CHAPTER VIII

CREDIT POLICY

3.0 Introductory

Till recently the major portion of bank credit went in favour of industry, commerce and trade. Agriculture, which is the major occupation in this country and major contributor towards national income and export earnings unfortunately got a meagre share. It was hardly 2% of the total bank credit. Agriculture had to depend upon co-operatives and to a major extent on moneylenders. Co-operatives have not been able to meet the needs of agriculturists because they lacked owned funds, had to face high percentage of overdues, their functioning hampered by vested interests and above all had no sound management base. Similarly several other sectors also were starving for bank credit like small-scale industries, export trade, etc. Nationalisation contemplated a change in the outlook and approach towards credit management.

One of the primary objectives of bank nationalisation was to ensure an increased flow of assistance to neglected sectors, like agriculture, small-scale industries, road and water transport operations and other primary sectors. The record of public sector banks fulfilling this objective has been quite encouraging. The share of priority sectors
in the total advances made by the public sector banks has gone up from 14.9 per cent in 1969 to 22.1 per cent in 1972 and 27.5 per cent in 1978. Particularly the striking fact has been the increasing involvement of public sector banks in agricultural credit. A notable feature of the public sector banks operation in recent years is the grant of medium-term loans for investment in agriculture—minor irrigation, land-development, farm mechanisation, plantations, dairy and fisheries. Besides giving increasing financial assistance to agricultural operations, the public sector banks have been financing the food procurement operations of Food Corporation of India, State Government and Co-operative Agencies.

The public sector banks have also been actively assisting the production and developmental efforts of the small-scale industries through grant of liberal credit facilities. There has also been significant increase in the bank credit to the other neglected sectors namely road and water transport, retail traders, professional and self-employed persons and education. Export is the other priority sector which has received special attention from the banks. To encourage banks to undertake financing of small borrowers on a much larger scale without any excessive risks, the government set up the Credit Guarantee Corporation of India in 1971 to provide guarantee cover to the banks in respect of small loans. The Corporation operates three
types of guarantee scheme viz.

(1) Small Loans Guarantee Scheme
(2) Small Loans (Financial Corporations) Guarantee Scheme
(3) Service Co-operative Societies Guarantee Scheme.

The credit facilities covered under the various schemes of the Corporation as at the end of June 1975 aggregated to Rs. 636.13 crores. The extension of credit to small borrowers in the hitherto neglected sectors of the economy is one of the principal tasks assigned to the public sector banks. To achieve this objective the banks have drawn up schemes to extend credit to small borrowers in sectors like agriculture, small-scale industry, road transport, retail and small business, which traditionally had very little share in credit extended by the banks. The number of borrowal accounts with public sector banks for these categories of borrowers increased from 8.47 lakhs to 64.5 lakhs between June 1970 and March 1977. The amount outstanding during the same period increased from Rs. 747 crores to Rs. 3042 crores. The share of these sectors in the total credit at the end of March 1977 was 27.0 per cent against 20.9 per cent in June 1970.

Table XII gives the advances made by the Scheduled Commercial Banks.
Table XXI.

<table>
<thead>
<tr>
<th>At the end</th>
<th>SBI group</th>
<th>Nationalised Banks</th>
<th>Total P.S.B.</th>
<th>All scheduled commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 1969</td>
<td>1185</td>
<td>1832</td>
<td>3017</td>
<td>3599</td>
</tr>
<tr>
<td>June 1974</td>
<td>2284</td>
<td>4410</td>
<td>6694</td>
<td>7858</td>
</tr>
<tr>
<td>June 1975</td>
<td>2664</td>
<td>4991</td>
<td>7654</td>
<td>8955</td>
</tr>
<tr>
<td>June 1976</td>
<td>3296</td>
<td>6614</td>
<td>9912</td>
<td>11464</td>
</tr>
</tbody>
</table>

Increase between June 1969 and June 1976

| Amount     | 2113      | 4982               | 6895         | 7865                        |
| Percentage | 178.3     | 261.0              | 228.5        | 218.5                       |

Increase between June 1974 and June 1975

| Amount     | 380       | 581                | 960          | 1097                        |
| Percentage | 16.6      | 13.2               | 14.3         | 14.0                        |

