</tr>
<tr>
<td>4</td>
<td>47</td>
<td>24,824</td>
<td>10,000</td>
<td>7,200</td>
<td>14,324</td>
</tr>
<tr>
<td>5</td>
<td>51</td>
<td>38,349</td>
<td>20,600</td>
<td>3,500</td>
<td>17,749</td>
</tr>
<tr>
<td>6</td>
<td>40</td>
<td>24,511</td>
<td>9,000</td>
<td>7,200</td>
<td>15,511</td>
</tr>
<tr>
<td>7</td>
<td>24</td>
<td>38,953</td>
<td>27,000</td>
<td>12,000</td>
<td>11,953</td>
</tr>
<tr>
<td>8</td>
<td>57</td>
<td>42,334</td>
<td>24,500</td>
<td>9,500</td>
<td>17,894</td>
</tr>
<tr>
<td>9</td>
<td>26</td>
<td>38,395</td>
<td>27,000</td>
<td>11,200</td>
<td>11,395</td>
</tr>
<tr>
<td>10</td>
<td>60</td>
<td>33,611</td>
<td>26,900</td>
<td>9,600</td>
<td>6,811</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>3,81,926</td>
<td>2,20,000</td>
<td>88,100</td>
<td>1,31,529</td>
</tr>
</tbody>
</table>

Two interesting things can be seen from the above calculations. Firstly, although valuation is received for 10 plots, only four plots will be entitled for the first installment of loan. Secondly, although the loan finally sanctioned is Rs.2,20,000/- and according to rules the society should get 20% or Rs.44,000/- as the first installment of loan, the society is getting only Rs.21,000/- or less than 10 per cent, although the total valuation is much more than the first installment.
This is so, because, in proportion to the total scheme-cost of the bungalow the sanctioned loan amount is much less. The society had failed to collect from members and invest in the scheme, the amount equal to the difference between the two. Thirdly, barring the four plots, which qualified for the loan instalment, the investment on other six plots was seen to be unnecessarily blocked up until such time, they qualified for release of instalment. Finally, considering the valuation amount (i.e. Rs.88,100/-) the society was eligible for about 24 per cent of the valuation amount by way of the first instalment. In conclusion, it may be said that if the societies do not come to know about the sanctioned amount and the difference to be collected from members, they have to suffer in the process.

XVI.15 : Further Valuations:

After a society to whom a loan instalment is sanctioned, draws it and invests it in the scheme, it can write to the Finance Society for further or the next valuation.

The Finance Society then instructs its architects for further valuation. It also informs them about the loan sanctioned and disbursed, and requests them to ascertain, whether the borrowing society has invested in the scheme, the amount collected by it from the members as also the amount disbursed by the Finance Society.

The architect, then visits the site, takes measurements,
collects information from the society, prepares his report and sends it to the Finance Society. The report is then taken up for scrutiny, and the process mentioned in the earlier paras is repeated.

XVI.16 : The Agency For Valuation :

Suggestions have been made from time to time regarding the agency for valuation. Two important suggestions need to be considered. They are:

1) that the Housing Finance Society should have its own cell consisting of technical personnel which should look after the work of valuation;

2) that in respect of the mofussil areas, the valuation may be entrusted to the Executive Engineers of the Buildings and Communication Department of the Zillah Parishads;

3) that, if schemes combining the activities of the State Housing Boards and the Finance Society are undertaken and if the former is to work as the construction agency it may certify the valuation done.

In respect of the first suggestion it may be said that the Finance Society will have to undertake the responsibility for incorrect valuations. There will be no third party certification regarding the valuation. The financing agency and the certifying agency will be the same.

The second suggestion was made by the Estimates Committee
of the State Government. The general reports are that the Zilla Parishad staff is already hardpressed by its own work and may not find time to take the work of the Finance Society. It will also be difficult for the Finance Society to pursue them and to get the valuation work done in time, because it will not have any administrative control on them.

The third suggestion has now been brought into reality in the context of the scheme for financing the Backward Class Housing Societies, which appears as Appendix 3 and 3. It is contemplated that the Housing Board should act as a construction agency in this scheme, for which finance will be provided by the Finance Society according to its rules. The Finance Society has agreed to the suggestion provided the Government agrees to make good any loss that may arise by following the procedure. If the procedure is followed, the construction agency and the agency certifying the valuation will be the same. According to construction practices, however, the procedure is not so. Normally the contractor carries out the construction. The party employing the contractor has its architects who certify the bills of the contractor.


Considering the policy of the Finance Society, especially from 1967, the management appears to be keen on expanding its panel of architects in many districts to look after the work of valuation. The needs of the borrowing societies, therefore, seem to be adequately served.

One more point is also important. Many of the architects are chartered architects and their conduct is governed by the rules of their charter. In case of negligence, they can be penalised under the charter. However, the charter cannot guarantee any compensation to the Finance Society for a pecuniary loss. Further, all the architects are not chartered architects. The lacuna in the administration, in this context, appears to be the absence of any agreement between the Finance Society and the architects regarding the dealings between them.

**XVI.17 : Fees Charged By The Architects :**

The Finance Society has fixed the scales of fees applicable to the Valuations made by the architects on its panel. The scales are as shown in the following statement:
Statement No. XVI

Scales Of Valuation Fees.

<table>
<thead>
<tr>
<th>On the valuations of Rupees.</th>
<th>First valuation</th>
<th>Further valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>Upto Rs. 50,000/-</td>
<td>150/-</td>
<td>100/-</td>
</tr>
<tr>
<td>From Rs. 50,000/- to 1,00,000/-</td>
<td>250/-</td>
<td>175/-</td>
</tr>
<tr>
<td>1,00,000/- to 2,00,000/-</td>
<td>375/-</td>
<td>300/-</td>
</tr>
<tr>
<td>2,00,000/- to 3,00,000/-</td>
<td>500/-</td>
<td>450/-</td>
</tr>
<tr>
<td>3,00,000/- to 4,00,000/-</td>
<td>625/-</td>
<td>625/-</td>
</tr>
<tr>
<td>4,00,000/- to 5,00,000/-</td>
<td>750/-</td>
<td>750/-</td>
</tr>
<tr>
<td>5,00,000/- to 10,00,000/-</td>
<td>1,000/-</td>
<td>1,000/-</td>
</tr>
</tbody>
</table>

In addition to the above, out-of-pocket expenses for travelling are allowed. For valuation of the properties of the societies formed by the people affected by floods, no valuation fees are to be charged. Only out-of-pocket expenses are to be allowed. Later on the Finance Society decided to bear the legal as well as the valuation expenses of such societies. Full fees are now being charged by the valuers.

The Finance Society has paid thousands of rupees on account of valuations of the properties of such societies.

The scales of fees have been approved by the Board of Directors of the Finance Society on 16th January, 1963, and have remained unchanged since then. Are the scales low? The general reaction of the architects is that a little upward
revision would be desirable. If the scales are low how the architects have continued to work? Their reaction to this is that it is important to continue on the panel of the Finance Society, although valuation may be unremunerative (or actually no valuations might have been entrusted.)

The better point regarding the procedure for the payment of the fees to the architects may be mentioned. From the beginning, the bills are sent to the Finance Society, and scrutinised by its staff. The payments are made to the architects by the Finance Society from the amount deposited by the borrowing societies. There are, therefore, no complaints against architects for charging excessive fees to the borrowing societies, as is the case in respect of the fees charged by some of the solicitors.

XVI.18: Difficulties In Valuations:

Valuation is the most important item in the process of loan disbursement, as has been mentioned in the beginning of this chapter. The difficulties experienced by the architects and the staff of the Finance Society were, therefore, discussed with them. Some major points have been dealt with in the following paragraphs:-

(1) Cost Of Land:

What price of land should the architects accept for valuation? It is expected that they should consider the
market value or the document price, whichever is low. The discussions with the architects, have revealed that they have customarily been accepting the document price, when they feel that it is not unreasonable.

The difficulties arise when the price of land is artificially rigged up. The most common method for the professional promoters to do this is to join a number of confirming parties between the Vendor and the Purchasing Parties. These confirming parties are intermediaries. They are relatives or allies of the professionals. Every confirming party, increases the rate per square yard of land. Usually much period does not pass between the agreement between the Vendor and the first confirming party; or between the two confirming parties; or between the last confirming party and the purchaser, society. This in a way proves, that the final price is not the result of the normal economic forces of demand and supply. The rise is artificially engendered with an intention to make quick profits. 9

9. M.P.Mahajan : "Physical Planning And 6o-operative Housing Development" a paper prepared at the time of the workshop on Physical Planning Studies, jointly sponsored by Central Building Research Institute and Town and Country Planning Organisation, Government of India. The workshop was held at Roorkee (U.P.) on 19th-20th October 1970.
However, what will be the effect, if the architect regard such price as unreasonably high and certify that the reasonable price would be much lower? From the point of view of the purchaser society, such a step will have adverse effect on the economics of the scheme. It will also get proportionately lower amount of loan. The following calculations will make the position clear:

**Scheme 'A'.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Cost (according to Document price, in a case where price is artificially rigged up)</td>
<td>Rs. 3,00,000/-</td>
</tr>
<tr>
<td>Construction cost estimated</td>
<td>Rs. 7,00,000/-</td>
</tr>
<tr>
<td>Total scheme cost</td>
<td>Rs. 10,00,000/-</td>
</tr>
<tr>
<td>Loan at 65% of the scheme cost</td>
<td>Rs. 6,50,000/-</td>
</tr>
</tbody>
</table>

**Scheme 'B'.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land cost: Reasonable and accepted by the architect for valuation</td>
<td>Rs. 1,50,000/-</td>
</tr>
<tr>
<td>Construction cost estimated</td>
<td>Rs. 7,00,000/-</td>
</tr>
<tr>
<td>Total scheme cost</td>
<td>Rs. 8,50,000/-</td>
</tr>
<tr>
<td>Loan at 65% of the scheme cost</td>
<td>Rs. 5,52,000/-</td>
</tr>
</tbody>
</table>

It can be seen from the above calculations that if the architects mention the 'reasonable' and not the 'document' price of the land, in the Valuation Report, the primary
society will be entitled for Rs.98,000/- (Rs.6,50,000/- minus Rs.5,52,000/-) less loan.

Now, other type of a land deal may be considered. In a number of cases the Vendor does not want to show the sale of land at the full cost, because he is afraid of taxation. He is, therefore, prepared to mention only the 50 per cent of the actual cost of land in the sale-deed. The other 50 per cent is paid by the purchaser society - off the record (known as number two in the business parlance). The official estimates in the loan application show the document price (i.e. 50 per cent of the actual price paid by the purchaser society), and is accepted by the architects of the Finance Society. If the actual price paid is Rs.3,00,000/- and the document price is Rs.1,50,000/-, the latter will be accepted by architects for the purpose of valuation. The result will also be the same, i.e., the primary society will get Rs.98,000/- less loan in relation to the actual scheme cost.

One of the architects opined: "The valuers are really confused because of such practices". How is the acceptance of document price justifiable? The answer is that generally the values of land are ascertained on the basis of the instances of fair sales. The sales of co-operative housing societies are not without such practice. Majority of such sales as reflected in the document price, therefore, form the basis of valuation.
The Scourge Of Lower Estimates Or Underestimating:

(a) The Desire To Make Quick Profits:

The discussions with the architects and the study of some sick-societies have revealed interesting facts. It is seen that where the societies are sponsored by professionals they do not attach much sanctity to the need of correct estimates of the scheme-cost. Their only aim is to attract more customers in a short time. Advertisement of a lower cost of a flat ensures the desired results for them. Their aim is not to complete the scheme. It is a short-time aim of collecting amounts from the prospective members of the society and draining them out by making quick profits. Sometimes the professionals have interest in the land-deal, where the price of the land is inflated by joining confirming parties. But while advertising flats, this increase between the vendor's price and the purchaser society's cost is not disclosed. The estimates of the entire scheme and the cost per flat are shown very low. The result is that the 40 per cent contribution from the members does not bring up the construction to a desired extent. Most of these contributions are eaten away by the profits in the land deal. They make a show of starting construction but may disappear from the scene after taking away their profits and handing over "the sick baby" to the members. There are several instances of such incomplete constructions of societies on the roll of the Finance Society. These societies have gone in
heavy arrears of the loan instalments of the Finance Society. The members have also suffered heavily. 10

(b) The Desire To Avoid Taxation:

Besides the desire to make quick profits, the other reason why the builder/professionals show lower estimates, is the desire to hide the huge profits. The cost of the project on paper or in advertisement may be shown very low. The difference between the real cost and the paper cost is the unaccounted collection. This is also more commonly known as number two. The result of the low estimates is that other things remaining the same proportionately less loan is sanctioned. The following calculations make the role of the unaccounted money and its implications from the point of view of the loan clearer:

Statement No. XVI. 6

Effect Of Unaccounted Collections on Loan

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. The Real Cost of</td>
<td>10,00,000/-</td>
<td>10,00,000/-</td>
</tr>
<tr>
<td>the project.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Unaccounted collection from prospective members</td>
<td>2,00,000/- (at 20% of the real cost)</td>
<td>5,00,000/- (at 50% of the real cost)</td>
</tr>
<tr>
<td>C. Cost of the project on paper</td>
<td>8,00,000/- (i.e. 80% of the real cost)</td>
<td>5,00,000/- (i.e. 50% of the real cost)</td>
</tr>
</tbody>
</table>

10. Chapter XXIV: "The Survey Of Borrowing Societies" (Para XXIV.14)
D. Loan likely to be sanctioned at 60% of the paper cost.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4,80,000/-</td>
<td>3,00,000/-</td>
</tr>
</tbody>
</table>

E. Loan sanctioned less as a result of the unaccounted collection

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1,20,000/-</td>
<td>3,00,000/-</td>
</tr>
</tbody>
</table>

The above calculations show further that the direct result of such unaccounted collections is less sanction of loan by the Finance Society according to paper costs/estimates duly certified by the internal architects of the borrowing society. The calculations in column 3 of the statement show that, the higher the percentage of the unaccounted collections, in relation to the scheme cost the lower will be the amount of loan sanctioned. Another disadvantage is that in case the scheme is not completed, and the professionals have disappeared from the scene, the members will normally not be able to sue them, for the recovery of the unaccounted money, for which no receipt had been passed. But, even if the scheme is completed, the social undertones of the whole procedure (based on the acceptance of unaccounted money) are not congenial, because it tends to sanctify that which is not morally tenable. One of the architects candidly opined: "Such practice is forced upon the people by the tax-structure of a country. The members willingly give away their collection of unaccounted money and the builders are glad to receive such amounts. As such, estimates prepared and submitted for loan purpose are usually
on the lower side. The success of such project depends on the honesty (?)\textsuperscript{11} of the builder who collects unaccounted amounts".

(c) \textbf{Lack Of Understanding Of The Procedure} :

Some times the office bearers of the primary society do not properly understand the constituents of the scheme cost. Similarly the internal architect employed by the society, also does not fully know how the loan is calculated. This leads to the exclusion of some of the items from the estimates and the consequent sanction of less amount of loan. In case of Code No. 170 MM society from Jalgaon City (formed by primary teachers), the internal architect did not include several items while framing the estimates :

\begin{align*}
\text{Rs.} & \\
\text{Proportionate cost of land} & 36,100/- \\
\text{Construction of road} & 11,565/- \\
\text{Built-in-cupboards} & 15,000/- \\
\text{Electrification} & 10,360/- \\
\text{Lay out} & 1,565/- \\
\text{Fees for the architect and solicitor of Finance Society} & 1,500/- \\
\text{Fees paid to the architect of the society} & 15,267/- \\
\hline
& \text{91,357/-} \\
\end{align*}

Initially, the society was sanctioned a loan of Rs.2,80,000/- in February 1969. As defects in estimates

\textsuperscript{11}. Parenthesis mine.
started coming to the notice, the loan was first revised in August 1970, to Rs.3,51,000/-. The loan had to be increased for the second time to Rs.3,97,000/- in October 1970, and for the third time to Rs.4,31,000/- in March 1971. (The revision was also partly due to change in the incomes of the members. The major change was, however, due to faulty estimates.) The upward revision of the sanctioned loan from time to time involved a time-lag of two years and a month, and also considerable correspondence. Such revision also required execution of a further charge deed subsequent to the first mortgage deed. This being a tenant-ownership type of society (i.e. bungalow type) such deeds had to be signed by all the individual members as co-mortgagers. They had also to admit payment before the Sub-Registrar. All these involved additional delay, cost and also inconvenience to the members (of which quantitative measurement is not possible).

One suggestion can be made in this behalf. While giving publicity to its conditions for loan or the loan-schemes, the Finance Society may also indicate the method of preparing model estimates. If this is done, all the complications and the trouble, resulting out of the incorrect estimates, due to ignorance can be avoided.

(d) To Keep The Members' Initial Contributions Low:

One of the architects pointed out that sometimes the
members do not have enough money to make up for the minimum prescribed contribution in relation to the real scheme-cost. The promoters are, therefore, inclined to show the scheme-cost very low. The initial contribution which they must invest in the scheme also becomes low. In this way they start construction and also draw the loan instalments. They are, however, unable to complete construction unless, they collect the required amount from members.

