Chapter Third:

Reserve Bank of India

Policy Regarding Co-operative Banking.

3.1- License policy of RBI for Co-operative Banking.
3.2- Banking Regulation Act 1949 for Co-operative Banking.
3.3- Entry norms for Co-operative Banks by RBI.
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3.1 LICENSE POLICY OF RBI FOR CO-OPERATIVE BANKING:

The Urban Banks Department of the Reserve Bank of India is vested with the responsibility of regulating and supervising primary (urban) Co-operative banks, which are popularly known as Urban Co-operative Banks (UCBs).

While overseeing the activities of 1926 primary (urban) Co-operative banks, the Urban Banks Department performs three main functions: regulatory, supervisory and developmental. The Department performs the functions through its 17 regional offices.

I. Regulatory Functions

(i) Licensing of New Primary (Urban) Co-operative Banks

For commencing banking business, a primary (urban) Co-operative bank, as in the case of commercial bank, is required to obtain a licence from the Reserve Bank of India, under the provisions of Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

(ii) Licensing of Existing Primary (Urban) Co-operative Banks

In terms of sub-section (2) of Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies), the primary (urban) Co-operative banks existing in the country as on March 1, 1966, (when some banking laws were applied to UCBs), were required to apply to the Reserve Bank of India. They were given three months to obtain a licence to carry on banking business. Similarly, a primary credit society which becomes a primary (urban) Co-operative
bank by virtue of its share capital and reserves reaching Rs. one lakh (Rs. 1,00,000) and above was to apply to the Reserve Bank of India for a licence within three months from the date on which its share capital and reserves reach Rs. one lakh. The existing unlicensed primary (urban) Co-operative banks can carry on banking business till they are refused a license by the Reserve Bank of India.

(iii) Branch Licensing

Under the provisions of Section 23 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies), primary (urban) Co-operative banks are required to obtain permission from the Reserve Bank of India for opening branches.

(iv) Statutory Provisions

The regulatory functions of Urban Banks Department relate to monitoring compliance with the provisions of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) by urban Co-operative banks. These provisions include:

a. Minimum Share Capital

Under the provisions of Section 11 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies), no primary (urban) Co-operative bank can commence or carry on banking business if the real or exchangeable value of its paid-up capital and reserves is less than Rs. one lakh.

Section 22 - Licensing of banking company

No Co-operative society shall carry on banking business in India unless
• it is a primary credit society;

• it is a Co-operative bank and holds a license issued by RBI;

This Section shall not apply to a Co-operative bank which is carrying on banking business at the commencement of the Banking Laws for a period of one year from such commencement.

• Co-operative banks functioning prior to the commencement of the Act were required to apply for license to RBI within a stipulated period of three months;

The Co-operative banks shall not be deemed to be prohibited from carrying on banking business until they are notified by the Reserve Bank that license cannot be granted.

RBI can cancel a license granted to a Co-operative bank if;

• The bank closes banking business;

• The bank does not comply with any conditions imposed by RBI while issuing license.

Section 23 (4A)

• Any Co-operative bank seeking permission of RBI for branch opening is required to forward applications to RBI through NABARD;

• NABARD shall give its comments on the merit of the cases and send to RBI.

• An advance copy of the application shall be sent by the Co-operative bank directly to the RBI.
Section 24- Maintenance of statutory liquid assets

- A scheduled bank, in addition to average daily balances required to maintain u/s 42 of RBI Act;
- Every Co-operative bank, in addition to the cash reserve it is required to maintain u/s 18 of the BR Act, shall maintain in India:
  - In cash;
  - In gold valued at a price not exceeding current market price; or
  - In unencumbered approved securities, (method of valuation as specified by RBI from time to time) an amount which shall not, at close of business on any day, be less than 25 % or such other percentage, not exceeding 40 % of the total of its Demand and Time liabilities in India, as on the last Friday of the second preceding fortnight..