Increase between June 1975 and June 1976

| Amount     | 634       | 1623               | 2258         | 2509                        |
| Percentage | 23.8      | 32.5               | 29.5         | 28.0                        |

8.1 **Agriculture**

The banks made steady progress in the field of agricultural finance. Emphasis was laid on improving the quality of lending to this sector so as to ensure that the support extended to farmers was for genuine productive purposes and contributed to real improvement in income and productivity. In order to concentrate on the integrated development of an area to the fullest extent and in order that the bank can offer various services for modernising agriculture, maximising production and developing subsidiary activities, the economic conditions and potentials of selected villages in the Lead Districts allotted to each bank were studied in depth.

In some banks among the different purposes for which direct finance, had been given, crop finance absorbed the largest share. The emerging trend thus shows increasing emphasis on direct finance, particularly to the smaller farmers. Efforts are also made by the Banks to disperse the loans over a wider geographical area. Number of agricultural finance schemes were formulated for horticultural crops, land development, dairying, poultry, fishery, etc. In some banks for supervision and follow-up of agricultural advances experienced agricultural officers were appointed at all regional offices and vehicles such as jeeps and motor cycles were provided to them for on the spot inspection.
Some banks participated in several developmental schemes undertaken by Agricultural Finance Corporation in various States. Special surveys were undertaken by many banks for assessing the agricultural potential in the operational area of their Lead Districts. Senior Officers and branch agents were trained through the agricultural finance courses conducted by the Reserve Bank of India. Some banks started a new department namely Agricultural Finance Department for making arrangements for organising training programmes of various centres of the country to impart technical training to branch agents and officers in respect of agricultural finance schemes. Some of the banks helped financing agricultural investments by subscribing to debentures of co-operative Land Development Banks.

Bank's lending to agricultural sector is not confined merely to crop financing, but also covers land development, farm mechanisation, creation of minor irrigation facilities and development of allied activities. While financing a farmer, emphasis is always laid on initiating him to modern methods and techniques of farming. In some villages where groups of farmers have been financed, under various programmes the results have been spectacular. A few special schemes have been taken up by some banks such as financing of small farmers in coordination with the Small Farmers Development Agencies,
etc. Some banks also participated in schemes financed by International Development Association, Agricultural Finance Corporation, etc.

After reviewing the pattern of financing adopted so far some banks shifted the strategy to "area approach" instead of granting scattered finance over large areas. Bank financing has also been made more purpose-oriented to meet specific requirements of small farmers. Financing farmers in dry farming areas presents its own challenge. Traditions die hard and resistance to change is more pronounced in dry farming areas than areas which are assured of good rainfall. With the aim of studying the factors which inhabit farmers in dry areas from adopting improved techniques, and with a view to identifying most suitable cropping patterns, banks have undertaken a special research project. As a result of intensive efforts, some farmers were persuaded to sow a special drought-resistant variety of wheat in this area and the results have been encouraging.

The State Bank's scheme of setting up specialised Agricultural Development Branches is an unique innovation. By the end of December, 1974 State Bank had set up 177 Agricultural Development Branches. It is a specialist branch which undertakes no other banking work except financing of farmers and acceptance of their deposits. The normal area to be covered by an Agricultural Development
Branch extends over anything between 100-200 villages.

In agriculture, credit is required to be granted on package basis not only for ensuring optimum and efficient use of bank credit given but also for increasing agricultural productivity. Wherever medium term loans are granted for minor irrigation purposes, etc., unless short term loans are also granted for enabling agriculturists to move higher technological plane of production activity, the agricultural-borrower cannot reap the full benefit of development carried out. It is believed that major share of short term loans granted by the banks has gone to cash crops such as sugarcane, cotton etc. which are already enjoying irrigation facilities and foodgrains crops have no credit support from the banks.

8.2 Small Scale Industries

Financing of small-scale industries also received special attention as they embrace a wide range of manufacturing activities and make a significant contribution to solving the country's employment problem. Number of schemes were formulated for small borrowers. The process of translating application and other forms into regional languages had been continuing. Officers were trained and the training programme has assumed considerable importance in view of the emphasis placed on financing the self-employed sector. Many banks have appointed technical officers in a
number of regional offices with the object of providing technical consultancy service.