XVI.19 : Considering Increase In Scheme-cost :

The Finance Society has tried to accommodate the demands of the borrowing societies, for additional loan. It has taken into consideration the latest incomes into consideration and enhanced the final loan amount where the scheme had remained incomplete for a long time. Similarly, it has also applied the criteria of additional quantum of loan to old societies according to new rules for societies from the concerned areas, i.e., 80 per cent instead of 70 per cent of the scheme-cost for societies from Poona City; 70 per cent instead of 65 per cent for societies from Thana and 65 per cent instead of 60 per cent for societies from Greater Bombay. Similarly, it has also tried to consider the additional items, which were not included in the original estimates submitted to the Finance Society with the loan application, and increased the loan sanctioned to the society. It has, however, not sanctioned increase in the loan amount, because the cost of building
materials or of construction has increased because of the passage of time. In many cases, the professional promoters desert the scheme by handing over the 'sick baby' to the members. The scheme gets bogged down in uncertainties. When the members are in a position to revive the work, several years are passed, resulting in a considerable increase in the cost of labour and material. The old estimates of the scheme cost no more hold good and the contractor is not prepared to resume the construction, unless the contract amount is increased. The primary society is in a fix. The Finance Society does not consider increase in the scheme-cost for this reason, on the ground that there will be no end to such cases, requesting for an increase in the sanctioned amount of loan. "The Survey Of The Borrowing Societies" has also confirmed the fact that there are genuine cases where such an increase would have become helpful for early completion of the scheme. Similarly, in the interviews, the contractors/builders and office-bearers of the primary societies have also desired that the Finance Society should evolve criteria for considering genuine cases.

The Bombay Co-operative Housing Societies Federation Ltd. Bombay has also taken up the issue with the Finance Society. Basing its observations on the contents of an article in the Economic Times of 6th January 1971, it informed the Finance

12. Chapter XXIV. Para 12. 10
Society on 4-3-1971 that the increase in the cost of construction material and labour was as follows:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Item</th>
<th>Unit</th>
<th>Price prevailing during the first date of 1971</th>
<th>Present price</th>
<th>Increase in price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Steel Bars</td>
<td>100 cwt.</td>
<td>Rs. 45</td>
<td>Rs. 80</td>
<td>78%</td>
</tr>
<tr>
<td>2</td>
<td>Bricks</td>
<td>per 1000</td>
<td>95</td>
<td>125</td>
<td>32%</td>
</tr>
<tr>
<td>3</td>
<td>Metal</td>
<td>100 cft.</td>
<td>75</td>
<td>110</td>
<td>47%</td>
</tr>
<tr>
<td>4</td>
<td>Lift</td>
<td>4 passenger capacity</td>
<td>45,000</td>
<td>65,000</td>
<td>44%</td>
</tr>
<tr>
<td>5</td>
<td>Timber</td>
<td>per cubic feet</td>
<td>24</td>
<td>30</td>
<td>25%</td>
</tr>
<tr>
<td>6</td>
<td>Sand, sanitary ware, tiles, windows, glasses</td>
<td></td>
<td></td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>7</td>
<td>Labour</td>
<td>per day rates vary from category to category such as mason, carpenter, fitter, unskilled worker etc.</td>
<td></td>
<td>25% to 40%</td>
<td></td>
</tr>
</tbody>
</table>

Such a rise in prices has grave implications. Since the Finance Society does not grant additional loan on this count, the primary society will have to collect additional amount from members, if the scheme is to be completed. This cannot be done because such additional contribution would be considerable as can be seen from the following table:
Additional contribution now required due to increase in the material and labour prices (i.e. 25% of Col.3.)

<table>
<thead>
<tr>
<th>Case</th>
<th>Area</th>
<th>Assumed cost of a flat (Rs.)</th>
<th>Member's contribution (Rs.)</th>
<th>Loan from the M.C.H. Finance Society (Rs.)</th>
<th>Additional contribution (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>A.</td>
<td>i) Greater Bombay</td>
<td>30,000/-</td>
<td>10,500/-</td>
<td>19,500/-</td>
<td>7,500/-</td>
</tr>
<tr>
<td></td>
<td>ii) Thana</td>
<td>30,000/-</td>
<td>6,000/-</td>
<td>24,000/-</td>
<td>7,500/-</td>
</tr>
<tr>
<td>B.</td>
<td>i) Greater Bombay</td>
<td>40,000/-</td>
<td>14,000/-</td>
<td>26,000/-</td>
<td>10,000/-</td>
</tr>
<tr>
<td></td>
<td>ii) Thana</td>
<td>40,000/-</td>
<td>13,000/-</td>
<td>27,000/-</td>
<td>10,000/-</td>
</tr>
</tbody>
</table>

The Federation, therefore, urged the Finance Society:
"In view of the above, we feel that it will be absolutely necessary for the Maharashtra Co-operative Housing Finance Society to relax its present rules and allow additional loan due to rise in the cost of construction, wherever the primary society approaches the Housing Finance Society for the purpose. This is necessary as the increase in the prices of materials has been unexpected and abnormal."

The Co-operative Department, it seems, may not be averse to such an increase in genuine cases. In reply to a letter from the Finance Society seeking approval for the increase in loan amount to societies which could not complete construction due to financial difficulties, the Joint Registrar, Co-operative
Societies (CAS), M.S., Poona (in his letter No. HSS/MCHFS/Bombay/970 dated 16th June 1970) mentioned that "...

"... It will not be necessary for cases received after 1-5-1970 for grant of additional loan for not completing the project for want of sufficient funds as the new terms and conditions provided for collection and investment by the Housing Societies from their own funds the difference between the total project and the amount which can be sanctioned by the Finance Society. All cases which were received and sanctioned before that date and in which the construction cannot be completed for want of funds on genuine grounds should immediately be examined for any relief which can be given by the Finance Society".

This appears to be a sufficient safeguard and also a green signal from the Co-operative Department.

If the Finance Society is able to evolve criteria or mechanism by which genuine cases could be segregated for special considerations on the lines suggested by the Housing Federation, it will have rendered a very useful service to the ailing co-operative housing societies. The absence of any such criteria appears to be a great lacuna in the long-term credit mechanism under study.
<table>
<thead>
<tr>
<th>Chapter XVII</th>
<th>The Disbursement Of Loans</th>
<th>500 - 530</th>
</tr>
</thead>
<tbody>
<tr>
<td>XVII.1</td>
<td>Preliminary</td>
<td>500</td>
</tr>
<tr>
<td>XVII.2</td>
<td>What The Solicitor's Must See</td>
<td>501</td>
</tr>
<tr>
<td>XVII.3</td>
<td>Execution Of The Mortgage Deed</td>
<td>504</td>
</tr>
<tr>
<td>XVII.4</td>
<td>Admission Of Execution</td>
<td>506</td>
</tr>
<tr>
<td>XVII.5</td>
<td>Further Disbursements Of Loan</td>
<td>507</td>
</tr>
<tr>
<td>XVII.6</td>
<td>How Many Disbursements ?</td>
<td>507</td>
</tr>
<tr>
<td>XVII.7</td>
<td>Direct Payment To The Societies</td>
<td>508</td>
</tr>
<tr>
<td>XVII.8</td>
<td>Disbursement For The Societies Formed By Flood-Affected People</td>
<td>510</td>
</tr>
<tr>
<td>XVII.9</td>
<td>The Legal Costs</td>
<td>511</td>
</tr>
<tr>
<td>XVII.10</td>
<td>Difficulties In Disbursement Of Loan</td>
<td>514</td>
</tr>
<tr>
<td>XVII.11</td>
<td>The Quantitative Analysis Of Loan Disbursements</td>
<td>518</td>
</tr>
</tbody>
</table>
CHAPTER XVII

THE DISBURSEMENT OF LOANS

XVII.1: Preliminary:

When the title of the primary society to the land is clear and when its first valuation report is received, the Finance Society places it before the meeting of the Board of Directors or the Loan Sub-Committee. The final sanction for the loan and the sanction for the release of the first instalment is accorded in the meeting. This decision is communicated to the borrowing society by a letter. The letter is addressed to the Society and a copy is endorsed to the Solicitors/Advocates concerned. The office-bearers of the borrowing society have to contact the Solicitors/Advocates and fix up the date for the execution of the mortgage deed. When such a date is fixed, it has to be communicated to the Finance Society, which arranges to issue the cheque/draft. The amount of the loan instalment is never given in cash. It is sent by a crossed account payee cheque. The cheque/draft for the amount of the first instalment is sent to the Solicitors/Advocates. They are not to hand over the cheque to the office-bearers of the Society, unless all the legal and procedural requirements are complied with by the borrowing society. What are these requirements?
AVII.2 : What The Solicitors must See?

The procedure of the Finance Society is such that exclusive reliance is placed on the Solicitors/Advocates. Initially, they have to certify that the title of the borrowing society to the property which is to be mortgaged is clear and marketable. Later when the loan is sanctioned and the first instalment is to be disbursed, they have to ensure that the interest of the Finance Society is safeguarded in all the possible ways. What care should the Solicitors/Advocates take to safeguard this interest? In respect of the loan transactions of the Finance Society, following are the normal items of care which must be attended to:

(a) Short-search: If considerable time has passed between the date of certification of title (as clear and marketable), and the actual disbursement of loan, it is likely that the borrowing society might have created some encumbrance on the property which is to be mortgaged to the Finance Society. Since the Finance Society grants loan, on the first legal mortgage of the property, it is necessary to see that there are no prior encumbrances. If these are to be removed, so as to enable the Finance Society to have the first legal mortgage

(b) Resolutions: The necessary resolutions must be passed by the primary society to borrow loans from the Finance Society. The resolutions must also name the office-bearers,
who are authorised to sign on behalf of the society, and to use its seal. Normally, the Chairman, the Secretary and one member of the managing committee are authorised to sign the documents. The Solicitors/Advocates have to ensure that proper and enabling resolutions are passed by the borrowing society. Such resolutions are obtained by him and returned to the Finance Society, along with other documents.

(c) Declarations: The Solicitors/Advocates have also to obtain declarations from the office-bearers of the borrowing societies that there are no disputes pending against the Society. Such declarations should normally also mention that no orders, injunctions or decrees have been passed in respect of the property or on the borrowing society restraining it from carrying out construction or from mortgaging it.

(d) Certificate under Section 230-A of the Income-Tax Act, 1961: According to the requirements of law all transactions pertaining to property have to be cleared as to their tax liabilities, before documents relating to them are registered. A certificate to this effect issued by the Income-Tax Officer is necessary. For obtaining it, an application has to be made to the Income Tax Officer in the form prescribed under Section 230-A(1) and Rule 44-A of the Income Tax Act 1961. When the application is in order and there is nothing objectionable the Income Tax Officer concerned issues a letter addressed to the Registrar/Sub-Registrar. The letter is as follows:
To

The Registrar/Sub-Registrar,

--------------------------------------------------

1. The above-mentioned applicant has been assessed/is assesseable* by me upto __________________________

2. He/She/It* has

* no liabilities outstanding;


Signature -------------------
Designation: Income Tax Officer,
Ward/District/Circle ---------
The Societies are exempted from payment of the tax because the transaction is only in the nature of obtaining loan by executing a mortgage.

Normally, as soon as the letter communicating sanction of the first instalment is received, the representatives of the borrowing societies are briefed by the Solicitors/Advocates to obtain such certificates. The mortgage deed cannot be registered unless the certificate on the above lines is produced before the Sub-Registrar.

XVII.3 : Execution of the Mortgage Deed:

The methodology under study is that of mortgage finance essentially. Execution of the mortgage deed, duly signed by the authorised representatives of the borrowing society create security in favour of the lending institution. The deed binds the executants for the performance of its obligations and vests the mortgagee society with several powers in case of non-performance.

The Transfer of Property Act 1882 defines different types of mortgages. In case of the methodology of finance, under study, the primary (mortgagor) society, executes a mortgage in favour of the Finance (mortgagee) society. In law it is
called an English mortgage.\textsuperscript{1} The mortgage deed is a lengthy document containing all the conditions of the loan to which the mortgagor society agrees. The Finance Society has prepared two standard forms of mortgage deed applicable to tenant co-partnership and tenant ownership types of societies respectively. Considering that the latter type of societies are generally formed in mofussil areas, the forms of mortgage deed applicable to them have been prepared in Marathi. Both these forms have been printed and a nominal price of Rs.2/- per copy is debited to the deposit account of the borrowing society. This standardisation of the form and its printing have helped to reduce the time taken for disbursements.

\textsuperscript{1} Section 58 (e) of the Transfer of Property Act 1882 states: "where the mortgagor binds himself to repay the mortgage money on a certain date and transfers the mortgaged property absolutely to the mortgagee, but subject to a proviso that he will retransfer it to the mortgagor upon payment of the mortgage money as agreed the transaction is called an English Mortgage".

2. The forms are regarded as very long by some.

3. And costs too!
When the mortgage deed is prepared it is to be executed. For this the authorised representatives have to sign on it, as also the witnesses. As stated earlier, the authorised representatives are usually the Secretary, the Chairman and a member of the managing committee. In case of tenant ownership (bungalow) type societies, however, the individual members (to whom separately demarcated plots have been allotted), have also to sign the mortgage deed, as co-mortgagors.

\[ \text{\textbf{VII.4: Admission of Execution of the Mortgage Deed:}} \]

The Solicitors/Advocates do not part with the cheque or draft, unless, after the execution of the mortgage deed, the representatives of the borrowing society, admit the execution. The execution is to be admitted by all the individuals who have signed the mortgage deed. Moreover, it is to be admitted before the Sub-Registrar of Assurances. Under the Indian Registration Act 1908 and Rules thereunder such admission is to be made within 4 months from the date of completion and the execution of the document. However, there is no certainty that all the signatories to the mortgage deed will remain present at one time at an appointed hour. It is, therefore, customary with the Solicitors/Advocates to get the execution of the mortgage deed and the admission of its execution done on the same day, one after the other. On the admission being duly made the cheque or draft is given to the representatives of the borrowing society.
VII.5 : Further Disbursements Of Loan :

When the borrowing society has fully utilised the amount collected from members, as well as the amount of loan drawn as the first instalment from the Finance Society, it can request the Finance Society, to send the Architects for valuation. The valuation report is scrutinized and the Board of Directors or the Loan Sub-Committee sanctions the release of the second instalment. When the second instalment is fully invested in the scheme, it can request for further valuation, on the basis of which the third instalment can be released. Like that the procedure repeats itself until all the sanctioned loan is fully disbursed.

VII.6 : How Many Disbursements ?

According to old rules of the Finance Society, there was no limit on the number of valuations and, therefore, the disbursements. The larger the number of visits by the Architects, the higher would be their total fees and the costs to the society. According to new conditions of loan, which came into force with effect from 1.5.1970, the number of disbursements have been restricted to four only. This is one of the most important policy decisions made by the Finance Society, which has gone to benefit the borrowing societies directly, by reducing their valuation expenses.

---

4. Fuller discussions have been made in Para XI.
Similarly, one more improvement also needs a mention. In past the last instalment was not allowed to be drawn fully if completion certificate was not issued in Municipal areas. The municipalities do not issue completion certificates until all the conditions are fulfilled. This caused unnecessary trouble to the housing societies. According to the new conditions, referred to above, the last instalment can be disbursed even if occupation certificate is received. This has considerably facilitated the drawal of the last instalment.

XVII.7 : Direct Payment To The Societies:

In past the practice was to advance every instalment of loan through the Solicitors. The number of instalments also were not limited, as mentioned in the last para. The result was that for every payment, the office-bearers of the society had to go to the Solicitor's office, execute the receipt and admit execution before the Sub-Registrar. The Solicitors charged a minimum fee of Rs.75/= for the execution of a receipt. This procedure caused hardships to the societies and was also a little expensive. It, however, continued from the beginning till about April 1970.

Under the revised conditions of loan which became effective from 1st May 1970, the sanctioned loan has to be disbursed in four instalments in the following manner:
<table>
<thead>
<tr>
<th>Sr. No. of the installment</th>
<th>Manner of Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First</strong></td>
<td>On execution of the mortgage deed. The cheque/draft for the loan installment is to be given through the Solicitors/Advocates.</td>
</tr>
<tr>
<td><strong>Second</strong></td>
<td>The cheque/draft for the loan installment is to be sent to the borrowing society by Registered Post A.D.</td>
</tr>
<tr>
<td><strong>Third</strong></td>
<td><em>Do</em>. The amount is, however, not sent unless the receipt for the earlier amount sent to the society is received from it.</td>
</tr>
<tr>
<td><strong>Fourth</strong></td>
<td>This installment is also disbursed through the Solicitors/Advocates. A final receipt giving the recital of the earlier disbursements, is got executed from the borrowing societies.</td>
</tr>
</tbody>
</table>

The essence of the above procedure is that the borrowing societies now get the second and third installments directly. It reduced proportionately the time as well as the cost required. This can be regarded as a major step taken by the Finance Society in the simplification of loaning procedure.
The Panshet disaster in July 1961 in Poona rendered many people homeless because of the unprecedented flood. A large number of societies were organised for the rehabilitation of the people affected by the flood. The Finance Society was chosen to be the agency for advancing loans to such societies. The land was granted free by Government. Considering that the members do not have anything to contribute towards the cost of the house and the finance is limited to Rs.10,000/- per house, the sanctioned loan is advanced to the society in four instalments as shown below, as a special case:

<table>
<thead>
<tr>
<th>Instalment</th>
<th>Percentage of Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>20% of the loan when the society has developed land in possession and is in a position of undertaking the construction work immediately and on executing the necessary legal documents in favour of the Finance Society.</td>
</tr>
<tr>
<td>Second</td>
<td>40% of the loan after the construction reaches plinth level as per the approved plans and estimates, provided further that the amount of loan disbursed so far has been fully invested in construction work.</td>
</tr>
<tr>
<td>Third</td>
<td>30% of the loan after the construction reaches roof level and provided further that the loan amount so far disbursed has been duly invested</td>
</tr>
</tbody>
</table>
in construction work.