For the purpose of this section, cash maintained in India shall include:-

- Any balance maintained by a scheduled State Co-operative Bank with the RBI in excess of the balance required to be maintained by it under Section 42 of the RBI Act;
- Any cash or balances maintained by a Co-operative bank, other than a scheduled state Co-operative bank, with itself or with the state Co-operative bank of the state concerned or in the current account with the RBI or by way of net balances maintained in current Account in excess of the aggregate of the cash or balances required to be maintained u/s 18 of the Act;
- Any net balances in current account.
For the purpose of this sub-section -

- Approved securities, or a portion thereof, representing investment of monies of Agricultural Credit Stabilization Fund of a Co-operative bank shall not be deemed as unencumbered approved securities;

- In case of a Co-operative bank which has taken an advance against any balance maintained with the state Co-operative bank of the state concerned or with the central Co-operative bank of the district concerned, such balances to the extent to which it has drawn against or availed of shall not be deemed to be cash maintained in India;

Section 24(3) - Ensuring compliance

- For ensuring compliance with the provisions, a banking company shall furnish to RBI, not later than 20 days after the close of the month, a monthly return, showing particulars of its Liquid Assets maintained and its Demand and Time liabilities at close of business of each alternate Friday during the month;

- Co-operative banks to submit a copy of this return to NABARD also.

Section 24-A

RBI has power to exempt any Co-operative bank from the whole of or any part of the provisions of Section 18 or Section 24 of the Act.

Sections 27 to 31 - Submission of returns

Copy of monthly returns and annual accounts required to be submitted by the Co-operative banks also to NABARD as per the periodicity prescribed in the relevant sections of the Act.
Section 35 - Inspection

NABARD has been empowered to inspect the Co-operative banks other than primary Co-operative banks, without prejudice to the powers of RBI, to conduct such inspection.

Section 35 A

Powers of RBI to give directions; RBI is empowered to issue directions to Co-operative banks in general or to any Co-operative bank in particular on any aspect of working of such banks.

Section 45: Under this section, the Reserve Bank can recommend to the Central Government, to order a moratorium in respect of a Co-operative Bank. The power to issue such a moratorium however rests with the Central Government.

Section 46: In this section, various penalties that may be imposed on Co-operative banks, for non-compliance with the various provisions of the B.R. Act, have been specified.

Section 53- Power to exempt; The Central Govt. may, on the recommendation of RBI, exempt any banking company or any class of banking companies from any or all provisions of this Act.

Key points

- Primary agricultural societies are excluded from the scope of the banking regulation act 1949;
- The minimum capital requirement is only Rs. 1 lakh for banks;
- A Co-operative bank can not engage in any trading activity (except of government and approved securities);
- Co-operative banks have to maintain a cash reserve ratio of 3% of NDTL in cash and current accounts with RBI and other notified banks. Scheduled Co-operative banks have to maintain CRR under the RBI act in an account with RBI. Overall the cash reserve ratio requirements are lower than that for commercial banks;
- Co-operative banks need to maintain statutory liquidity ratio of 25% of NDTL in the form of gold, balances with state Co-operative banks and in unencumbered approved securities;
- Co-operative banks cannot hold more than 5% of private capital of any other Co-operative society;
- RBI can determine the banking policy for the advances to be made by Co-operative banks;
- Co-operative banks should have applied for a license from RBI to carry on banking business;

Co-operative banks and societies have to submit various returns to RBI regarding CRR/SLR, assets and liabilities, unsecured loans to directors, advances to priority and weaker sector, shareholding in Co-operative societies, non-performing assets and audited balance sheet, profit and loss account of statutory audit report as per the periodicity prescribed for different statements.
3.2 BANKING REGULATION ACT 1949 FOR CO-OPERATIVE BANKING:

Banking Regulation Act, 1949: Application of the Act to Co-operative Banks

Important Provisions

Banking Regulation Act came into being in 1949. Prior to that, certain provisions of the Companies' Act, 1913 were applicable to Banking Companies. The need for the Act was felt with many banks in poor financial health due to poor management of loan/investment portfolio and non-maintenance of adequate liquidity. This was also further complicated by mushroom growth of banks and closure and failure of some banks.

The objectives of the Banking Regulation Act broadly are:

- To safeguard the interests of depositors;
- To develop banking institutions on sound lines; and
- To attune the monetary and credit system to the larger interests and priorities of the nation.