After the nationalisation of fourteen major banks in July 1969, commercial banks have made rapid strides in extending credit to small-scale industries. Banks in public sector i.e. the State Bank of India and its subsidiaries and fourteen nationalised banks account for about 90 per cent to the total credit to small-scale industries. Nearly one-fifth of the annual increase in bank credit is now accounted for by the small industry sector. Besides financing the modern small industry sector commercial banks have also financed a sizeable segment of traditional industries including cottage industries such as handloom, powerloom, cotton ginning and pressing, rice milling, etc. where the extent of financial assistance required is relatively small.

There is, by and large a growing evidence of shift from security-oriented approach to purpose-oriented approach on the part of bank officials and to assess the project on the basis of its technical and economic feasibility rather than ability of the small borrower to furnish adequate security. Technical cells are being set up within banks to facilitate quick and expert appraisal of projects to be financed. Generally concessionary margins are stipulated and the rate charged to small industries is 1/2 to 1 per cent lower than that on advances to large-scale
With a view to removing inhibiting factor arising from the higher element of risk involved in extending credit to small industries, the Reserve Bank of India has been operating on behalf of the Government of India, a Credit Guarantee Scheme for small-scale industries. The scheme extends a higher degree of protection to the lending institution against possible losses on all types of credit. Thus the scheme provides for payment of 75 per cent of the amount in default or the amount guaranteed whichever is lower. The Credit Guarantee Scheme is getting popular year after year.

In June 1969, only 50,850 small industrial units received advances from the banks. By June 1973, 1.52 lakhs units were receiving assistance from the banks. The proportion of advances made to small industry in total advances made by the public sector banks increased from 8.5 per cent to 12 per cent. Thus, as in the case of agriculture, per unit advances increased in the case of small industries also during six years.

The outstanding advances of public sector banks to small-scale industries in March 1977 stood at Rs. 1260 crores covering 4.10 lakhs borrowing units.

8.3 Road Transport, Retail Trade and Education

Advances to the other neglected sectors such as
road transport operators, retail traders, small business, education, etc. also made significant progress. Credit to these groups is being extended at a much faster rate, with a view to providing more employment opportunities. The terms of advances have been further liberalised and procedures simplified. Finance under all these heads is aimed at providing gainful employment. The Banks operate special schemes to assist artisans, craftsmen and other technically qualified entrepreneurs, to enable them to engage themselves in gainful employment. A worthwhile project, technical feasibility and economic viability are the only credit factors considered, apart from the managerial and technical ability of the entrepreneur. The finance is made available to suit the requirements of the individual project. The approach is need-based and the terms flexible to cater the varying needs. Special concessions are granted to projects undertaken in backward regions or by backward classes of the community to suit the local social and economic environments.

Banks are also granting educational loans which are aimed at providing opportunities to diligent students for prosecuting higher studies mainly in scientific and technological fields, in India and abroad.

8.4 Financing of Exports

The Banks continued their active support to export
promotion. The Banks financed a wide variety of products ranging from dolls and books to engineering products, textiles, rubber goods and chemicals. Every authorised branch had a substantial share in financing of export products of the region concerned such as jute and tea from Calcutta, hides and skins from Madras, chemicals and engineering goods from Bombay. In the field of deferred payment contracts and exports from the small scale sector also, the banks recorded satisfactory progress. The Banks are steadily expanding their net-work of branches authorised to handle foreign exchange business in order that the needs of the existing as well as potential exporters in interior regions are adequately catered to.

The Banks have taken steps to train adequate personnel to handle the important function of export financing. Senior executives of Banks conduct lectures and seminars for organisational guidance and assistance to the authorised branches. These efforts are also supplemented by staff training colleges and by the Reserve Bank's Bankers' Training college for senior officers.

Client education in export documentation is a new service made available by some banks to growing number of small exporters. Their export ambitions are no longer hampered by the lack of adequate and accurate knowledge of forms and procedures. The Banks place their full facilities and personnel at the disposal of small exporters.
who do not or cannot afford to maintain offices for the preparation of export documents.