Fourth Instalment Balance of loan amount after the construction has been completed in all respects and provided further that the amount of loan so far disbursed has been invested in construction work and provision for water supply, street lighting, drainage, sewage and laying of roads have been duly completed and provided further that the construction work has been carried out as per the approved plans and estimates.

It has to be noted that under this special pattern of disbursement, the Finance Society starts advancing loans without insisting on contribution from the members. Only land has to be secured by the society. This pattern of loan advances signifies a departure from the normal practice followed by the Finance Society.

XVII.9 : The Legal Costs :

(a) Fees Charged By The Solicitors :

The Finance Society has prescribed the scales of fees which the Solicitors/Advocates should charge. The scales have been mentioned in Para XIV.3. It appears that the scales prescribed by High Court, provide for payment of the minutest item of work attended to by the Solicitors. This includes
charges for such items as reading the letters, replying them or discussions with the representatives of the society, attending the office of the Collector or Sub-Registrars, writing applications, etc. The total of all the items becomes sizeable and smaller the membership of a society greater becomes the incidence of cost per member. A copy of a detailed bill from a firm of Solicitors, enclosed as Appendix [10], makes the method of charging the borrowing societies clearer. The Solicitors normally always charge the Societies for items relating to investigation of title and execution of mortgage deed - through one bill. This amount in most of the cases exceeds Rs.1,000/=. Similarly for execution of a receipt for a subsequent disbursement a fee of Rs.75/= is normally charged.

(b) Fees Charged By The Advocates:

The loan cases of societies situated out of Greater Bombay are entrusted to Advocates. The Finance Society has also prescribed fees which the Advocates should charge. The scales are simple. These are:

- Maximum Rs.250/= for investigation of title;
- Maximum Rs.150/= for execution of mortgage deed;
- Maximum Rs.50/= for execution of a receipt.

Incidental expenses can be charged extra.
From the above analysis it can be easily seen that the bills charged by the Solicitors are more, compared to the bills charged by the Advocates. The higher limit permissible for each of them is also different. For the Solicitors it is Rs.1,500/=- and for the Advocates it is Rs.400/=. It is, however, seen that in many cases the Solicitors have charged above the ceilings. The Solicitors have lien on the documents if their fees remain unpaid. The representative of Code No.1142, Society from Bombay stated that the Solicitors charged their society Rs.2,700/=- for investigation of title and execution of the mortgage deed and wanted the Society to settle the bill directly. They refused to part with certain records of the Society until the bill was settled. Apparently the procedure followed by the Solicitors was not correct as the bills were to be sent to the Finance Society for payment. Some of the Advocates have also adopted such a stance. A society from Nasik wanted a change of the Advocate because the latter did not part with the cheque of the loan instalment until his bills were settled in full. When the representative of the society pointed out that according to standing orders and the procedure laid down, the Finance Society was to pay the bill to the Advocate, after scrutiny, the Advocate replied that payments by Finance Society took a long time and he did not want to wait till then. He was further reported to have said that he did not care if he was not entrusted with any work by the Finance Society.
In some cases more time is taken in the actual disbursement of loan instalments. Some of the reasons could be traced to factors inherent in the loaning procedure. These have been mentioned below:

(a) Revision of sanctioned loans:

When the societies apply for loan full details regarding the individual members are not furnished, (e.g. their income certificates) and loan cannot finally be sanctioned for such members. The primary society is, however, in a hurry to draw whatever loan has been sanctioned to it for the eligible members, to meet out their liabilities. Later on the relevant details are furnished for all the members, resulting in an increase of the loan amount. This requires execution of a further charge deed, requiring again the presence and signature of the concerned office-bearers. If the revision is too frequent, this procedure has to be repeated. This involves both additional time and cost. The Solicitors usually charge a minimum of Rs. 350/= for the drafting and execution of a further charge deed.

(b) Signature of All the Co-Mortgagors:

In case of tenant-ownership type of housing societies, the plots although owned by the Society are allotted to different individual members. When the loan is to be advanced to such
a society and a mortgage deed is to be executed in addition to the signatures of the office-bearers, those of individual members are also necessary. The reason for this is that in law, in a tenant ownership type of society, the individual members are regarded as co-mortgagors. Such signatures are necessary at the time of:

1. execution of the mortgage deed while obtaining the first loan instalment; or
2. execution of a Rectification or a Modification deed to set right any mistake or addition of new condition or alteration in the earlier covenants of the mortgage deed; or
3. execution of a further charge deed, when additional security is to be added to the mortgaged property or the loan sanctioned earlier is increased to a higher amount.

If the membership of a tenant ownership type of society is small - say 10 or 12, it may not be very difficult for all the members to come together at one time for -

a) execution of the Mortgage/Rectification or a Further Charge deed; or
b) admission of execution of the document before the Sub-Registrar of Assurances.

But if the membership is very large say 50 or above it may not be possible for all the individual members, to assemble
together at one time for the above purpose. The Solicitors/Advocates find it extremely difficult to complete the matter in time. The result may be postponement of a date from time to time. In case of Code No. 253-FF Society from Poona, one of the individual members did not sign the deed, because he had some quarrel with the management. This caused trouble to the management, the Advocate as well as the remaining twelve members. In another case Code No. 849 Society from Sholapur, all the 87 members could not remain present although efforts were made by the Solicitors many times. The Society was in urgent need of funds. The Solicitors, therefore, got the mortgage deed executed from members who were present.

This also causes considerable distress to the individual members and the office-bearers who have to absent from their duties for the particular work. In terms of cost also, such postponement of dates may add to the interest charges on the amount advanced. The Finance Society charges interest from the date of the cheque. If the matter is completed at some future date, interest for the intervening period has to be paid to the Finance Society.

(c) Power Of Attorney:

The above difficulties are, however, not completely unavoidable. Some of the difficulties can be avoided if the management of the borrowing societies get a power of attorney executed from the individual members, authorising the
office-bearers of the society to sign on their behalf on the
documents - whenever it is necessary. It was found, in the
course of discussions, with the representatives of the primary
societies, that they did not get the Power of Attorney, because
they did not know, it was legally possible. Nobody advised them
accordingly. This was truer of the societies from the mofussil
areas.

It appears that the Finance Society can play a positive
role in this sphere. In this context, it should make it
mandatory on the Tenant Ownership type of societies to obtain
such a power, before the first instalment can be drawn. Similarly
it should give adequate publicity to the fact that such a
procedure is legally possible.

(d) Back References by Solicitors/Advocates:

Whenever the Solicitors/Advocates prepare any document -
such as the mortgage deed - they customarily send the draft of
that document for prior approval by the Finance Society. This
procedure is fully tenable in law. But it requires eight to
fifteen days for a clearance from the Finance Society.

It appears that the Finance Society can do away with
the procedure - particularly because it has now a standardised
form of mortgage deed and has got them printed. Only the
details pertaining to each loan case are different and are to
be filled up in the blank spaces.
XVII.1: The Quantitative Analysis Of Loan Disbursements:

The Finance Society being the only agency in the State of Maharashtra, which grants long-term finance to the affiliated co-operative housing societies, considerable responsibility devolves on it. The magnitude, and the pattern of the advances to the primaries automatically assume importance. The quantitative analysis of the disbursements of loans by it to the member societies from this angle is made in the following paragraphs:

(a) The Magnitude of Advances:

The idea regarding the loans disbursed by it to the borrowing societies can be had from the figures in Table XVII.1.

Table XVII.1
Disbursements of Loans Made By The Maharashtra Co-operative Housing Finance Society Ltd., Bombay.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of loan disbursed</th>
<th>Index of pace of disbursements</th>
<th>Progressive Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>34,86,000</td>
<td>100</td>
<td>34,86,000</td>
</tr>
<tr>
<td>1961-62</td>
<td>1,54,77,000</td>
<td>443</td>
<td>1,89,63,000</td>
</tr>
<tr>
<td>1962-63</td>
<td>1,95,23,000</td>
<td>560</td>
<td>3,84,86,000</td>
</tr>
<tr>
<td>1963-64</td>
<td>2,28,69,000</td>
<td>656</td>
<td>6,13,55,000</td>
</tr>
<tr>
<td>1964-65</td>
<td>3,61,88,000</td>
<td>1038</td>
<td>9,75,43,000</td>
</tr>
<tr>
<td>1965-66</td>
<td>1,17,43,000</td>
<td>336</td>
<td>10,92,86,000</td>
</tr>
</tbody>
</table>
Graph XVII.1 indicates the yearly disbursements, during the period 1960-61 to 1970-71.

It can be seen from the Table XVII.1 and Graph XVII.1 that the disbursements increased in the first five years, dropped to a low level in 1965-66 and again consistently increased during the next five years. The reason for low disbursements was the difficulty in obtaining finance from the L.I.C. The borrowing societies - especially those who had undertaken constructions - had to suffer considerably during the period.

The total disbursements in the last five years (1966-67 to 1970-71) were Rs.31,28,72,000/= (annual average comes to Rs.6,25,74,400/=). This was considerably higher than the total disbursements of Rs.10,92,86,000/= (annual average comes to Rs.1,82,14,333/=) during the period of the first six years (i.e. 1960-61 to 1965-66). To a considerable extent, this increase was due to the streamlining of the administration of the Finance Society and also simplification of the conditions and the loaning procedure to some extent.
THE MAHARASHTRA CO-OPERATIVE HOUSING FINANCE SOCIETY LTD., BOMBAY
LOANS ADVANCED TO PRIMARY SOCIETIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans Advanced</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Amount in Lakhs of Rs.</td>
<td>In Greater Bombay %</td>
<td>Out of Bombay %</td>
<td></td>
</tr>
<tr>
<td>1960-61</td>
<td>35</td>
<td>95</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>1961-62</td>
<td>155</td>
<td>98</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1962-63</td>
<td>195</td>
<td>86</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>1963-64</td>
<td>229</td>
<td>82</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>1964-65</td>
<td>362</td>
<td>84</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>1965-66</td>
<td>117</td>
<td>75</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>1966-67</td>
<td>464</td>
<td>84</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>1967-68</td>
<td>539</td>
<td>69</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>1968-69</td>
<td>570</td>
<td>60</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>1969-70</td>
<td>724</td>
<td>59</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>1970-71</td>
<td>831</td>
<td>58</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>

'HOUSEFIN'—housing through cooperation
It is important to see the areas, in which the money advanced by Finance Society has reached. The figures in the Table XVII.2 indicate this.

Diagram XVII.2 shows the spread of cumulative total of advances as at the end of 1970-71.

It can be seen from the figures in the Column Numbers 24 and 25 of the Table XVII.2 that during the course of the last eleven years, out of the total advances of about Rs.42.22 crores, Bombay has accounted for a total of 69.82 per cent (Rs.29.48 crores); Thana District accounted for 10.62 per cent (Rs.4.48 crores); and Poona District for 6.04 per cent (Rs.2.55 crores). The three districts together account for 86.48 per cent (Rs.36.51 crores) of the disbursement.

In Chandrapur, there was no disbursement of loan. In the remaining 22 districts of disbursements were barely 13.52 per cent (Rs.5.71 crores). In fact out of these 22 districts only 1 district accounted for more than 2 per cent, but less than 3 per cent; 4 districts accounted for more than 1 per cent but less than 2 per cent of the total advances each, while the remaining 17 districts received less than 1 per cent each.

An objective interpretation of these figures would suggest that the bulk of finance has been concentrated in the Greater Bombay. The state of affairs must really be embarrassing.
### TABLE XVII.2

**THE MAHARASHTRA CO-OPERATIVE HOUSING FINANCE SOCIETY LIMITED : DISTRICTWISE LOAN ADVANCES IN THE YEARS 1960-61 to 1970-71**

(In Thousand Rupees)

<table>
<thead>
<tr>
<th>DISTRICT</th>
<th>1960-61 to total</th>
<th>1961-62 to total</th>
<th>1962-63 to total</th>
<th>1963-64 to total</th>
<th>1964-65 to total</th>
<th>1965-66 to total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage</td>
<td>Percentage</td>
<td>Percentage</td>
<td>Percentage</td>
<td>Percentage</td>
<td>Percentage</td>
</tr>
<tr>
<td>Greater Bombay</td>
<td>3,295</td>
<td>94.53</td>
<td>15,180</td>
<td>98.08</td>
<td>16,796</td>
<td>86.01</td>
</tr>
<tr>
<td>Thana</td>
<td>2.06</td>
<td>266</td>
<td>1.72</td>
<td>2,098</td>
<td>10.74</td>
<td>2,114</td>
</tr>
<tr>
<td>Nasik</td>
<td>60</td>
<td>1,72</td>
<td>33</td>
<td>1.16</td>
<td>0.06</td>
<td>0.06</td>
</tr>
<tr>
<td>Dhulia</td>
<td>59</td>
<td>1,799</td>
<td>31</td>
<td>0.80</td>
<td>12</td>
<td>75</td>
</tr>
<tr>
<td>Ratnapuri</td>
<td>31</td>
<td>0.33</td>
<td>110</td>
<td>0.30</td>
<td>12</td>
<td>75</td>
</tr>
<tr>
<td>Jalgaon</td>
<td>31</td>
<td>0.33</td>
<td>110</td>
<td>0.30</td>
<td>12</td>
<td>75</td>
</tr>
<tr>
<td>Alibag</td>
<td>31</td>
<td>0.33</td>
<td>110</td>
<td>0.30</td>
<td>12</td>
<td>75</td>
</tr>
<tr>
<td>Poona Division</td>
<td>191</td>
<td>5.47</td>
<td>297</td>
<td>1.92</td>
<td>2,143</td>
<td>10.96</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Shir</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Wardha</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Osmanabad</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Nagpur Division</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Amravati</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Teotmal</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Akola</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Chandrapur</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Wardha</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Mulchana</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>NAGPUR DIVISION</td>
<td>81</td>
<td>0.42</td>
<td>400</td>
<td>1.75</td>
<td>651</td>
<td>1.80</td>
</tr>
<tr>
<td>Grand Total</td>
<td>3,128</td>
<td>100.00</td>
<td>15,477</td>
<td>100.00</td>
<td>19,523</td>
<td>100.00</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------</td>
<td>---------------------------------</td>
<td>-----------------</td>
<td>---------------------------------</td>
<td>-----------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Greater Bombay</td>
<td>38,463</td>
<td>37,458</td>
<td>34,531</td>
<td>34,531</td>
<td>32,470</td>
<td>32,470</td>
</tr>
<tr>
<td>Thana</td>
<td>3,447</td>
<td>3,192</td>
<td>2,751</td>
<td>2,751</td>
<td>2,312</td>
<td>2,312</td>
</tr>
<tr>
<td>Nasik</td>
<td>607</td>
<td>574</td>
<td>523</td>
<td>523</td>
<td>481</td>
<td>481</td>
</tr>
<tr>
<td>Dhulia</td>
<td>196</td>
<td>181</td>
<td>221</td>
<td>221</td>
<td>189</td>
<td>189</td>
</tr>
<tr>
<td>Ratnagiri</td>
<td>--</td>
<td>--</td>
<td>124</td>
<td>124</td>
<td>101</td>
<td>101</td>
</tr>
<tr>
<td>Jalgaon</td>
<td>--</td>
<td>--</td>
<td>38</td>
<td>38</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Alibag</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>POONA DIVISION</td>
<td>1,477</td>
<td>1,058</td>
<td>1,981</td>
<td>1,981</td>
<td>1,981</td>
<td>1,981</td>
</tr>
<tr>
<td>Sholapur</td>
<td>--</td>
<td>333</td>
<td>566</td>
<td>566</td>
<td>418</td>
<td>418</td>
</tr>
<tr>
<td>Sangli</td>
<td>--</td>
<td>715</td>
<td>570</td>
<td>570</td>
<td>499</td>
<td>499</td>
</tr>
<tr>
<td>Satara</td>
<td>411</td>
<td>62</td>
<td>113</td>
<td>113</td>
<td>94</td>
<td>94</td>
</tr>
<tr>
<td>Ahmednagar</td>
<td>130</td>
<td>334</td>
<td>415</td>
<td>415</td>
<td>379</td>
<td>379</td>
</tr>
<tr>
<td>Kolhapur</td>
<td>591</td>
<td>694</td>
<td>864</td>
<td>864</td>
<td>770</td>
<td>770</td>
</tr>
<tr>
<td>POONA DIVISION</td>
<td>2,609</td>
<td>3,206</td>
<td>7,438</td>
<td>7,438</td>
<td>7,438</td>
<td>7,438</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>80</td>
<td>340</td>
<td>815</td>
<td>815</td>
<td>704</td>
<td>704</td>
</tr>
<tr>
<td>Bhir</td>
<td>20</td>
<td>14</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Nanded</td>
<td>--</td>
<td>411</td>
<td>583</td>
<td>583</td>
<td>457</td>
<td>457</td>
</tr>
<tr>
<td>Parbhani</td>
<td>38</td>
<td>0.08</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Osmanabad</td>
<td>141</td>
<td>157</td>
<td>418</td>
<td>418</td>
<td>338</td>
<td>338</td>
</tr>
<tr>
<td>AURANGABAD DIVISION</td>
<td>279</td>
<td>922</td>
<td>1,821</td>
<td>1,821</td>
<td>1,821</td>
<td>1,821</td>
</tr>
<tr>
<td>Nagpur</td>
<td>377</td>
<td>309</td>
<td>1,154</td>
<td>1,154</td>
<td>1,154</td>
<td>1,154</td>
</tr>
<tr>
<td>Amraoti</td>
<td>--</td>
<td>275</td>
<td>1002</td>
<td>1002</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>Yeotmal</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Akola</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Chandrapur</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Wardha</td>
<td>--</td>
<td>78</td>
<td>100</td>
<td>100</td>
<td>88</td>
<td>88</td>
</tr>
<tr>
<td>Buldhana</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Bhandara</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>NAGPUR DIVISION</td>
<td>337</td>
<td>662</td>
<td>1,636</td>
<td>1,636</td>
<td>1,636</td>
<td>1,636</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>11,82,666</td>
<td>11,82,666</td>
<td>11,82,666</td>
<td>11,82,666</td>
<td>11,82,666</td>
<td>11,82,666</td>
</tr>
</tbody>
</table>
THE MAHARASHTRA CO-OPERATIVE HOUSING FINANCE SOCIETY LTD.
PATTERN OF CUMULATIVE LOAN DISBURSEMENTS TILL 30TH JUNE 1971