In 1966, the Act was made applicable to Co-operative banks by incorporating Section 56 therein. The important provisions of Banking Regulation Act, 1949 (as applicable to Co-operative banks) are given below:

Section-3

- The Act shall not apply to (a) a primary agricultural credit society and (b) a Co-operative land development bank.

Section- 5 Interpretations

Section 5(b)
Banking means the accepting for the purpose of lending or investments of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft or otherwise;

 Banking Company means a Company which does business of banking;

 Mere function of giving loans does not make a banking company;

 Power of receiving money or deposits from customers and honouring their cheques is essential characteristic of banking.

Section - 6 - Forms of business which banking companies may engage in.

A bank is prohibited from doing any business other than those mentioned in Section 6. The businesses a bank may carry on are summarised into three categories:

- Main business of banking i.e., borrowing, taking or lending money, dealing in Bills of Exchange, Bills of lending and Debentures, issuing letters of credit, buying/selling foreign exchange etc.,

- Allied business: Acting as agent/trustee/administrator, carrying on guarantee business, providing safe custody;

- Dealing in property is restricted to (i) property coming in satisfaction of claims or as security and (ii) property necessary for its own sake.

The Government of India has specified to hire purchase, equipment leasing and insurance as new forms of business for Co-operative banks to be engaged in. Reserve bank as empowered by the act, issues guidelines periodically for the conduct of these types of business.
Section 6(1):- Gives an elaborate list of forms of business in addition to normal business of banking that a banking company may engage in.

Section 6(2): - No banking company shall engage in any form of Business other than those referred to in SS 6(1).

Section 11: - Requirement as to minimum paid-up capital and reserves

No Co-operative bank shall commence or carry on the business of banking in India unless the aggregate value of its paid-up capital and reserves is not less than one lakh rupees. Value means "Real or Exchangeable Value" as approved by RBI/NABARD during the inspection of the bank. The real or exchangeable value of the bank could be calculated as Realizable Assets less Outside Liabilities or Owned Funds less Erosion

Section-18 :- Cash reserve

- Every Co-operative bank, not being a scheduled SCB, shall maintain
- By way of cash reserve with itself, or
- By way of balance in current account with RBI or SCB of the state concerned, or by way of net balance in current account a sum equivalent to at least 3 % of its demand and time liabilities (DTL) as on last Friday of the second preceding fortnight;
- Shall submit to the RBI before 15th day of every month a return showing the amounts held on alternate Fridays during a month with particulars of its DTL on such Fridays.

Scheduled Co-operative banks will have to maintain CRR as per RBI Act. The scheduled Co-operative banks, governed by section 42 (1) of Reserve
Bank of India Act 1934 under which they have to maintain a minimum CRR 3% with Reserve Bank of India, which can be increased to 20% of Net Demand and Time Liabilities (NDTL).

**Liabilities in India shall not include:**

- Paid-up capital, reserves, or any credit balance in the PL account;
- Any advances taken from a State Govt., RBI, IDBI, EXIM Bank, NHB, SIDBI, NCDC, NABARD
- In case of an SCB or a CCB, deposits representing reserve funds by any Co-operative society within its area of operation; in case of a CCB, any advance taken from the concerned SCB.
- In case of any Co-operative bank which has granted an advance against any balance maintained with it, such balance to the extent of the amount outstanding in respect of such advance
- In case of any Co-operative bank, the amount of any advance or other credit arrangement drawn and availed of against any approved securities

**Section 19: Restriction on holding shares in other Co-operative societies**

No Co-operative bank shall hold shares in other Co-operative societies except to such extent and subject to such conditions as RBI may specify.

Not applicable for:

- Shares acquired through funds provided by the State Govt. on that behalf;
- DCCBs to hold shares of affiliated SCB.

**Section 20: Restriction on loans and advances**

No Co-operative bank shall:
• Make loans and advances on the security of its own shares;
• Grant unsecured loans or advances to any of its directors;
• Any firm or private company in which the director has interest.

This above clause shall not apply to grant of unsecured loans or advances made by a Co-operative bank

• Against bills for supplies or services made or rendered or bill of exchange arising out of bonafide commercial or trade transactions;
• Trust receipts furnished to the Co-operative bank;

If on examination of any return submitted by the bank, it appears that any loans or advances are being granted to the detriment of the interest of the depositors of the Co-operative bank, RBI by order in writing, prohibit the Co-operative bank from granting such further loans, or impose such other restrictions as it thinks fit.