A new scheme entitled 'duty drawback credit scheme' has been introduced to push up export. Since August, 1975, pre-shipment credit facilities are also extended to firms exporting consultancy service for meeting the expenses of technical and other staff employed for the project and purchase of materials required for the purpose as also guarantee facilities.

8.5 Professional and Self-Employed Persons

Guidelines were issued to commercial banks regarding special credit scheme with particular reference to professional and self-employed persons. For effective handling of such needs and diverting reasonable portion of deposits towards the same. Reserve Bank of India set up a Committee under the Chairmanship of Shri V.D.Thakker in July 1970, which reviewed the working of such special credit schemes and offered useful tips to rationalise the scheme as to be effective and purposeful.

The two important aspects in this regard highlighted need for credit guarantee scheme which came into force in April, 1971 and appropriate delegation of authority to frontline managers who had to brief their particular class of borrowers' clientele with adequate degree of flexibility. The implementation of this was a major break-through.
Banks have not only introduced schemes but arranged technical guidance, assistance to secure lands, shed, machinery, raw material, advice on financial, accounting and labour management, marketing and other aspects which a small business cannot at once command.

The following table (Table XXII) shows the advances by the Public sector Banks to agriculture and other neglected sectors as percentage of their aggregate advances.

8.6 Credit Planning

It is with great efforts that people are being made bank-minded and large deposits are collected from them. But it is not fair to impound the deposits by cash reserve and statutory reserve stipulation without putting them to productive or commercial use. What is needed in the present context is not denial or reduced flow of credit but more and strict scrutiny by the banks of the application of the funds for approved purposes. This necessitates careful planning.

Some borrowers have a tendency to inflate their credit needs and ask for much higher limits than unwarranted. Many times the data presented shows a wide gap between total credit limits sanctioned and their actual utilisation. A large credit limit is looked upon as status symbol. The resources of the bank are exhaustible and, therefore, banks should make optimum utilisation of these resources.
Table XXII

<table>
<thead>
<tr>
<th>Sector</th>
<th>As at the end of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 69</td>
</tr>
<tr>
<td>(1) Agriculture</td>
<td>5.5</td>
</tr>
<tr>
<td>(2) Small-scale Industries</td>
<td>8.5</td>
</tr>
<tr>
<td>(3) Road and Water Transport</td>
<td>0.2</td>
</tr>
<tr>
<td>(4) Retail Trade, Small business, etc.</td>
<td>0.6</td>
</tr>
<tr>
<td>(5) Professional and self-employed persons</td>
<td>0.1</td>
</tr>
<tr>
<td>(6) Education</td>
<td>Neg.</td>
</tr>
</tbody>
</table>

Instead of keeping them idle. Credit is a scarce commodity in India and, therefore, should be put to the best use at all times. If commitment charges are levied this would serve as a check on a borrower from seeking credit limits unrelated to his requirements. As a result the banks will be able to forecast more accurately the likely variations in the demand for credit and regulate cash accordingly.

6.7 Credit Investigation

The primary functions of commercial banks in India, as in other countries are to mobilise savings of the people and channelise them for productive purposes. The banks have to operate mostly with depositors' money, the safety and liquidity of which remains their guiding principle. In the successful performance of their functions the Bankers have steadily realised the importance of personal contact with their customers and today in almost every major bank operating in this country, there is an independent department known as 'Credit Investigation' or 'Credit Information' Department. Some banks are calling this Department as 'Business Development Department'.

The Department is composed of group of individuals who investigate the financial standing, credit worthiness and business integrity of firms/individuals conducting
business. As it is essential that information supplied be up-to-date and reliable the staff must be sufficiently senior, efficient, presentable and well versed in Banking procedure to instil confidence and respect.