TOTAL LOAN DISBURSED - RS. 2,21,58,000

BOMBAY DIVISION
Rs. 35,70,18,000
- Greater Bombay Rs. 29,47,57
- Thana District Rs. 4,48,19
- Nasik District Rs. 99,07
- Dhulia District Rs. 58,53
- Ratnagiri District Rs. 3,01
- Jalgaon District Rs. 7,59
- Kolaba District Rs. 6,22

POONA DIVISION
Rs. 3,89,98,000
- Poona District Rs. 2,55,03
- Solapur District Rs. 13,98
- Sangli District Rs. 19,86
- Satara District Rs. 10,48
- Ahmednagar Dist Rs. 24,35
- Kolhapur District Rs. 66,28

AURANGABAD DIVISION
Rs. 1,18,26,000
- Aurangabad Dist. Rs. 53,65
- Bhir Dist. Rs. 3,53
- Nanded Dist. Rs. 37,55
- Parbhani Dist. Rs. 1,32
- Osmanabad Dist. Rs. 22,21

NAGPUR DIVISION
Rs. 1,43,16,000
- Nagpur District Rs. 70,37
- Amravati District Rs. 35,50
- Yeotmal District Rs. 28,39
- Akola District Rs. 5,43
- Chandrapur Dist. Rs. 1,65
- Buldhana Dist. Rs. 1,78
- Bhandara Dist.

'HOUSEFIN'—housing through cooperation
for an institution which has the entire State as its area of operation. Such trend appears to be inevitable at least in the first few years until such a time that the co-operative housing movement spreads in all the areas of the State. It is also discernible in the advances made by the Gujarat Co-operative Housing Finance Society Ltd. (see Table XVIII.3 below).

Table XVIII.3
Cumulative Total Of Advances In Different Districts of Gujrat Made By The Gujrat Co-operative Housing Finance Society Ltd.

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>District</th>
<th>Cumulative total of advances till 30-6-1968.</th>
<th>Percentage of the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ahmedabad</td>
<td>13,58,59,000</td>
<td>68.53</td>
</tr>
<tr>
<td>2</td>
<td>Baroda</td>
<td>3,27,92,000</td>
<td>16.54</td>
</tr>
<tr>
<td>3</td>
<td>Surat</td>
<td>60,56,000</td>
<td>3.06</td>
</tr>
<tr>
<td>4</td>
<td>Bulsar</td>
<td>12,87,000</td>
<td>0.64</td>
</tr>
<tr>
<td>5</td>
<td>Broach</td>
<td>7,41,000</td>
<td>0.37</td>
</tr>
<tr>
<td>6</td>
<td>Kaira</td>
<td>19,28,000</td>
<td>0.97</td>
</tr>
<tr>
<td>7</td>
<td>Panchmahals</td>
<td>5,83,000</td>
<td>0.29</td>
</tr>
<tr>
<td>8</td>
<td>Mehsana</td>
<td>70,77,000</td>
<td>3.58</td>
</tr>
<tr>
<td>9</td>
<td>Banaskantha</td>
<td>3,75,000</td>
<td>0.19</td>
</tr>
<tr>
<td>10</td>
<td>Sabarkantha</td>
<td>13,75,000</td>
<td>0.69</td>
</tr>
<tr>
<td>11</td>
<td>Surendranagar</td>
<td>50,24,000</td>
<td>2.53</td>
</tr>
<tr>
<td>12</td>
<td>Rajkot</td>
<td>17,62,000</td>
<td>0.89</td>
</tr>
</tbody>
</table>
It is, however, to be noted that the figures in the last column of Table XVII.2 reflect the position of cumulative loan advances as on June 30, 1971. The year-to-year areawise change in the pattern of advances is reflected in the figures in the column numbers 1 to 23 of the same table. The figures in the Table XVII.4 below, summarise the effect of the change in the pattern of advances of loans as between Bombay and others during different years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total disbursements of loan in '000' Rs.</th>
<th>Disbursements in '000' Rupees in Bombay</th>
<th>% to total</th>
<th>in other areas</th>
<th>% to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>3,486</td>
<td>3,295</td>
<td>94.53</td>
<td>191</td>
<td>5.47</td>
</tr>
<tr>
<td>1961-62</td>
<td>15,477</td>
<td>15,180</td>
<td>98.08</td>
<td>297</td>
<td>1.92</td>
</tr>
</tbody>
</table>

Source: Annual Report Of The Society For The Year 1967-68.
The total of column (3) in relation to the same of Col. (2) of Table XVII.4 shows the dominant position held by Bombay as far as the total finances are concerned. The housing shortage in Bombay being proverbial, the bulk of the demand has come from the societies from Greater Bombay area. It has been seen in Chapter XI that the Finance Society had introduced certain changes in the conditions for loans in 1960, in 1967 and again in May 1970, under which relaxation was made in favour of societies from areas out of Bombay. The approach of the Society, has also becomes selective and incentive-oriented in case of such societies. This has resulted in the gradual expansion of credit in areas other than Bombay. The percentage of loan advanced in

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans (in Rs.)</th>
<th>Interest (in Rs.)</th>
<th>Interest %</th>
<th>Eligible (in Rs.)</th>
<th>Eligible %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>19,523</td>
<td>16,796</td>
<td>86.03</td>
<td>2,727</td>
<td>13.97</td>
</tr>
<tr>
<td>1963-64</td>
<td>22,869</td>
<td>18,668</td>
<td>81.63</td>
<td>4,201</td>
<td>18.37</td>
</tr>
<tr>
<td>1964-65</td>
<td>36,188</td>
<td>30,344</td>
<td>83.85</td>
<td>5,844</td>
<td>16.15</td>
</tr>
<tr>
<td>1965-66</td>
<td>11,743</td>
<td>8,760</td>
<td>74.60</td>
<td>2,983</td>
<td>25.40</td>
</tr>
<tr>
<td>1966-67</td>
<td>46,438</td>
<td>38,963</td>
<td>83.90</td>
<td>7,475</td>
<td>16.10</td>
</tr>
<tr>
<td>1967-68</td>
<td>53,939</td>
<td>37,458</td>
<td>69.44</td>
<td>16,481</td>
<td>30.56</td>
</tr>
<tr>
<td>1968-69</td>
<td>57,027</td>
<td>34,531</td>
<td>60.56</td>
<td>22,496</td>
<td>39.44</td>
</tr>
<tr>
<td>1969-70</td>
<td>72,351</td>
<td>42,470</td>
<td>58.71</td>
<td>29,881</td>
<td>41.29</td>
</tr>
<tr>
<td>1970-71</td>
<td>83,117</td>
<td>48,292</td>
<td>58.18</td>
<td>34,825</td>
<td>41.82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,22,158</strong></td>
<td><strong>2,94,757</strong></td>
<td><strong>60.82</strong></td>
<td><strong>1,27,401</strong></td>
<td><strong>39.18</strong></td>
</tr>
</tbody>
</table>

Source: Annual Reports Of The Finance Society For Different Years.
such areas increased from 5.47 per cent in 1960-61 to 25.40 per cent in 1965-66 and 41.82 per cent in 1970-71.

This was clearly the result of the conscious and selective policy mentioned above. This policy has helped to bring about a more equitable spread of the finance made by this Society.

(c) Loans in Areas Other Than Bombay:

The above analysis may not, however, explain the real situation, because outside Bombay, areas like Thana and Poona have been able to attract more finance. It will, therefore, be more instructive to examine the trend in the yearwise advances in areas out of Bombay. Table XVII.5 below indicates the amount advanced in Thana, Poona and the remaining districts of the State, separately and relates it to total finance, out of Bombay in different years.

Table XVII.5
Loans Disbursed In Thana, Poona and Other Areas Of The State By The Maharashtra Co-operative Housing Finance Society Ltd.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total disbursements of finance in areas other than Bombay</th>
<th>Thana Dist.</th>
<th>Poona Dist.</th>
<th>Other Dist.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount % to Col(2)</td>
<td>Amount % to Col(2)</td>
<td>Amount % to Col(2)</td>
<td>Amount % to Col(2)</td>
</tr>
<tr>
<td>1960-61</td>
<td>191</td>
<td>-</td>
<td>-</td>
<td>72</td>
</tr>
<tr>
<td>1961-62</td>
<td>297</td>
<td>-</td>
<td>-</td>
<td>266</td>
</tr>
</tbody>
</table>
From the figures in Table XVII.5 it is seen that during the first three years, there were no advances in Thana District. However, these assumed importance in subsequent years. Now Thana is important, next only to Bombay. Proximity to Bombay and development of Co-operative Housing in Dombivali, Ulhasnagar and Ambarnath areas was responsible for this. Thana District surpassed Poona district in 1966-67 and has held that position of primacy since then. In the last three years, the finance to societies in Thana district was approximately double than that in Poona District. 

Source: Annual Reports Of The Finance Society For Different Years.
It is, however, seen that the finance to societies in other districts surpassed the same in Thana and Poona for the first time in 1970-71. This is a welcome trend, which has helped to make the finance broad-based and its distribution more equitable.
Chapter XVIII The Repayment Of Loans 531 - 581
XVIII.1 Preliminary 531
XVIII.2 No Reasons For Overdues 531
XVIII.3 The Board Rules 533
XVIII.4 The Period Of Repayments 534
XVIII.5 The Rate Of Interest 536
XVIII.6 The Prohibitive Rate Of Penal Interest 538
XVIII.7 The Mode Of Repayment 541
XVIII.8 Implications Of The System of Equated Instalments 544
XVIII.9 When Should The Repayment start ? 549
XVIII.10 Advance Payments 551
XVIII.11 The Payment Of Rebate 552
XVIII.12 The Overdues 554
XVIII.13 Procedure For Recovery Of Arrears 554
XVIII.14 The Effectiveness Of Recovery Measures 556
XVIII.15 Case-Study Of An Auction 559
XVIII.16 Difficulties Of Recovering Dues From Tenant Ownership Societies 563
XVIII.17 Auction Of All The Property 565
XVIII.18 Section 101 Of The Maharashtra Co-operative Societies' Act 566
XVIII.19 Co-operative Courts 571
XVIII.20 Appointment Of An Administrator 571
XVIII.21 Group Insurance 575
XVIII.22 The Reconveyance Of The Property 578
XVIII.1: Preliminary:

The regular repayments from the borrowers is of great importance to any financial institution. A high percentage of overdues indicates an interruption in the smooth reverse flow of credit to the source, from where it had originated. The overdues - if they become abnormally high - eat into the vitals of an institution, and can endanger its very existence. A careful financier must, therefore, have a satisfactory administrative machinery, for the recovery of arrears, due from the borrowers. A better step, however, is to decipher the reasons which are responsible for the arrears and to remove them - before they get rooted.

XVIII.2: No Reasons For Overdues?

It is argued often that there appears to be no reason for arrears in the realm of housing finance, if we compare it, with the field of agricultural or industrial finance. The income of an agriculturist depends on satisfactory rainfall. The failure of the monsoons, will be responsible for the failure of the crops and may directly affect the repayment capacity of an agriculturist. In case of industry also the product introduced by an industrialist, in the market, must evoke response from the public. If it does not, it will impair
the economics of repayments. It is, therefore, argued that since the repayments of the credit obtained for housing construction do not depend on situations arising from the vagaries of the monsoons or the behaviour of the capricious market forces, there should be no overdues in this sector. This however, appears to be partially true. It is acceptable, that once the member 'moves in' the flat, there should be no reason normally, for the interruption of the repayment process. This is true, especially because the loans are sanctioned by the Finance Society with reference to the incomes of the beneficiary members. The incomes broadly indicate repayment capacity. If this capacity continues unabated throughout the currency of loan, i.e., during the period of twenty years, the only factor that can impede the process of repayment, is the death of a beneficiary member. Such contingency will also now not arise because the lives of these beneficiaries will have been insured under the Group Insurance Scheme, introduced by the Life Insurance Corporation and made compulsory from 1st July 1971. The other reasons responsible for the interruption of the repayment process appear to be:

1) Incomplete constructions: where construction is delayed inordinately beyond the promised time and members are not willing to pay;

---
1. Please see page 573. Para XVM.22. for Scheme.
ii) Internal feuds and litigations: where members get divided into different groups and one group refuses to pay;

iii) Loss of faith in management: when members come to know about the malpractices of the promoters/management they refuse to pay.

These reasons have been found in the findings of the survey of borrowing societies, appearing in Part IV. The logical imperative under the circumstances would, therefore, appear to be that the Finance Society should have enough weapons in its armoury, to deal effectively, with such situations. The financial stakes being high, such administrative equipment appears to be absolutely necessary.

XVIII.3: The Board Rules:

The borrowing primaries have to accept the conditions of loans advanced to them. They bind themselves to abide by such conditions by executing a mortgage deed. The detailed covenants in the mortgage deed set out interalia the rules and procedure for repayment of dues by the mortgagor society. These also mention the remedies available to the Mortgagee Society, in case of non-repayment. These covenants broadly provide for the following:

1) The loan is to be repaid in 20 years by eighty quarterly instalments of equal amounts;

2. These are partly based on the provisions of Transfer of Property Act 1882.
ii) The rate of interest chargeable to the primary societies initially will be 1 per cent above its own borrowing rate. A rebate of 1/2 per cent will be allowed for regular payments;

iii) In case of non-repayment, the Finance Society can call back all the loan;

iv) For the recovery of dues it can appoint a Receiver, whose powers are specifically mentioned in the mortgage-deed.

v) The Finance Society can put the mortgaged property to auction - without the intervention of a Court.

vi) The borrowing societies can repay the loan before the scheduled dates in the prescribed manner.

XVIII.4 : The Period Of Repayment:

The Life Insurance Corporation grants loans to the Finance Society for twenty years. The latter also advances loans to the primary societies for twenty years. The period of repayment at both the levels is the same.

This, does not appear, to be a good arrangement, for the Finance Society, at least, from one point of view. The Finance Society has never defaulted any loan instalment payable to the Life Insurance Corporation. The State Government has also guaranteed, the payment of principal and interest by the Finance Society to the Life Insurance Corporation. On the other hand, the latter has to contend, with the situation of
increasing overdues, because of non-payment of loan instalments, by the borrowing primaries (such overdues are increasing, especially during the last five years). Further, nobody has guaranteed the repayment of dues, by the primary societies, to the Finance Society. The Finance Society, has to bear the adverse effects of overdues by itself without anybody’s help. It has, at the same time, to continue to honour the due payments to the Life Insurance Corporation on the scheduled dates. The impact of this responsibility becomes onerous because the period is same, i.e., twenty years at both the levels.

Some cushion for absorbing the pressure of overdues can be made available to Finance Society, if the Life Insurance Corporation agrees for the repayment of 25 years instead of the present 20. The Finance Society may continue to collect its dues within 20 years as at present. The difference of 5 years at two levels will have a salutary effect on the finances of the Finance Society.