Reforms in the BR Act 1949

Consequent upon the implementation of the recommendations of the Committee on Revival of the Co-operatives, certain amendments to the BR Act would be required and these would include the following aspects:

• All Co-operative banks would be on par with the commercial banks as far as regulatory norms are concerned;
• RBI will prescribe fit and proper criteria for election to Boards of Co-operative banks. Such criteria would however not be at variance with the nature of membership of primary Co-operatives which constitute the membership of the DCCBs and SCBs;
• However, as financial institutions, these Boards would need minimum support at the Board level. Hence, the RBI will prescribe criteria for professionals to be on the Boards of Co-operative banks. In case members with such professional qualifications or experience do not get elected in the normal electoral process, then the board will be required to co-opt such professionals to the board and they would have full voting rights;

• The CEOs of the Co-operative banks would be appointed by the respective banks themselves and not by the State government. However, as these are banking institutions, RBI will prescribe the minimum qualifications of the CEO to be appointed and the name proposed by the Co-operative bank for the position of CEO would have to be approved by RBI;

• Co-operatives other than Co-operative banks as approved by the RBI shall not accept non-voting member deposits. Such Co-operatives would also not use words like “bank”, “banking”, “banker” or any other derivative of the word “bank” in their registered name.

3.3 ENTRY NORMS FOR CO-OPERATIVE BANKS BY RBI:-

Rural Co-operative credit institutions have played a large role in providing institutional credit to the agricultural and rural sectors in the past. Typically, these credit institutions have been part of two distinct structures, commonly known as the short term Co-operative credit structure (ST CCS) and the long term Co-operative credit structure (LT CCS) in each state. The ST CCS, comprising primary agricultural credit societies (PACS) at the village level, district central Co-operative banks (DCCBs) at the intermediate level, and the state Co-operative
bank (SCB) at the apex level, primarily provides short term crop loans and other working capital loans to farmers and rural artisans, although over the last few years, it has also been providing longer duration loans for investments in the rural sector. The LT CCS, comprising state Co-operative agriculture and rural development bank (SCARDB) at the state level and primary (P) CARDBs or branches of SCARDB at the decentralised district or block level, has been providing typically medium and long term loans for making investments in agriculture, rural industries, and lately housing.

Over the past 10 years, however, not only has the share of the CCS in agricultural credit felled from 62% in 1992-93 to 34% in 2002-03, its financial health has also seen a downturn. Accumulated losses in the ST CCS have been estimated at almost Rs. 10,000 crore, and those in the LT CCS at about Rs. 4,000 crore.

Various committees had been set up in the past to enquire into the problems faced by the CCS institutions, and to make recommendations for their revival. No concrete action was however taken on these recommendations due to various reasons.

The Government of India (GoI) appointed a Task Force under the Chairmanship of Prof. A Vaidyanathan in 2004 to analyse the problems faced by the CCS institutions and to suggest an action plan for their revival. The draft report of the Task Force on ST CCS was put in the public domain for comments in January 2005, and after considering the responses on the draft report, the finalized Report of Task Force on Revival of Rural Co-operative Credit
Institutions (in the ST CCS) was submitted to the GoI in February 2005. The draft report of the Task Force on LT CCS was put in the public domain for comments in January 2006, and after considering the responses on the draft report, the finalized Report of the Task Force on Revival of Rural Co-operative Credit Institutions (in the LT CCS) was submitted to the GoI in August 2006.

During 2005, the GoI had extensive discussions with the state governments on the recommendations of the Task Force on ST CCS, and a consensus was achieved on the Revival Package that could be implemented across the country. This Revival Package for STCCS was communicated to the State Governments in January 2006.

A series of meetings were held by GoI during October 2007 to February 2008 to discuss the recommendations of the Task Force on Revival of the Long Term Co-operative Credit Structure (LTCCS). It has been announced in the Union Budget 2008-09 that the Central and State Governments have agreed upon a Package to implement the Prof. Vaidyanathan Committee report on reviving the Long Term Co-operative Credit Structure (LTCCS).