The functions of Credit Investigation Department are confined to compiling credit information through personal investigation, rendering service to the customers and practically to every department throughout the bank, including all of its branches. It complies trade statistics and statistical figures relating to Bank's constituents obtained from various departments in the bank so that a full picture of the party's business can be seen at a glance. The department keeps a close contact with the merchants in order that business connections are made. A closer watch is maintained on the fluctuations of the customer's business and any failure in their business is investigated instantly. For all enquiries made from other banks, the department maintains a vigilance on the Bank's customers and if found necessary enquiries are instituted to ensure that the bank's clients are not being lured away by competitor banks offering more generous facilities by way of letters of credit without margin, delivery of documents on trust receipt and granting of clean overdraft. The officer is the main intermediary between the Bank and its customers with the assistance of his assistants/supervisors. The departmental head
tries to attract new and useful business from parties whose reports are satisfactory, inspects godowns and factories from time to time.

It is necessary to create a separate Credit Intelligence Bureau as a Statutory Corporation for compiling and furnishing credit information to various financial institutions in the country. While assessing the credit requirements of a borrower the branch agents should take into consideration the borrowers' requirements for different types of facilities. The Head Office and Regional Office should also be given discretion, to some extent, to the branch agents to interchange various limits in favour of a borrower according to the requirements from time to time. Every bank should have a well designed management information system. This should provide in compact and comprehensive information necessary for the purpose of policy formulation and evaluation.

8.8 Procedure for Investigation

The following procedure is generally followed in the banks:

The supervising head distributes the cases to be investigated every morning. A "Diary Control" which contains the list of Bank's clients in alphabetical manner, is maintained from which it is possible to determine how much work is unfinished and how much work each
investigator has outstanding. This diary is kept for a year.

It is the main task of the Credit Investigation Department to prepare and maintain status reports on its clients. New accounts and names are given priority in their investigation. If however, the department does not have any data and no references are available, the investigator is confronted immediately with the necessity of obtaining bank references and learning where the party is known in the market. In the event that the desired information is not available or developed after consulting all available sources, the department is then confronted with the problem as to whether or not its investigations make a direct call on the party to obtain the required data, in which case the investigator has to be extremely careful in obtaining the correct information.

When compiling a status report the following information is generally obtained and incorporated in the body of the report.

(i) **Source of Information**

Where information on the subject has been obtained from a sister bank, the name of this bank is incorporated, although this is not disclosed in the event of report being furnished. This is because credit reports are always considered to be of highly confidential nature and it is not the practice of the bank in general to
disclose the source of information.

(i) Date of commencement or Incorporation of business/company.

(ii) Capital

(iii) Names of the individuals on the Management

(iv) Financial Statements

(v) The reports of other banks

Enquiries on individuals are limited if the individual has an account with the Bank, the department faces no problem in answering to enquiries.

In some banks in India the main office at the centre, district or area is required to maintain a fully comprehensive information department which will be able to provide up-to-date information for the other branches in the respective centres, district or area. Each branch is required to maintain a comprehensive record of their local clients. All enquiries are routed through the central office, where the status reports are centralised. In case of adverse reports the main office brings it to the notice of the other branches.

The Reserve Bank of India has also set up a Credit Information Bureau. The main object of the Bureau is to collect and maintain records of information obtained periodically from all branches of commercial banks indicating the various types of credit facilities granted to individuals parties. The information so obtained
pertaining to individual parties is provided to commercial banks upon request. The Banking Companies Act, 1949 has provided the Reserve Bank of India the full powers to demand information which it may require from all banking companies in India, which must, of course, comply with such instructions. The Bureau has undoubtedly, greatly assisted the Credit Investigation Department of commercial banks in India in examining proposals for accommodation in reviewing their advances portfolios.

In the view of the present-day severe competition amongst banks, even though fourteen major banks have been nationalised, more and more value is being attached to the information department as personal contacts with customers—both present and prospective—will enable the banks to retain existing accounts and attract new business.

8.9 Co-ordination Between Commercial and Co-operative Banking

Until recently commercial banks have mainly restricted their operations within urban areas. The growth of joint stock banking as a result of the efforts of a few leading trading houses to finance trade and commerce led the bank offices to be located at port towns and business centres. Gradually however apart from territorial expansion of banking service, a functional diversification was also effected. Further banking is no longer the
privilege of the few rich, rather its base has been shifted to the public in general.