The other logical alternative, if the Life Insurance Corporation does not agree to increase the period to 25 years would be, to reduce the period of repayment by the primary housing societies. This will have the effect of increasing the amount (or size) of the quarterly equated instalment. This will be opposed vehemently (and rightly) by the borrowing societies because even with the present period of 20 years they
have to pay more than double the amount of the principal. It is, however, certain that the Finance Society has not taken up this issue very seriously with the Life Insurance Corporation authorities. Many a representative of the borrowing societies have expressed surprise, at the attitude of indifference or lack of initiative, on the part of the Finance Society, towards an issue, which is of vital importance to itself, as well as to its affiliates.

XVIII.5: The Rate Of Interest:

The rate of interest, which the Finance Society can charge to the borrowing primaries, should not be, more than 3¾ above the Bank Rate, subject to a maximum of 1.1/2 p.c. over the borrowing rate (condition number 15, for grant of loans).

In actual practice, it is seen that Life Insurance Corporation as the only supplier of credit has its own say in the matter. It has stipulated, that the net margin, available

3. At the present rate of interest, i.e., 8.3/4 p.c. p.a., the societies have to pay Rs.2,658/- in 20 years, if the principal amount advanced is Rs.1,000/-.

4. In fact, the Life Insurance Corporation had prescribed a period of 25 years in the case of the sixth, seventh and eighth loans granted to the Finance Society with the arrangements for the creation of Sinking Fund. The period of repayment was subsequently reduced to 20 years.
to the Finance Society should not exceed 1/2 per cent. (Formerly this was 1 per cent). The Life Insurance Corporation therefore, fixes up the maximum rate that should be charged to the primary societies. The Finance Society has no freedom to increase the margin.

The present\(^5\) borrowing rate of the Finance Society is 7 p.c. p.a. Initially, it adds 1 per cent above this and charges the primaries at 8%. For regular payments, it gives away 1/2 per cent rebate. It, therefore, operates within 1/2 per cent margin. After the introduction of the scheme of group insurance by the Life Insurance Corporation, 3/4 p.c. more interest is charged to the societies as the cost of insurance. The Finance Society, shall pay directly to the Life Insurance Corporation, the premium in lump sum on behalf of the beneficiary members of the borrowing societies and recover this cost, by charging a higher rate of interest.

It is seen\(^6\) that the Finance Society has not adopted a differential structure of interest rates in relation to different areas so as to promote development of co-operative housing in backward or rural areas. Hitherto, it had also not charged lower rates, to distressed people (such as flood affected) or to economically or socially backward classes.

\(^5\) On 30th June 1971.

\(^6\) Discussion of the differential approach has been made in Para XI.38.
mostly because it had very little scope for manoeuvring within the overall rules, prescribed by the L.I.C. For the first time however, in 1971, it agreed with the State Government to have only 1/4 p.c. margin (instead of usual 1/2 per cent) over its borrowing rate in respect of the financing of backward class housing schemes. It has, therefore, attempted to contribute its mite in assisting the cause of "social housing" - although in a small way. It was for the first time in our country that a State-level finance society was asked to undertake basic financing of backward class - Post-war Reconstruction Scheme 219 - for housing.  

XVIII.6 : The Prohibitive Rate Of Penal Interest:

About the penal rate of interest, there is one point of criticism, against the Finance Society. The Finance Society calls this, as the compensatory rate of interest and is charged on the instalments not paid in time. This rate is the same as the normal rate. (At present (in June 1971), the rate of 8.3/4%, the compensatory rate would be 8.3/4% extra. It means that on the principal amount defaulted, the societies would be required to pay the interest at 17.1/2 per cent). It is, therefore, argued that this rate of penal interest is too high.

7. Board of Directors Resolution No. 53, passed in the meeting held on 25-3-1971.

or prohibitive. This is apparently so. It will, however, be instructive to note as to how much penal interest is being charged by other financing institutions.

**STATEMENT NO. XVIII.1**

Normal and Penal Rates Of Interest Charged By Different Institutions.
(Around June 1971)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Institution</th>
<th>Normal Rate Of Interest</th>
<th>Penal rate of interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Maharashtra State Co-op. Bank Ltd.</td>
<td>a) Concessional finance To Central Financing Agencies. to 6.1/2%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>b) Reimbursement Finance To Central Finance Agency 8.1/4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>c) Direct Finance To Co-operative 6% to 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) By State Co-op. Land Mortgage Bank to Primary Land Development Banks. 7.1/2%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) By Primary Land Development Banks To the ultimate borrowers. 9%</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>
Finance from Agriculture
Refinance Corporation

The ultimate borrower has to pay 6.1/2 p.c. while the economic lending rate of the State Land Mortgage Bank is 9%. The difference of 2.1/2% is paid by the Government of Maharashtra.

3. Maharashtra State Finance Corporation
   Minimum 6%  No penal interest
   Maximum 11.1/2%

4. Industrial Finance Corporation
   Foreign Loan 9.1/2% Nil.
   Rupee Loan 9% less 1/2% rebate for regular payments.

5. Industrial Development Bank of India
   Direct Lending
     To Public Limited Companies.
     Min. 5% 1/2% simple.
     Max. 6.1/2% simple.

Refinance:
   State Finance Corporation; Min. 4.1/2% 1/2% simple.
   Commercial Banks; Max. 6.1/2%
   Exports.

6. Agricultural Refinance Corporation
   Finance to:
     a) Scheduled Commercial Banks.
     b) State Co-op. Banks.
     c) Land Mortgage Banks.
     d) District Central Co-op. Banks.

   6.1/2% chargeable by the Corporation.
   9% to ultimate borrower.
   Nil.

Min. 9 p.c.
Max. 2 paise per rupee per month i.e. 24 p.c.

XVIII.7 : The Mode Of Repayment :

The primary societies have to repay the loan in 20 years. Such payments are to be made in 80 quarterly instalments. These are equated instalments. Under the equated system of payments the total instalment remains the same throughout the period of twenty years for all the eighty instalments. However, the interest portion is more than the principal portion in the first period. As period advances, the interest portion goes on reducing, while the principal portion goes on increasing. The table given below, gives the repayment of Rs.1,000/- over the period of twenty years.

TABLE No. XVIII.1
Repayment of a loan of Rs.1,000/- in 80 quarterly equated instalments at a rate of 8.3/4% per annum.

<table>
<thead>
<tr>
<th>Quarterly Installment Number</th>
<th>Quarterly Equated Instalment of Rs.26.58</th>
<th>Principal outstanding at the end</th>
<th>Interest paid at the end</th>
<th>Principal repaid at the end</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>21.87</td>
<td>4.71</td>
<td>995.29</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>21.77</td>
<td>4.81</td>
<td>990.48</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>21.66</td>
<td>4.92</td>
<td>985.56</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>21.55</td>
<td>5.03</td>
<td>980.53</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>21.44</td>
<td>5.14</td>
<td>975.39</td>
<td></td>
</tr>
<tr>
<td></td>
<td>21.33</td>
<td>5.25</td>
<td>970.14</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>21.21</td>
<td>5.37</td>
<td>964.77</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>21.09</td>
<td>5.49</td>
<td>959.28</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>20.97</td>
<td>5.61</td>
<td>953.67</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>20.85</td>
<td>5.73</td>
<td>947.94</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>20.74</td>
<td>5.84</td>
<td>942.10</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>20.61</td>
<td>5.97</td>
<td>936.13</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>20.47</td>
<td>6.11</td>
<td>930.02</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>20.34</td>
<td>6.24</td>
<td>923.78</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>20.21</td>
<td>6.37</td>
<td>917.41</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>20.06</td>
<td>6.52</td>
<td>910.89</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>19.93</td>
<td>6.65</td>
<td>904.24</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>19.78</td>
<td>6.80</td>
<td>897.44</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>19.63</td>
<td>6.95</td>
<td>890.49</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>19.48</td>
<td>7.10</td>
<td>883.39</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>19.33</td>
<td>7.25</td>
<td>876.14</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>19.16</td>
<td>7.42</td>
<td>868.72</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>19.00</td>
<td>7.58</td>
<td>861.14</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>18.84</td>
<td>7.74</td>
<td>853.40</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>18.66</td>
<td>7.92</td>
<td>845.48</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>18.50</td>
<td>8.08</td>
<td>837.40</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>18.32</td>
<td>8.26</td>
<td>829.14</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>18.13</td>
<td>8.45</td>
<td>820.69</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>17.95</td>
<td>8.63</td>
<td>812.06</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>17.77</td>
<td>8.81</td>
<td>803.25</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>17.58</td>
<td>9.00</td>
<td>794.25</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>17.37</td>
<td>9.21</td>
<td>785.04</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>17.17</td>
<td>9.41</td>
<td>775.63</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>16.97</td>
<td>9.61</td>
<td>766.02</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>16.76</td>
<td>9.82</td>
<td>756.20</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>16.54</td>
<td>10.04</td>
<td>746.16</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>16.32</td>
<td>10.26</td>
<td>735.00</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>16.10</td>
<td>10.48</td>
<td>725.42</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>15.87</td>
<td>10.71</td>
<td>714.71</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>15.63</td>
<td>10.95</td>
<td>703.76</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>15.40</td>
<td>11.18</td>
<td>692.58</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>15.15</td>
<td>11.43</td>
<td>681.15</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>14.90</td>
<td>11.68</td>
<td>669.47</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>14.65</td>
<td>11.93</td>
<td>657.54</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>14.38</td>
<td>12.20</td>
<td>645.34</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>46</td>
<td>14.11</td>
<td>12.47</td>
<td>632.87</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>13.84</td>
<td>12.74</td>
<td>620.13</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>13.57</td>
<td>13.01</td>
<td>607.12</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>13.29</td>
<td>13.29</td>
<td>593.83</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>12.99</td>
<td>13.59</td>
<td>580.24</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>12.69</td>
<td>13.89</td>
<td>566.35</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>12.39</td>
<td>14.19</td>
<td>552.16</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>12.08</td>
<td>14.50</td>
<td>537.66</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>11.76</td>
<td>14.82</td>
<td>522.84</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>11.44</td>
<td>15.14</td>
<td>507.70</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>11.10</td>
<td>15.48</td>
<td>492.22</td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>10.77</td>
<td>15.81</td>
<td>476.41</td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>10.42</td>
<td>16.16</td>
<td>460.25</td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>10.07</td>
<td>16.51</td>
<td>443.74</td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>9.71</td>
<td>16.87</td>
<td>426.87</td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>9.34</td>
<td>17.24</td>
<td>409.63</td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>8.96</td>
<td>17.62</td>
<td>392.01</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>8.77</td>
<td>18.01</td>
<td>374.00</td>
<td></td>
</tr>
<tr>
<td>64</td>
<td>8.18</td>
<td>18.40</td>
<td>355.60</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>7.78</td>
<td>18.80</td>
<td>336.80</td>
<td></td>
</tr>
<tr>
<td>66</td>
<td>7.37</td>
<td>19.21</td>
<td>317.59</td>
<td></td>
</tr>
<tr>
<td>67</td>
<td>6.95</td>
<td>19.63</td>
<td>297.96</td>
<td></td>
</tr>
<tr>
<td>68</td>
<td>6.52</td>
<td>20.06</td>
<td>277.90</td>
<td></td>
</tr>
<tr>
<td>69</td>
<td>6.07</td>
<td>20.51</td>
<td>257.39</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>5.62</td>
<td>20.96</td>
<td>236.43</td>
<td></td>
</tr>
<tr>
<td>71</td>
<td>5.17</td>
<td>21.41</td>
<td>215.02</td>
<td></td>
</tr>
<tr>
<td>72</td>
<td>4.70</td>
<td>21.88</td>
<td>193.14</td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>4.23</td>
<td>22.35</td>
<td>170.79</td>
<td></td>
</tr>
<tr>
<td>74</td>
<td>3.74</td>
<td>22.84</td>
<td>147.95</td>
<td></td>
</tr>
<tr>
<td>75</td>
<td>3.24</td>
<td>23.34</td>
<td>124.61</td>
<td></td>
</tr>
<tr>
<td>76</td>
<td>2.73</td>
<td>23.85</td>
<td>100.76</td>
<td></td>
</tr>
<tr>
<td>77</td>
<td>2.21</td>
<td>24.37</td>
<td>76.39</td>
<td></td>
</tr>
<tr>
<td>78</td>
<td>1.67</td>
<td>24.91</td>
<td>51.48</td>
<td></td>
</tr>
<tr>
<td>79</td>
<td>1.12</td>
<td>25.86</td>
<td>26.02</td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>0.56</td>
<td>26.02</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total in 20 years. 1,658.00 1,000.00

The adjoining Graph No. XVIII.1 illustrates the repayment. The dotted line indicates total repayments. The dark line
QUARTERLY REPAYMENT OF A LOAN OF RUPEES ONE LAKH IN EIGHTY INSTALMENTS.

Legend:
- Line TP: Total installment per quarter, i.e., interest plus principal.
- Line IP: Interest payment per quarter.
- Line PP: Principal repayment every quarter.

Data:
- Rate of interest: 8.5% p.a.
- Amount of total quarterly installment: Rs. 3658.
indicates payment of interest and the faint line repayment of principal over the twenty years period. At 8.3/4% rate of interest, the interest portion is more up to 48th quarter, i.e., for the first 12 years.

XVIII.8 : Implications Of The System Of Equated Instalments:

(a) From the point of view of the Finance Society:

1. The interest collections from the borrowing societies are vastly more in the initial period. It, therefore, leads to high profits initially. If the profits are to be maintained, the tempo of loan advances will also have to be maintained, at a high level.

2. The repayments of loan by the Finance Society, to the L.I.C. are, however, different. The interest payments are half-yearly. The principal is repaid annually, by 20 equal instalments. The results of this disparity are examined in details in Para VIII. The Finance Society has never represented its case to the L.I.C. to obtain parity between the two modes of payments.

(b) From the point of view of the borrowing societies:

1. The societies get 1/2 per cent rebate on the amount of interest paid to the Finance Society. Since, the societies pay more interest in the initial stage, they also get more rebate during that period. Repayments start immediately and
continue during the construction period. The tendency of the
societies is not to pay the loan instalments, during the
construction period, but allow the deductions of over-dues from
further advances of loan instalments. This deprives them of
the advantage of getting more rebate on higher interest
payments in the initial period. The sharpness of the situation
increases in cases where the professional builders form
societies; take the first instalment; but delay completion or
desert the scheme. The study of incomplete schemes9 shows the
travails of the individual members in such cases, where the
implications of the procedures are never explained to them.
The finance society has also never taken steps for giving posi-
tive publicity to such implications. Such publicity will be
useful in its own interest, because it will be helpful in
attracting regular payments.

2. The amount which the borrowing societies pay to the
Finance society during the period of repayment, i.e., twenty
years, depends on the rate of interest. What is the quantum
of such repayments, at different rates of interest? The
following table shows this:

9. Chapter XXIII. Para. X*IV. 14
The figures in Table XVIII.2 above show that the borrowing societies have to pay considerably large amount by way of interest. Column No. 5 shows the actual amount of interest payable at different rates. It is seen that at 8% rate the actual amount of interest paid in 20 years exceeds the amount.
of principal. This amount goes on increasing further at higher rate of interest.

Many representatives of primary societies showed their dissatisfaction, in course of discussions, on the fact that they were required to pay such a heavy amount of interest in the course of twenty years. They were, however, not able to suggest an alternate method of repayment. This was so, because even though under the diminishing balance method of repayment the amount paid back was lesser,\(^{10}\) than that paid under the equated system, the latter was more convenient.

It was agreed by all, that under the equated system of repayments, every instalment being constant, the primary societies definitely knew the amount to be collected from its members every month and to be paid to the Finance Society at the end of the quarter. There does not appear to be a better substitute at the level of the primary to the equated system. It was noticed that even the State Land Mortgage Bank also employs the equated system of instalments for the recovery of the loans advanced by it.

3. Another trouble which the borrowing societies have to face all the twenty years may be mentioned because the Finance Society treats every instalment as a separate loan. There are four repayments, in respect of each loan, in one year.

-------------------------------------
10. Chapter VIII. Para VIII.6
If the society has collected all the loan in 10 instalments, it will have to make repayments at 40 times on different dates. Even if one instalment is missed, the Society will lose its rebate in respect of that loan. Most of the societies, have honorary office-bearers and do not find time for this laborious job. Many times, they are too small to employ an independent accountant for the purpose. The borrowing societies, without exception, therefore, prefer that once the loan disbursements are over and the scheme completed the Finance Society should consolidate all the instalments in one loan, so that they will have to pay only four quarterly instalments in one year. This is a very just and reasonable demand, which the Finance Society has not attended to in view of the shortage of staff. This reform is overdue and will directly reduce the work of the Finance Society, considerably because it will have to deal with the repayments of one loan instead of many.

4. Should the instalments be quarterly, half-yearly or annual? Most of the representatives preferred quarterly payments (although they would be collecting monthly from their members). One M.L.A. representing rural co-operatives, however, pointed out that in rural areas, the beneficiaries of housing finance were usually the agriculturists. Their incomes were realised, once a year after the sale of the crops. He was

11. Mr. Khanjire from Kolhapur District.
therefore, of the opinion that the repayment of the loans should be annual like the repayments of the Land Development Bank Loans. There is considerable force in this argument and the Finance Society may have to consider the demand, when its business in rural areas becomes sufficiently voluminous.

XVIII.9 : When Should The Repayment Start?

The repayment of the loan starts immediately after three months from the date of the drawal of a loan instalment. The borrowing societies, have found this highly inconvenient. A scheme may take 1 to 3 years for completion. The individual members get possession of their flats, after that; but they are required to pay loan instalments, when the construction work is in progress. It is, therefore, argued that the members have to make payments at two places - (a) to the society against the loan drawn and (b) by way of rent to the land-lord for the accommodation where they must continue to live until the flats are completed. The situation becomes all the more galling, where the contractor/promoter deserts the scheme and the construction remains incomplete. The societies go in default in such cases and have to pay penal interest. Like the Democlaces' Sword, the fear that the Finance Society would put the property to auction to recover its dues, continues to lurk overhead.

12. Chapter XXIII. Para. XIX.11: 13. v
When should then the repayment of loan by the borrowing societies start? In reply to the questionnaire, many have opined that it should start after the scheme is completed. Some others have opined that it should start after one year. In a booklet brought out at the time of the Greater Bombay and Thana District Co-operative Housing Conference (6th and 7th June 1970), the Bombay Co-operative Housing Federation suggested the following amendment to the rule of the Finance Society:

"... the first quarterly instalment will commence one year from the date of disbursement of each loan or from the date the building is completed whichever is earlier".

(page 46).

These various suggestions may be examined. If the Finance Society is to wait for repayment until the scheme is completed, what is the guarantee that the scheme will be completed within a reasonable time? Its payments to the Life Insurance Corporation on account of loan taken do not wait, till the scheme is completed by the borrowing society. Should the repayments start after one year? The Finance Society must secure similar concessions for repayments from Life Insurance Corporation. The mode of payment to Life Insurance Corporation by the Finance Society and its implications have already been examined in Para VIII.6. This is, therefore, an issue, in which the

interests of the Life Insurance Corporation, the Finance Society and the borrowing primary or rather its individual members are at stake. Surprisingly enough, the Finance Society has never seriously raised this issue with the Life Insurance Corporation.

XVIII.10 : Advance Payments:

In past, it was necessary, according to rules to give a notice of six months, for advance repayment. If this was not done, the societies were required to pay 1/2 per cent interest, for advance repayment. Such amounts were actually recovered from many societies. This was really a very regressive system and acted as a great disincentive until May 1970, when it was changed. The only theoretical justification, probably was that without sufficient advance notice, the Finance Society could not employ the funds profitably. The actual experience has been that at all the times since its establishment the Finance Society had to contend with the pressure of increasing demand for loans. There was no possibility of the funds remaining idle.

From May 1970, the notice period was reduced to three months. This was altogether removed later on. This change was good for the borrowing societies.

It appears that a further incentive can be provided to the borrowing societies, if Finance Society gives interest for
advance repayments, as the State Land Mortgage Bank,\textsuperscript{14} is doing. Such advance recovery, along with the interest accrued thereon, can be adjusted against the next quarterly payment of an instalment.

\textbf{XVIII.11 : The Payment Of Rebate :}

The Finance Society pays a rebate of 1/2 per cent in interest, for punctual repayment of quarterly instalments. If the society pays four consecutive instalments, in a year, in time, it gets the rebate, for that particular year. A grace period of three days is allowed for late payments. A cheque is sent to the societies, for the rebate amount, and serves as a regular source of income for them. It serves as a great incentive for regular payments of loan. Some societies use this amount most fruitfully. Code No. M-150, a society from Ambajogai, Dist. Bhir used the rebate amount for laying a water pipe-line. The Finance Society has actually provided lakhs of rupees for payment of rebate in different years as can be seen from the following figures:

\textbf{STATEMENT XVIII.2.}

\textbf{Provision Of Rebate By The Maharashtra Co-operative Housing Finance Society Limited.}

\begin{tabular}{|l|l|}
\hline
Year & Rebate Provision \textbf{Rs.} \\
\hline
1960-1961 & 4,687.54 \\
1961-1962 & 55,525.15 \\
\hline
\end{tabular}

\textsuperscript{14} 4\%\% p.a. in p.a. Now 7\%\% p.a.
The role of the Finance Society in this sphere needs to be appreciated all the more, because it is giving rebate to its member societies although Life Insurance Corporation is not granting any rebate to it.

The Bombay Co-operative Housing Societies Federation Ltd. had pointed out that for several genuine difficulties, the primary societies may not be able to pay four consecutive instalments in time, and may miss rebate even if one instalment is paid late. This results in distress. It has been suggested by many that rebate may be paid, on all the instalments paid in time, irrespective of whether they were consecutive or not. This is a good suggestion which the Finance Society can accept.

15. Representatives of the primary housing societies when contacted for collecting information for the survey expressed their views accordingly.
to the great advantage of the borrowing societies.

XVIII.12: The Overdues:

No financing institution can afford to be complacent about the overdues of loan instalments, payable by its borrowers. If allowed to continue unchecked and unattended, it may endanger the very existence of that institution.

According to the provision of Section 65, of the Maharashtra Co-operative Societies' Act 1960, all the overdue interest has to be deducted from Gross Earnings, before the net profits are arrived at. The overdue interest has, therefore, the effect of directly reducing the net profits of the Finance Society.

It can be seen easily from the figures given in Table XVIII.3 that the overdues on account of principal and interest were continually on an increase.

In view of the increasing overdues and their grave implications, the Chairman of the Finance Society often appealed the member societies to co-operate with them, by making regular repayments.

XVIII.13: Procedure For Recovery Of Arrears:

The Finance Society sends intimation cards to the

TABLE NO. XVIII.2.
OVERDUES POSITION OF THE MAHARASHTRA CO-OPERATIVE HOUSING FINANCE SOCIETY LIMITED

<table>
<thead>
<tr>
<th>At the end of the year</th>
<th>Amount of Overdues</th>
<th>Gross earnings of interest</th>
<th>Loan outstanding from Primary Societies</th>
<th>Col.(2)</th>
<th>Col.(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960-1961</td>
<td>---</td>
<td>---</td>
<td>56,250</td>
<td>3½,73,000</td>
<td>---</td>
</tr>
<tr>
<td>1961-1962</td>
<td>---</td>
<td>---</td>
<td>6,70,870</td>
<td>1,86,55,000</td>
<td>---</td>
</tr>
<tr>
<td>1962-1963</td>
<td>---</td>
<td>60,358</td>
<td>60,358</td>
<td>29,14,019</td>
<td>5,80,74,000</td>
</tr>
<tr>
<td>1963-1964</td>
<td>27,955</td>
<td>86,039</td>
<td>1,13,994</td>
<td>41,89,402</td>
<td>7,83,42,000</td>
</tr>
<tr>
<td>1964-1965</td>
<td>1,45,592</td>
<td>1,05,054</td>
<td>2,50,646</td>
<td>61,15,324</td>
<td>11,10,08,000</td>
</tr>
<tr>
<td>1965-1966</td>
<td>3,23,748</td>
<td>1,34,580</td>
<td>4,58,328</td>
<td>77,17,175</td>
<td>11,88,72,000</td>
</tr>
<tr>
<td>1966-1967</td>
<td>10,98,155</td>
<td>4,23,791</td>
<td>15,21,946</td>
<td>99,68,055</td>
<td>16,07,51,000</td>
</tr>
<tr>
<td>1967-1968</td>
<td>16,99,563</td>
<td>6,29,807</td>
<td>23,29,370</td>
<td>1,42,80,017</td>
<td>20,80,49,000</td>
</tr>
<tr>
<td>1968-1969</td>
<td>22,52,318</td>
<td>8,44,559</td>
<td>30,96,877</td>
<td>1,94,98,205</td>
<td>25,64,31,000</td>
</tr>
<tr>
<td>1969-1970</td>
<td>37,99,196</td>
<td>14,34,971</td>
<td>52,34,167</td>
<td>2,38,82,425</td>
<td>31,92,47,000</td>
</tr>
<tr>
<td>1970-1971</td>
<td>68,130,437</td>
<td>22,01,978</td>
<td>90,32,415</td>
<td>3,08,02,232</td>
<td>39,02,34,000</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Maharashtra Co-operative Housing Finance Society Ltd. for different years.

(\% of amount due for recovery)
borrowing societies on the fall-due-dates. If the societies do not repay, it gives a legal notice. The Finance Society can take the following steps in accordance with the provisions of the mortgage-deed and the Co-operative Societies' Act:

1) It can call back the entire loan, in view of the breach of the covenants in the mortgage deed, pertaining to regular repayments;

2) It can appoint a Receiver, for the purpose of recovery. He has powers to obtain vacant possession. The occupants become mere licencees and can be ejected. (The Receiver charges 4 p.c. fees, on the amount recovered.)

3) It can recover the dues, by putting the property to sale by auction, without the intervention of the Court.17

4) In respect of the Tenant Ownership Type of Societies where the individual members of the Primary Society join as co-mortgagors in the execution of the mortgage deed it is required to resort to Arbitration Proceedings, under the provisions of Section 91, of the Maharashtra Co-operative Societies Act.18

XVIII.14 : The Effectiveness Of The Recovery Measures:

The measures, which the Finance Society can take, have

17. In accordance with the provisions of Section 69 of the Transfer of Property Act 1882.
18. This is in accordance with the advice received by the Finance Society from its Counsel.
been enumerated above. The effectiveness of each of these recovery measures may now be examined.

a) Appointment Of A Receiver:

Although, all the mortgage deeds provide for the appointment of a Receiver, in no case has the Finance Society appointed a Receiver. The persons, who can be appointed as the Receiver, have to be specifically named. When, at a later stage, time comes for appointment of a Receiver, these persons who have retired from the scene of Finance Society are not available. The remedy appears that there should be a general covenant in the mortgage deed, empowering the Finance Society to appoint any suitable person as a Receiver.

With the consent of one borrowing society, the Finance Society initiated steps in 1969 for the appointment of a Court Receiver. When the case came on board for the hearing on 9-7-1971 the society declined to have a Court Receiver. The matter remained at a stand-still with the overdues amounting to about Rs.2.00 lakhs (Code No. 373). It was seen in this case that the process was very slow. The Finance Society has not appointed special staff to attend to the work of recovery and the follow-up of cases already initiated, therefore, becomes perfunctory.

(b) Auction Proceedings:

The Finance Society referred about seventy cases to
solicitors for recovery of the dues by sale of the property by auction. When the solicitors receive instructions, they issue notice by Registered post to the society to pay dues usually within 15 days. If the money is not paid, the solicitors instruct the Auctioneers to take steps for auctioning the property. The auctioneers frame conditions of sale which are approved by the solicitors. When this is done, advertisement regarding auction, indicating time and place of sale of the property is given in the selected newspapers. The auction is then held in accordance to the procedure, in the presence of the representatives of the solicitors, as well as the Finance Society. The property is sold to the highest bidder. The Finance Society has to ensure that it is sold for a price above its reserve bid. The sale is then completed and the property conveyed to the purchaser.

Out of nearly 70 cases of different properties referred to the solicitors, only one could be auctioned. In one other case, injunction not to proceed with auction was passed by the Officer-on-Special Duty, in the context of a case filed, by one of the members under Section 91 of the Maharashtra Co-op. Societies' Act. It was pointed out by the representatives of the defaulting societies that it was not very difficult to obtain such prohibitory injunctions. This possibility acts as a great brake on the recovery proceedings started by the Finance Society. In four cases, the societies repaid all the dues before the dates due for auction. In 52 cases, the
societies made partial repayments and the auction was postponed. The remaining 12 were worst cases of default and were mostly cases of incomplete construction. The solicitors also did not take energetic steps for auctioning the property nor could the Finance Society maintain a vigorous follow-up.

XVIII.15 : Case-study Of An Auction (Code No.458):

The functional case study of the auction proceedings appears as Appendix 11. The following conclusions can be drawn from the facts mentioned above, as well as the findings of the case study:

1) The reason for default in many cases is incomplete construction.

2) In many cases, the total ignorance of the generality of members, about the housing scheme, is the ruling feature of the situation. The members do not know, how much loan has been sanctioned for each of them. They were not shown their accounts by the office-bearers, even though there is provision in the Co-operative Societies' Act.

3) The contractors are changed without the consent of the members. The contractors and the office-bearers enter into shady deals, detrimental to the interest of members. Payments are made to the contractors without receiving certificate from the Architects. The office-bearers undertake to meet the liability of the creditor of a contractor, without the consent of the members. Over-payments are made to the contractors.
without receiving certificate from the Architects.

4) The contributions from the members as also the funds received from the Finance Society are misutilised.

5) The Finance Society did not hold even a single meeting with individual members or with the interested parties in spite of the suggestion made by the former. Its approach to the auction case was impersonal and without human touch. The real positive approach would have been to create conditions for resuming the construction. This would have helped to restore confidence among members. Although the Finance Society has power to take possession of the property, it is reluctant to exercise this right presumably because, according to its own experience in one case, it means involvement in complicated legal suits making progress in construction impossible. It also does not have the administrative equipment to deal with such non-routine type of work.

6) The auction-proceedings take a long time to complete.

7) The auction proceedings are very expensive for the members. The smaller the membership the more onerous is the impact.

8) The Finance Society, it appears, does not care about the market value of the property and seems to be satisfied with the price sufficient to cover up its dues and recovery expenses.

9) The municipal assessment is made even when the building construction is incomplete. Under the Law, the
Municipal dues have priority over any other dues including those of the Finance Society, even though the latter is the mortgagee. The society should pay it or face auction by the Municipal Corporation. The alternative is to go to Court and to obtain injunction against the Municipal Corporation. According to the provisions of the mortgage deed, the Finance Society can pay the Municipal dues in its own interest, although it may not be obligatory. The instrument of auction available to the Finance Society is 'powerless' against the power of a Municipality to realise its dues on priority basis.

10) There is no co-ordination, between the Co-operative Department and the Finance Society, inspite of the fact that the Registrar Co-operative Societies or his nominees is one of the Directors of the Finance Society. Interim Liquidation orders are passed, without making any reference to the Finance Society, although Government interest is involved, in recovery of loans. Similarly liquidation orders are confirmed after the auction of the property in mortgage.

It is also seen that liquidator is appointed where Administrator appointed at an early stage would have improved the situation.

11) When matters reach a critical stage, litigation spreads to all the quarters, queering the pitch of the familiar procedures of recovery for the Finance Society. An interim injunction brought by any of the parties to a dispute under
Section 91 of the Co-operative Societies Act, can restrain Finance Society from pursuing the auction proceedings. Even if auction takes place, sale cannot be completed. The Finance Society is also unable to recover the price paid by the bidders for a long time as a result of the legal proceedings.

12) Where the scheme has scuttled, it becomes difficult for the contractors to recover their dues and they also suffer in the process. Notice needs to be delivered to the Registrar before filing a suit against the society.¹⁹

13) The net result is the immeasurable distress caused to the members. Even if seven years were passed from the time of registration of the society, the possession was nowhere in sight. Delays involve loss of interest on amount blocked. Loss on account of losing the entire amount invested by members is greater. However, the mental distress caused to the members and

¹⁹. Section 164 of the Maharashtra Co-operative Societies' Act 1960 provides: "No suit shall be instituted against a society or any of its officers in respect of any act touching the business of the society until the expiration of two months next after notice in writing has been delivered to the Registrar or left at his office, stating the course of action, the name, description and place of residence of the plaintiff and the relief which he claims and the plaint shall contain a statement that such notice has been so delivered or left".
the resultant loss of faith in the co-operative movement
defy quantification.

XVIII.16 : Difficulties Of Recovering Dues From Tenant Ownership Societies:

It has been mentioned in para XVIII.13 that it is necessary to start arbitration proceedings for recovery of dues from Tenant Ownership Type of Societies (bungalows or detached structures on separate plots). In the mortgage-deeds, executed by such societies, the individual members or plot-holders, are joined as co-mortgagors. In view of this, all the members must be mentioned as the defendants, along with the borrowing society, in case, an arbitration is to be filed. Copies of 'P' form, i.e., the plaint have to be sent to all the individual members. Before the case is admitted as a dispute by the Registrar or his nominee, notices must actually be served to all the defendants. Every member is entitled to engage a lawyer to represent his case. When hearings start they are carried on for several months or years.