As against the concentration of commercial banks in urban areas, co-operative banking institutions have been deeply rooted in rural areas.

We had ways and means of ensuring repaid economic growth, controlling inflationary forces, providing employment to the evergrowing army of unemployed and of enforcing equitable distribution of the fruits of technology and scientific progress. Co-ordination of the activities of credit institutions and the wide spread of banking habit are among the few important steps in this direction.

The informal group on Institutional Arrangements for agricultural credit in 1964 also suggested a number of steps to close gaps within the co-operative structure. It suggested to establish direct relationship between the co-operative societies and the commercial banks. The co-operative institutions having strong base can deal effectively with small dispersed agricultural and industrial borrowers and individual rural consumers.

It is argued that if a commercial bank can finance co-operative marketing or consumers stores, there should be no objection in its financing a primary co-operative agricultural society. When central co-operative banks lack resources and marginal ability, the co-operative societies too should not be deprived of its desire to
get assistance from commercial banks. If the finance is routed through co-operative credit societies in the village, the benefit of local knowledge and local supervision over the end-use of loans will accrue to the commercial banks. However, in view of the inherent weakness of co-operative credit societies to apply these principles in all cases throughout the country may endanger, the whole credit structure of which solely rests on confidence of the public in commercial banks.

In areas where co-operatives have failed to make development loans but are in a position to make short-term loans, commercial banks should confine their operations for development purposes only for entering into suitable arrangements with co-operatives. They should also exchange the various information with one another. The Banking Commission also recommended the formation of a Co-ordination Committee at the district level with the representatives of lending agencies as members and the senior most officer of the State Government in charge of the development of the district as Chairman.

8.10 Recovery

Recovery of loans on due dates has been the major problem faced by every agency dispensing agricultural credit in our country. Default resulting from crop failure may not be faced by the commercial banks to a large extent in the
near future as they seem likely to restrict their rural credit operations, mostly to irrigated areas. The commercial banks should build up a suitable set of rules and procedures to determine the circumstances in which defaults might be condoned and the manner in which the borrower might be given relief e.g. by the extension of the loan or its conversion from a short-term to a medium-term loan. As for defaults which are wilful, efficient supervision alone can help to keep them in check. Because commercial banks do not have their own machinery on the spot and are unfamiliar with this line of business, the risk of such overdue loan is real and has to be guarded against.

The rules and regulations for advancing loans to cultivators for various purposes will have to be evolved by each bank in the light of its own experience and traditions and also with reference to individual areas and categories of purposes. However, the following facts must be taken into consideration. The size of the loan has to be determined with reference to the outlay on the purposes proposed, after allowance is made for the extent to which the outlay may be met for the borrower's own resources. The loan should be advanced in such a manner that the chances of misapplication are minimized. This implies on the one hand disbursement of loan in kind or other arrangements to ensure that part of it is used
for purchasing inputs as intended, and on the other observance of seasonality in lending and recovery. The loan must be suitably secured, the type of security insisted upon failures to the borrower's circumstances and convenience.

8.11 Staff Requirements

One of the major organisational handicap which commercial banks are experiencing in expanding credit to agriculture is the difficulty of finding suitable staff for the purpose. Both the pace at which banks can expand their advances to this sector and the success which attends these efforts will depend on their ability to recruit and train the necessary staff and build up the requisite organisation. The bank staff will have not only to assess the technical feasibility and economic profitability of the proposal which comes up for financing but also to watch their implementation according to schedule. Many banks have already initiated steps to recruit persons with the necessary background and qualifications and to organize separate agricultural finance departments at their headquarters. In some banks the problem has been tackled for the time being by giving a brief orientation in agriculture and agricultural credit to some of their existing staff with the help of some agricultural universities. The Reserve Bank has also
extended its help in this regard by organizing a special Agricultural Finance Course for the training of the senior staff of the banks. In pursuance of the recommendations of a working group appointed by the Reserve Bank to go into entire question of training facilities for the executive and supervisory staff of the banks, a National Institute of Bank Management has also been set up for implementing a development programme to bring about the required attitudinal changes at the higher levels of bank management in the country.