The Finance Society could actually lodge only two arbitration cases under Section 91 of the Maharashtra Co-operative Societies' Act 1960. One of this was withdrawn later, because recovery of arrears could be effected from out of further disbursements. The second case (Code No. 16-MM) was lodged against a society from Lonavala on 25-1-1971 in the office of the District Deputy Registrar, Co-operative Societies, Poona,
for the recovery of the entire outstanding loan balance. The matter was sent to Officer on Special Duty and the first hearing was fixed on 28-2-1971. The Finance Society was the plaintiff and there were 19 defendants (one society and 18 individual members). At least five dates were given for deciding whether it was a dispute or not. But no hearing could be given, because notice could not be served on all the individual members. Their addresses could not be traced because 16 out of 18 members were not living in Lonavala at all. The purpose of constructing a bungalow was to rent it out at high rates during the summer. (Similar type of business was also carried out by a Society (Code No. 25-1/87) from Panchagani - another hill station. In the course of free informal off-the-record discussions, it was revealed that the monthly rent during the season was 150/- p.m. for 2 rooms, Rs.300/- for a small bungalow and Rs.600/- for a big bungalow. The Finance Society had advanced Rs.1,82,000/- in all to the Society for twelve members, apparently for their own residential purpose). Lonavala being an important hill station, it was learnt, that although these people were actually doing business in this way, for years together, they did not find it morally reprehensible not to pay the dues of the Finance Society. One of the members was dead. His address was not traceable. The heirs were also not determined. The result was that even after five months, 

from the time of filing the Arbitration case, the Officer on Special Duty could not decide even the preliminary issue, as to whether the case was one of dispute under Section 91 of the Co-operative Societies' Act.

It was further noticed that out of 18 only 8 members were paying regularly. The Society seemed to be powerless against the remaining individual members, mainly because it did not want to be harsh on their own "brethren". It did not take energetic steps like filing an Arbitration suit, against them while it wanted the Finance Society to take steps against individual members, which the latter cannot do. This had the inevitable psychological effect on the regular payers, more so when they found that arbitration had been filed against them also, along with the irregular payers. They also, therefore, occasionally stopped payments, on account of the loan dues.

XVIII.17: Auction Of All The Property?

In co-partnership type of societies, with flat-type structures, the auction proceedings, act as a positive disincentive to the members, who are regularly paying their dues. The whole structure (and not the individual flats) is mortgaged to the Finance Society. In case of a persistent default, the whole building and not the concerned flats of defaulter members has to be auctioned. An example may make the position clear.

In one building with 16 flats - 8 members are regular payers, 6 members are defaulters and the remaining 2 have not
availed of any loan facilities and are, therefore, non-borrowing members. In case of auction of the property, the 8 regular payers as well as the 2 non-borrowing members have to suffer unnecessarily.

It was, therefore, suggested by many in the course of discussions and in reply to the questionnaire, that legal ways should be found out for enabling the Finance Society to auction the flats of the recalcitrant members only. The regular payers as well as the non-borrowers should not be affected. They also mentioned that good members may 'shun' the co-operative housing movement if this continues for ever.

It is felt that something on the lines of the provisions of the Maharashtra Ownership Apartment Act\(^{21}\) may be attempted to find out a solution. As it is, the Act is not applicable to the buildings of the co-operative societies.

**XVIII.18 : Section 101 Of The Maharashtra Co-operative Societies' Act :**

The discussions above, indicate that the recovery procedure, available to the Finance Society is time-consuming

---

21 The Act was passed by the Maharashtra Legislative Assembly in December 1970. According to this Act an individual apartment owner can mortgage his apartment, if other apartment owners from the same building give a declaration agreeing with such arrangement. On the same lines it is suggested that it should be made legally possible to sell the flat of a defaulter member, if other flat-holders in the same building agree.
and in many cases ineffective. Considering the pace of expansion of housing finance, the amount of overdues may also proportionately increase. There is, therefore, a need to have facilities and also a machinery for expeditious recovery. One suggestion is that similar to the procedure for summary recovery, provided under Section 101 of the Maharashtra Co-operative Societies' Act provides:

"(1) Notwithstanding anything contained in sections 91, 93, and 98 on an application made by a resource society undertaking the financing of crop and seasonable finance as defined under the Bombay Agricultural Debtors Relief Act, 1947 (or obtaining services required for protection of crops) for the recovery of arrears of any sum advanced by it to any of its members on account of the financing of crop or seasonal finance and on its furnishing a statement of accounts in respect of the arrears, the Registrar may, after making such inquiries as he deems fit, grant a certificate for the recovery of the amount stated therein to be due as arrears.

(2) Where the Registrar is satisfied that a resource society has failed to take action under the foregoing sub-section in respect of arrears of any such sum advanced by it to any of its members on account of the financing of crop or seasonal finance (or of any subscription due for any services for protection of crops) the Registrar may of his own motion, after making such inquiries as he deems fit, grant a certificate for the recovery of the amount stated therein to be due as arrears and such a certificate shall be deemed to have been issued as if on an application made by the society concerned.

--- continued.
Co-operative Societies’ Act, applicable to short-term (seasonal) agricultural finance, provision may be made for the recovery of the dues of co-operative housing societies, to whom loans have been advanced by the Finance Society. It can easily be seen, that the summary procedure of issuing a cash recovery certificate is applicable and possible basically because the agricultural dues are regarded as arrears of land revenue. If these can be made applicable to the dues of housing societies, it will be a signal achievement for the machinery dispensing long-term co-operative housing credit.

XVIII.19 : Distraint Warrants:

The State Co-operative Land Mortgage Banks, advance loans for agricultural development through the primary Land

(fn. 22 continued)

(3) A certificate granted by the Registrar under sub-section (1) or (2) shall be final and a conclusive proof of the arrears stated to be due therein, and the same shall be recoverable according to the law for the time being in force for the recovery of the land revenue.

(4) It shall be lawful for the Collector and the Registrar to take precautionary measures authorised by section 140 and 144, of the Bombay Land Revenue Code, 1879 or any law or provision corresponding thereto, for the time being in force, until the arrears due to the resource society together with interest and any incidental charges incurred in the recovery of such arrears are paid or security for payment of such arrears is furnished to the satisfaction of the Registrar.
Development Banks on long term basis. In case of default, some specific procedure is open under the provisions of the Co-operative Societies Act.²³

A good suggestion has been made by the Bombay Co-op. Housing Societies Federation that the provision similar to the issue of distraint warrants may be applied to the dues of the co-operative housing societies. The suggestion being important is reproduced below:

"It is, therefore, suggested that amendment be made in the Maharashtra Co-operative Societies' Act to provide for distress proceedings, against the members who are in arrears of societies' charges on the same lines as provided, under Sections 50 to 68 of the Presidency Small Causes Court Act. The society may make application for issue of a Distress Warrant to the Co-operative Court, against a member who is in arrears of society's charges, for more than two months and who has not paid the same in spite of 15 days' notice. On such application and on the Court being satisfied that 15 days' notice has

²³. In fact, there is a separate chapter for Land Development Banks in the Maharashtra Co-operative Societies Act. In Madras, there is a separate Act for the Land Development Banks. It can be suggested that in Maharashtra, there should at least be a separate chapter for Housing Societies, in view of the highest number of co-operatives in the country.
been given by the society to the defaulting member, of the proposal to take distress proceedings, the Court may issue a Distress Warrant, and the same may be enforced through the executing machinery of the Co-operative Court, if such executing machinery is established, as suggested by us. Pending the establishment of executing machinery of Co-operative Courts, the Distress Warrants may be enforced, through the Small Cause Court".

"The result of this provision will be that the Society will have an effective remedy, for recovery of the Society's dues by Distress Warrant and sale of the goods and chattels of the defaulting members. The honorary workers need not waste their valuable time in dilatory arbitration proceedings, so far as money recoveries are concerned. The defaulting member may apply for discharge or suspension of the distress warrant or release of the distrained articles on deposit of the defaulted dues under protest or on other terms as may be directed by the Court. This provision will effectively deter the recalcitrant members from withholding the payment of society's dues as a weapon for setting their old scores with the office bearers".  

24. Bombay Co-operative Housing Societies' Federation:
XVIII.20 : Co-operative Courts :

It has been the general experience that the arbitration cases lodged with the Co-operative Department, either by the Finance Society against the borrowing societies, and by the primary societies against their individual members, take an inordinately long time for getting completed. It is, therefore, suggested that there should be separate Co-operative Courts to decide such issues. It is a very important suggestion and the earlier it is translated into reality the better will it be for the healthy growth of the co-operative movement in general.25

XVIII.21 : Appointment Of An Administrator :

In some cases, where the members have lost faith, in promoters in particular or the management in general, they are reluctant to pay the loan dues to the office bearers. They prefer to pay the dues directly to Finance Society (which as a result

25. Shri.Y.J.Mohite, Minister for Co-operation, Government of Maharashtra suggested : "In order to remove these defects and deficiencies, it is proposed to establish Co-operative Courts, for the disposal of arbitration cases. This step would not only result in reducing the delay in the disposal of cases, but would also raise the status of the officers, deciding the cases and would enable the provisions of the contempt of Court Act to be applied to these courts by suitable amendment to the Act". - "The Co-operative Movement In Maharashtra State : A Reappraisal : Proposals for its Revitalization and Reorientation ; 16th April, 1970", Page 12.
rule does not accept them directly) or to a man appointed as Administrator by the Co-operative Department.

In other cases, where the construction has been left incomplete for long, and because of the past experiences, members are not prepared to take initiative of any sort, appointment of an Administrator,\(^{26}\) by superseding the managing committee has proved to be a positive step, for retrieving normalcy, inter alia, by resuming construction, and repaying the accumulated arrears to the Finance Society.

In a few cases, where heavy overdues were accumulated and/or construction was incomplete for a long time, the Co-operative Department appointed an Administrator after the suggestions were made. As a result the situation was improved. The following statement shows the types of results obtained in each case:

---

26. Administrator can be appointed under the provision of Section 78 of the Maharashtra Co-operative Societies' Act 1960.
### Statement XVIII.3

**Results Obtained in Cases Where Administrator Was Appointed**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Place where the society is situated</th>
<th>Number of members (or flats/bungalows)</th>
<th>Approximate amount of overdues when Administrator was appointed</th>
<th>Stages of construction when the Administrator was appointed</th>
<th>Steps taken by the Administrator to improve the situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>121</td>
<td>Bandra (Bombay)</td>
<td>32</td>
<td>Rs.99,772.00</td>
<td>Complete</td>
<td>There was largescale sales/transfers without the permission of the Finance Society and considerable intransigence on the part of the occupants of the flats. The Administrator expedited Arbitration Proceedings, regularised the working and substantially reduced the overdues to about Rs.30,000/- within 1½ years.</td>
</tr>
<tr>
<td>133</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The audit report for the period 1-7-67 to 30-6-67 stated: &quot;The Administrator may bring the working of the Society on a sound footing as early as possible and to give him encouragement in his work, the Society is continued in Class 'B'.&quot;</td>
</tr>
<tr>
<td>461</td>
<td>Juhu (Bombay)</td>
<td>55</td>
<td>About Rs.1.26 lakh</td>
<td>Incomplete for four years</td>
<td>The Vice-Chairman of the Finance Society was appointed as Administrator He could resume construction, restored confidence of the members, collected additional amounts from members, where necessary to the tune of Rs.2 lakhs. The Finance Society increased the loan amount according to rules. The Administrator repaid the overdue instalments to the extent of Rs.1.80 lakhs. The possession was likely to be given to members by January 1972.</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>---</td>
<td>---------------</td>
<td>-----------</td>
<td>--------------</td>
<td>------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>111-MM Nasik</td>
<td>27 About Rs.16,000/-</td>
<td>Construction suspended for 3 years when the contractor (a father-in-law of promoter) deserted the scheme.</td>
<td>The Administrator had to face many court trials and also a B summary case filed by the professional promoter mischievously. He also resumed construction, and completed it by collecting additional amounts from members. The possession was given to members within about 13 months of his appointment. The repayments were now normal.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>311 Poona</td>
<td>64 Negligible. But he was appointed exactly when overdues had just begun to accumulate.</td>
<td>Two buildings with 32 flats were complete and the remaining two buildings with 32 flats were incomplete.</td>
<td>The Administrator had first to contend with the injunction brought by the promoter/builder against the management restraining it from proceeding with construction. This was got removed and construction was resumed by appointing a new contractor. The members paid the necessary amounts and the Finance Society also increased the loan. The construction was completed and the possession was given to members within 14 months of his appointment. On 30-6-1971 overdues of Rs.32,380/- were paid.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>83-MM Ahmednagar</td>
<td>12 About Rs.20,000/-</td>
<td>One tenament was incomplete. Cent per cent members had sub-let their tenements. There were quarrels among members. They suspended payments of loan dues.</td>
<td>The Administrator, after his appointment, took energetic steps to recover dues from members. Notices were served on them and Arbitration proceedings started. He was able to check the tendency not to pay. He could pay about Rs.7,188/- to Finance Society after his appointment till 11-4-1971 i.e. in about six months.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The details in the statement given above, show that the appointment of an Administrator, at the instance of the Finance Society, had been instrumental in completing the construction work, regaining the confidence of the members in the management, payment of the overdue instalments to the Finance Society and also in restoring the overall normalcy in the working of the primary society. The appointment of an Administrator, however, can be made only after superseding the Managing Committee by the Co-operative Department. It is axiomatic in this arrangement that there is a happy co-ordination between the Co-operative Department and the Finance Society. The Administrators can then be appointed, without any difficulty and at the right time, so as to have the desired results. The Department it is learnt is short of an adequate number of persons to man the posts of Administrators. It can be suggested in this context that since the Finance Society has considerable stake in the satisfactory functioning of the borrowing primary societies, it should also create and strengthen a suitable cadre of individuals from which Administrators can be appointed by the Co-operative Department. This will supplement the efforts of the Department to improve the working of the ailing housing co-operatives. Such a step will also be in the interest of the Finance Society, from the long-term point of view.

XVIII.22 : Group Insurance :

While sanctioning the sixteenth loan of Rs. 6 crores to
the Finance Society, the Life Insurance Corporation imposed an additional condition that the Finance Society will agree to the scheme of Group Insurance and for applying it to the beneficiary members of the borrowing primaries.

Under this scheme, the lives of the beneficiary members are to be insured from year to year, for the outstanding amount of loan sanctioned to him. The Finance Society will remit the amount of premium in lump sum to the Life Insurance Corporation on behalf of the borrowing societies. It will recover this amount from them in 20 years through the usual quarterly instalments. On an estimate based on the average age of the beneficiaries, the Government and Life Insurance Corporation have permitted the Finance Society to charge an extra 3/4% interest per annum, over and above the normal interest rate. The interest rate structure, therefore, emerges as shown below:

(Position as on 30th June 1971)

<table>
<thead>
<tr>
<th>Rate</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 p.c.</td>
<td>Rate charged by Life Insurance Corporation</td>
</tr>
<tr>
<td></td>
<td>on the loans advanced to Finance Society.</td>
</tr>
<tr>
<td>1 p.c.</td>
<td>Margin allowed to Finance Society.</td>
</tr>
<tr>
<td>3/4 p.c.</td>
<td>Cost of Group Insurance</td>
</tr>
</tbody>
</table>
The Finance Society allows 1/2 per cent rebate for regular repayments as usual. The revised rate of 8.3/4 p.c. was made applicable to all the loans advanced from 1st June 1971.

There was considerable criticism against the Life Insurance Corporation when the scheme was introduced. Sharp volleys were made by the Bombay Co-operative Housing Societies Federation. The main plank of attack was that it had added considerably to the cost of finance, which ordinary people cannot bear.

The additional burden can be calculated as shown below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total repayment in 20 years on a loan of Rs.1,000/- at 8.3/4 p.c. rate of interest per annum</td>
<td></td>
<td>Rs. 2,126.44</td>
</tr>
<tr>
<td>Total repayment in 20 years on a loan of Rs.1,000/- at 8.3/4 p.c. rate of interest per annum</td>
<td></td>
<td>Rs. 2,012.88</td>
</tr>
<tr>
<td>Extra amount paid in 20 years on account of Group Insurance.</td>
<td></td>
<td>Rs. 113.56</td>
</tr>
</tbody>
</table>

This extra payment works out to 11.36 per cent of the original principal of Rs.1,000/-.

The criticism is apparently true. But some advantages are also undeniable. It is seen that in case of the death of a beneficiary, the amount of insurance will be paid to the Finance Society, liquidating the outstanding loan. The heirs of the beneficiary will inherit the property without any financial liability. Secondly, since the declarations of
health of every member are to be given every year, it will have some indirect effect on controlling reckless transfers, (or sales) of flats without the permission of the Finance Society. Finally, it must be looked upon as an achievement of one more dimension by the apparatus dispensing long-term co-operative housing finance, in our country. In some Western Countries, the insurance of the life of a beneficiary is provided in the scheme of housing finance in some form or the other and is not new.

XVIII.23: The Reconveyance Of The Property:

Meaning:

(a) When the extra amount of loan, advanced to the borrowing society, is repaid along with interest, the property should be released from the mortgage. The Finance Society does it by executing the Reconveyance Deed in favour of the mortgagors. The interest in the property transferred to the mortgagee, at the time of obtaining the loan is thus reconveyed.

In the normal course, this should happen after 20 years. But it can be done, where societies are able to repay the loans fully earlier.

The Bombay Co-operative Housing Finance Society Ltd. started advancing loans in 1952-53. The loans advanced by the society were transferred to the Maharashtra Finance Society on the division of assets and liabilities, after the Reorganisation of States. These loans will complete the 20 years
period, in 1972-73 and the concerned societies will approach the Finance Society with a request to release the property in mortgage and reconvey it to them. As it is, there are hardly any cases or very few cases of reconveyance.

(b) Difficulties In Reconveying:

The State Government guarantees repayment of principal and interest in respect of loans advanced by Life Insurance Corporation to Finance Society. No other security is necessary, for the Life Insurance Corporation. The Government, however, does not operate in vacuo. It gets a floating charge created on all the properties, mortgaged to the Housing Finance Society. A floating charge deed is executed in favour of the Government at regular intervals.

If the entire outstanding loan is repaid by the society, there may not be any difficulty in reconveying the property. But if in a tenant ownership type of a society (i.e. with bungalow-type structures) a loanee plot-holder from among many wants to repay his loan completely, it is necessary under the provisions of the Floating Charge Deed to obtain the permission of the State Government to release such a part of the property from the mortgage. Experience is that it takes a very long time to do this. It was suggested by representatives of borrowing societies that the Government may relax the condition and allow the Finance Society to reconvey a part of
the property - say one or two plots - in case of tenant ownership type of societies, where the beneficiary member has cleared all the dues of the Finance Society.

Greater difficulty is, however, experienced in case of tenant co-partnership type of societies (with flat-type structures). Even if an individual flat-holder repays his dues completely, a flat cannot be reconveyed to the Society from among the many flats in a building. This is one important disincentive for advance repayments by borrowing societies. Under the Maharashtra Apartment Ownership Act 1970 the different flat-holders in a building can give declarations according to the prescribed procedure, allowing other flat-holders to mortgage their respective flats for obtaining loans. Whether contrariwise the different flat-holders and the society can make one flat immune from legal proceedings or render it unencumbered, if the flat-holder has completely cleared his dues?

This appears to be very difficult if we consider the meaning of tenant co-partnership type of societies given under Rule 10 of the Maharashtra Co-operative Societies' Rules 1961. In such type of societies, the land as well as the structure belongs to the society. Unless, therefore, a legal remedy is found out to separate out the element of ownership of the society, in say one flat and then transfer it to the member or a flat-holder who has cleared all his dues, immunity
against legal proceedings appears to be difficult. It will be in the interest of the co-operative housing movement and of mortgage finance in particular, if the representatives of the Law and Judiciary Department of the State Government, the Co-operative Department and the Finance Society sit together and find out a solution for this problem.
Chapter XIX  The Need For Interim Finance  582 & 596

XIX.1  The Meaning And The Need  582
XIX.2  The Conditions Of The Finance Society  585
XIX.3  Procedure Adopted  588
XIX.4  Views Of The Cooperative Banks  591
XIX.5  Some Suggestions  593
CHAPTER XIX

THE NEED FOR INTERIM FINANCE.

XIX.1: The Meaning And The Need:

The words 'Interim Finance' broadly mean the finance of a temporary or a short-term nature, secured by a borrower, until the finance from the established source starts flowing. In the specific context of the present study, it means the finance secured by a borrowing society, from some source, until the loan sanctioned by the Finance Society is actually released. It is, therefore, in the nature of a short-term accommodation, the liability in respect of which is normally to be liquidated by the release of funds from the Finance Society.

Why does the need for interim finance arise? A primary housing society desiring to construct dwelling houses for its members, collects contributions from them and invests such amounts, primarily in the purchase of land. When the land is conveyed in its name, on the completion of sale, it can even start construction immediately provided it is confident that the title is clear and marketable. Once the construction starts it is in the interest of the Society to complete the same as fast as possible and hand over the possession to the members. If this is to be accomplished, the tempo of the construction must be sustained without interruption. The agency doing construction can continue its work only if necessary payments are made to it from time to time. The labour is to be paid for
either daily or weekly and the bills from material suppliers are also to be settled regularly. Timely payments can alone be expected to ensure the satisfactory continuance of the construction work. Finance is, therefore, the key to all these problems.

A society, which has submitted its application to the Finance Society for loan, cannot expect to obtain the first instalment of loan, unless it has been enrolled as a member, has submitted all the details and papers, the title to the property to be mortgaged is certified as clear and marketable by the approved Solicitors/Advocate in the manner required and finally the valuation report from the approved Architects qualifies it for the release of the first instalment of loan. The detailed procedure delineated in the Chapters XIII to XVII will give an idea regarding the difficulties likely to be encountered by the borrowing societies. These are indogenous factors, which may be responsible for delaying the release of loan instalments from the Finance Society. However, there may be certain factors for which both the borrowing societies as well as the Finance Society may not be directly responsible. The inevitable time taken by the L.I.C. to sanction a loan to the Finance Society, approval to the guarantee by the State Cabinet, issue of the Government Resolution, guaranteeing the repayment of loan sanctioned by the L.I.C., the agreement between the L.I.C. and the Finance Society in respect of the loan and the Finance Society in respect of the loan sanctioned and finally
the execution of the guarantee-deed by the Secretary in the Agriculture and Co-operation Department in the State Government, constitute a time consuming and a formidable sequence of requirements, which must be complied before the L.I.C. releases the loan to the Finance Society. These are exogenous factors which are responsible for causing delay in the release of loan instalments by the Finance Society. The findings noted in Chapter VII, relating to "L.I.C. Loans As A Source Of Finance" and in Chapter XXI, relating to "The Case-Study Of A Borrowing Society" show that such delays have actually been caused in past.

The need for interim finance arises under such circumstances. The representatives of the primary societies, at the time of survey and many who replied to the questionnaire, also stated, that there is a need of some arrangement for interim finance. They felt that this is necessary during the interregnum between the date of application to the Finance Society and the date of receiving the first instalment (and also between the dates of two instalments in case subsequent disbursements are not forthcoming as a result of the operations of the exogenous factors just mentioned). They opined that such arrangement was absolutely necessary for maintaining the tempo of construction work. The need for this was also stressed in the Nanded Conference of Co-operative Housing Societies (March 1969). It was

1. The Conference was sponsored by the Marathwada Regional Co-operative Board, Aurangabad.
2. The period of short-term accommodation should not

conditions:

2.X.2. The Conditions of the Finance Society

arrangements for mortgage finance are frustrated.

be more than one year and should be considered from

the date of the loan sanctioned by the Housing Finance

Second charge on the property mortgaged with the Housing Finance

such Housing Societies can be permitted to allow to create the

immediately from the co-operative bank or Nationalised Bank.

Loan for the purpose of construction of construction work

but those Housing Societies who will obtain short term

protection here, however, been made now on the Housing Finance:

such the old conditions of loan of the Finance Society. Such

There was no special protection for interest Finance in

Housing Society makes arrangements for short-term finance on

however, not been done. It is also seen that in Sweden, the

the member co-operative banks in this connection.

potentials are at the time that the issue would be taken up with

the member co-operative banks.
ii) The temporary financial accommodation obtained should not exceed the limit of the loan sanctioned by Housing Finance Society.

iii) The temporary financial accommodation obtained by the Housing Societies should be repaid by the Maharashtra Co-operative Housing Finance Society directly to the creditor from the sanctioned loan as and when released as per Condition No.14(a) (b).

The fact that an express provision has now been made shows that there is an appreciation at the level of the Finance Society of the need for interim finance.

A careful glance at the provision makes it clear that the co-operative banks and the nationalised banks in the State, are expected to make the short-term finance available to the primary societies. The co-operative banks include the Urban Banks, the District Central Co-operative Banks and the State Co-operative Bank. These appear to be a right type of an agency for advancing short-period loans to the co-operative housing societies to whom the bulk finance is to be made available by the Finance Society, in course of time.

In actual discussions, the representative of the primary societies mentioned that the period of one year was not

---

sufficient and that short term finance should be allowed for a longer period. It may, however, have to be agreed that interim finance will essentially be of a short term character. Generally there have not been cases, where loans from Finance Society have been delayed beyond the period of one year, unless there has been a delay in compliances by the borrowing societies.

The Finance Society has allowed a second charge to be created on the property, for the interim finance to be obtained by a borrowing society. The second charge is to be in favour of the bank advancing interim loans. The representative of Code No. 495-M society from Dhankavadi, Dist. Poona, pointed out that his society could not obtain interim finance from the Dist. Central Co-operative Bank by creating second charge, because the first charge was not created in favour of the Finance Society as the first instalment was not released yet. It would, in other words, mean that the interim finance could be released only after the first instalment has been received from the finance society by creating the first charge. This would frustrate the very objective of interim finance, because it is needed in the majority of cases, before receiving the first instalment of loan from the Finance Society. In subsequent discussions, it was noticed that the same Bank advanced interim loan of Rs. 2.00 lakhs to Code No. 645-M society on the security of the second charge even though the first instalment had not been received from the Finance Society. Thus interim finance
could be given by creating second charge, even before the first instalment of loan was released by the Finance Society by creating the first charge. If this was legally possible, the representative of the Code No. 495-M society was labouring under a wrong impression. It appears that there is enough scope for the Finance Society to issue informative circulars to all the co-operative and nationalized banks in the State clarifying the real procedure and for providing the guidelines.

XIX.3 : Procedure Adopted:

A borrowing society which wants to avail of interim finance, approaches the Finance Society, for issuing a 'No objection Certificate'. The Finance Society it is seen, does not commit about anything. The letter conveying 'No Objection Certificate' (Appendix 13) contains details regarding the amount sanctioned and released to the Society. It further states that the Finance Society has no objection to any institution granting interim finance to the primary society. It does not guarantee through this letter that the loan instalment will be sent directly to the concerned bank for the purpose of liquidating the short-term loan advanced by it.

It is seen that some banks grant interim finance without creating second charge in their favour. It is, however, seen that some banks get a regular mortgage deed executed from the primary society, while advancing loan to it (Code No. 871 Society).
In case of Code No. 363-M society from Poona, a nationalised bank advanced short-term loan to the contractor, on the basis of a formal letter from the borrowing society, that a loan had been sanctioned to it by the Finance Society. More detailed enquiries, however, revealed that one of the members of that society was the Personal Assistant to the Custodian of the Bank. An urban Co-operative Bank granted interim finance to Code No. 510-M society from Poona on the basis of the 'No Objection Certificate' issued by the Finance Society.

It was seen that there was no uniformity in the views taken by different banks, nor in the procedure adopted by them while granting interim loans. The Finance Society can take initiative in this connection and codify the procedure. A step in the direction of ensuring uniformity can help to routinize these operations, to the great advantage of the borrowing societies.

One important thing has to be noted about the difficulties encountered when an Urban Co-operative Bank wants to grant loan to a housing society. It is necessary to obtain the permission of the Divisional Joint Registrar of Co-operative Societies for advancing such loans, under the provisions of

4. Section 44 provides: "(1) No Society shall make a loan to any person other than a member or on the security of — continued."
Section 44 of the Maharashtra Co-operative Societies Act 1960.

The representatives of Code No. 496-M society from Nasik pointed out that an Urban Co-operative Bank from that place submitted a proposal to the Deputy Registrar for permitting it to grant loan to his society. The District Deputy Registrar submitted the proposal to the Divisional Joint Registrar. It could not be cleared even though several months were lost. The Society finally dropped the idea of obtaining interim finance. The Co-operative Department and the Finance Society can develop a concerted approach to this problem and standardize the entire procedure in this connection. There is no doubt that such a procedure will be of considerable help to the borrowing primaries.

fn. 4 continued.

any person who is not a member;
Provided that wil the special sanction of the Registrar a society may make loans to another society.

(2) Notwithstanding anything contained in the foregoing sub-section, a Society may make a loan to a depositor on the security of his deposit.

(3) If in the opinion of State Government, it is necessary in the interest of the society or the societies concerned to do;
Provided that, the Registrar may for ensuring safety of the funds of the society or societies concerned, for proper utilisation of such funds in furtherance of their objects and for keeping them within the loan making -- continued
XIX.4 : Views Of The Co-operative Banks :

The Finance Society had taken some steps to ascertain the difficulties of the District Central Co-operative banks and also to obtain their views on the subject of interim finance. A letter along with the proforma opinion sheet was sent to all such banks in the State, requesting them to communicate their 'esteemed opinion' on the subject. Only six banks sent replies. The Amravati District Central Co-operative Bank Ltd. suggested - "We are of the opinion that it will be better, if you please move the Commissioner for Co-operation, to direct Central Financing Agencies to undertake such financing". The letter further stated - "It will further be necessary to formulate an accepted procedure and execution of agreement bond, if the proposed scheme is to be implemented involving framing of rules for finance and consequent approval thereof by the Co-operative Department". This Bank had given Rs.50,000/- in 1969-70 by way of loan at 9% interest p.a., initially for three months and with extension of further three months. The entire

limits laid down in the rules and the by-e-laws with the approval of the Apex Bank by general or special order, regulate further the extent, conditions and manner of making loans by any society or class of societies to its member or other societies".

5. Appendix 14.
amount had become overdue. The Bank experienced difficulties: "in valuation of societies' assets and especially in regard to work in progress". The Bank further suggested - "Housing Finance Society should conduct assessment and valuation of the construction in progress through its own engineers and certify the cost thereof. Housing Finance Society should further recommend the quantum of interim finance, earnestly needed by the Society with guarantee to repay the same on behalf of the borrowing society on due date. Further, Housing Finance Society should enter into agreement with the District Central Co-operative Bank concerned". The Nasik District Central Co-operative Bank Ltd. informed that as per "Banking Regulation Act, we were required to maintain 28% of our Demand and Time liabilities, as Liquid Assets". The Bank further informed that it was not able to meet the demand of agricultural credit societies and hence it was unable to undertake any additional commitments (on account of loans for housing). Apparently the Bank had mixed up, interim finance with blocking up of funds in loans to housing societies. The Dhulia District Co-operative Bank Ltd. had also opined on similar lines. It, however, narrated its experience: "in case of a single society ..... to which we had advanced Rs. 40,000/- as an interim arrangement, pending receipt of the instalment from your society, as a special case. It took nearly 4 years to recover these dues from the said society. Our short-term funds thus unnecessarily remained blocked in the long-term investment". The Parbhani District
Central Co-operative Bank Ltd. informed that the resource position of the Bank did not permit undertaking a new scheme. There was no reimbursement facility from the Apex Bank for such finance. The problem of security for advances for temporary period seem difficult as the house under construction will have to be mortgaged to your society, and it will not be possible for the bank to allow unsecured advances. The Nanded District Central Co-operative Bank Ltd. informed that there was no provision in its bye-laws for making such advances. It had only once made such an advance, to one housing society, with the permission of the Divisional Joint Registrar of Co-operative Societies, which was recovered in due course. The Bank had not given any such loan thereafter and could not probably consider cases for such loans in near future. In addition to this, the rules and the difficulties in this regard were discussed in details, with the Managing Director of Poona District Central Co-operative Bank Ltd., personally.

XIX.5 : Some suggestions:

The analysis of the different views, expressed by the Banks and their executive officers indicate that there is need

6. Shri D.N. Kayde, B.A. (Hons), C.A.I.I.B., Chief Officer, State Co-operative Bank, was on lent service to the Dist. Bank. An authority on co-operative banking, he closely studied the conditions of loans of the Finance Society. Some of his valued suggestions have been included in Para XIX.5.
for standardization or codification of the procedure in this connection, so that correct approach towards the problem of interim finance can be developed. Following suggestions have been made from this point of view for the steps to be taken at different levels:

(i) At the level of the borrowing society:

Provision should be made in the bye-laws of the District Central Co-operative Banks for granting interim finance to the Co-operative Housing Societies where it does not already exist.

(ii) At the level of the Co-operative Department:

The Co-operative Department should quickly dispose off applications from banks requesting for permission for granting such interim finance.

(iii) At the level of the nationalised banks:

The nationalised banks may also consider any application received from the housing society sympathetically. The Co-operative Department and the Reserve Bank of India should allow the housing societies to borrow and the Banks to make advances on short-term basis.

(iv) At the level of the Finance Society:

The Finance Society should give adequate publicity for the procedure it would follow, while dealing with cases of interim finance. It may particularly be pointed out specifically that security in the form of second charge would be available
for the lending institution. A copy of the provisional sanction letter should be endorsed to all the respective banks. Similarly a copy of the certificate, certifying the title as clear and marketable may also be sent to it. It should also agree to send the loan instalment directly to the bank on its particular branch as may be agreed upon. The Finance Society should standardize the forms of the letters to be issued and the documents to be executed at different levels (e.g. the No Objection Certificate in an improved form, the mortgage deed, for creating the second charge and also of the release-deed when loan has been repaid). This would mean positive service to the co-operative housing sector.

(v) At the level of the lending bank:

The concerned bank may, while advancing short term loans, have its own arrangement for the valuation of the property and the charges will have to be borne by the borrowing society. The period of the loan advanced may be for a period of 3 to 12 months. The rate of interest may be the normal rate of about 9% per annum or at such rates which may ensure parity with other lending rates of the bank and which may be in harmony with its resource position.

(vi) At the level of the State Co-operative Bank:

The State Co-operative Bank should also issue guide lines to all the co-operative banks in this connection. It may also examine the possibility of reimbursement of the
interim finance made available by the Co-operative banks in the State.

If steps on these lines are taken it is felt that construction of houses can be completed in quicker time, and the difficulties experienced by the primary societies in getting the loan instalments late, can be removed.