The Reserve Bank of India had appointed a Committee to review the working of the special credit schemes of the commercial banks with particular reference to their employment potential. One of the recommendations of the Committee was the setting up of Multiservice Agencies by the banks at various strategic places to provide technical assistance to the self-employed about the feasibility of their projects and proposals. It was particularly meant to help the flow of credit to new entrants into the categories of self-employed. However, not many banks have come forward with setting up such agencies though each nationalised bank and most of the private sector banks do have at their Head Office, departments marked by suitably qualified technical personnel to provide assistance to the new entrepreneurs and to those who are already running the business.
One of the banks have started a new era in bank finance by setting up multi-services agencies. The main object of setting up such agencies was to find out the small business and to help them to augment the earnings or help them earn regular incomes. However, Multi-service Agencies is still in an experimental stage because neither Bank of Baroda has about to establish many more of such agencies nor other banks have followed suit in its regard.

8.12 Future Lending Policy

Historically Indian Banking grew in the traditional world and into the foot-steps in conservative banking system of our former rulers—the Britishers. The traditional assessment of credit worthiness and insistence on tangible assets as securities continue the rule in majority of the cases, even today. The banks are expected to lead the development other than to follow the development. Banks are made responsible to channelise finance in the new avenues to accelerate the rate of growth, generate employment and increase production. As a result the banks have to provide finance to many such borrowers as do not satisfy the traditional canons of credit worthiness.

To make these new schemes successful a fundamental change in the attitude of loaning officers has to be brought about, the change in attitude towards security. The emphasis has to shift from 'Security'. The security
should not be the basis of sanctioning the loan proposals. It can only be a part of terms and conditions.

The key factor to be evaluated before making a lending decision is the nature of risk and willingness of the borrowers to repay rather than the security offered. The basic question that must be answered to virtually every request for a business loan may be:

(i) What is the quality of management
(ii) What is the specific purpose of loan
(iii) What is the planned time and source of repayment
(iv) What alternative sources of repayment if any are there

The quality of management is perhaps the most important factor in success or failure of any business. Yet this important factor is sometimes overlooked and frequently not given enough attention.

Financial statements can cast a great amount of light on the ability of management. This information shows management's ability to increase sales, to control inventory levels, to fully utilize fixed assets or conversely inability to control expenses, to collect receivable or to compete effectively.

The second basis question deals with the purpose of the loan here we are concerned with the wisdom of the purpose, the effect on the financial condition and repayment ability. Full knowledge of the exact use of
the loan proceeds will greatly assist in determining the
correct answer to this question.

The time and source of repayment is the next basic
concern. There are only four possible sources of re-
payment on any loan. These are:

(i) Cash resulting from profits earned and retained
in business.

(ii) Conversion of assets to cash.

(iii) Cash resulting from additional investment
shareholders.

(iv) Transfer of the debt to another creditor.

8.13 Summing Up

Commercial banks within a period of six years after
nationalisation have granted appreciable amount of short
and medium term credit to various sectors of the economy,
of which good portion has gone to the neglected sector.
While financing priority sectors banks have gained plenty
of rewarding as well as otherwise experiences which have
been principally responsible to guide the policies and
practices of lending from time to time. As such, it is
necessary that the commercial banks in close collaboration
with socio-economic centres of Agricultural Universities
located in various parts of the country endeavour to
develop appropriate methodology, and collect all the
necessary data. This will help to evaluate the degree of
impact of the banks' credit on the uplift of socio-economic status of different classes of farmers, landless labourers with due regard to the types of activities financed, areas representing favourable precarious conditions of development. Banks continued to follow the area approach and adopted villages under the Village Adoption Scheme for extending financial assistance for integrated development of the rural economy. As at the end of June 1977, banks had adopted 49700 villages and financed 1.3 million farmers to the extent of Rs. 249.79 crores.

Additional safeguards are required for effecting recovery of loans. Powers of attachment may be rested to bank officials to expedite recovery process. Priority of bank dues in court proceedings has also been suggested as the dues of the nationalised banks are the due of the Government. Simplification of procedures pertaining to recovery of loans, especially in civil court proceedings is very much needed.