The Revival Package for STCCS focuses on introducing legal and institutional reforms, which will enable the Co-operatives to function as autonomous member centric and member governed institutions. These reforms will enable wider access to financial resources and investment opportunities, remove geographical restrictions in operations as well as mandated affiliations to federal structures, and provide administrative autonomy to Co-operatives at all
levels. Suitable amendments in the BR Act and certain provisions in the NABARD Act are also contemplated.

In addition providing resources for covering the accumulated losses in the ST CCS as on 31 March 2004, the Package also provides for taking Co-operatives to a minimum level of CRAR of 7%, and meet the costs of computerization of the accounting and monitoring system and specific human resource development initiatives at all the levels of the ST CCS. The sharing of the accumulated losses between GoI, State Government and the CCS is based on the concept of origin of losses rather than any arbitrary proportions.

NABARD has been designated the Implementing Agency for implementing the Revival Package in all the states. The Department for Cooperative Revival and Reforms (DCRR) has been constituted in NABARD for this purpose. NABARD is providing dedicated manpower at the national, state and district levels for implementing the Package.

A National Implementing and Monitoring Committee (NIMC) not only monitor the implementation of the Package regularly, but also take necessary decisions on policy and operational matters.

The programme implementation is guided and monitored within each state by the State Level Implementing and Monitoring Committee (SLIC) and by the DCCB Level Implementing and Monitoring Committee (DLIC). The concerned Regional Office of NABARD supports the SLIC while each DLIC is supported by a dedicated DCCB level support team (DLST) comprising officers from NABARD, DCCB and Cooperation department.
A State Level Task Force is being set up in each State to periodically review issues of supervisory and regulatory concerns in respect of CCBs and SCB.

The process of implementing the Revival Package in any state begins with the signing of the Memorandum of Understanding (MoU) among the GoI, the participating state government and NABARD. The common draft of the MoU was finalised by the NIMC, and decisions taken in the NIMC on policy or operational issues could either be incorporated in the MoU while executing it or could be incorporated suitably while making amendments to the various Acts, Rules, by laws etc. without making any change in the MoU. State specific issues which are not common to other states and are not against the spirit of the MoU and the Revival Package may be incorporated in the MoU.

A special audit of all PACS, DCCBs and SCB in every participating state would be undertaken to arrive at a true and fair assessment of the amount of accumulated losses as on 31 March 2004 as also a fair and acceptable proportion of such losses on the basis of the origin of such losses, i.e., losses due to credit business, Public Distribution (PDS) business, or other trading business etc. Special audit formats, manual and FAQs on special audit of PACS & FAQs on special audit of CCBs have been designed by NABARD to facilitate this exercise. These special audits would be conducted either by the personnel from the Co-operative audit department of the state or by selected outsourced auditors after being suitably trained on the guidelines for the conduct of special audits. In either case, the exercise will be test checked by a set of independent Chartered
Accountants who are members on DLIC. Every participating state would also promulgate an Ordinance as per para 9 of the MoU to amend the State Cooperative Societies Act to give effect to the institutional and legal reforms envisaged in the Revival Package or would enact the necessary legislation.

Certain provisions are also being made within the NABARD Act to enable availability of NABARD refinance to a Co-operative in any tier either directly or through any regulated FI.

The RBI has prescribed fit and proper criteria for election to the Boards of the rural Co-operative banks along with criterion for professionalisation of the boards of these banks and CEOs of these banks.

As PACS across the country were using different accounting systems which did not present a true and fair picture of their financial status, a Common Accounting System (CAS) has been designed which will ensure transparency and application of prudent accounting methods and is also emendable to both manual and computerized environments. The system would generate necessary outputs for internal control and management decisions as well as meeting the supervisory and regulatory requirements and needs of other associated agencies. To the extent possible, this will be computerized even at PACS levels.

Training modules for training of the elected directors and staff of PACS have been designed by a dedicated working group set up by NABARD. The group is now designing programmes for the higher tiers of the CCS.
3.4 CRR and SLR norms for Co-operative Banks by RBI:

1.1 All primary (urban) co-operative banks (PCBs) (scheduled as well as non-scheduled) are required to maintain stipulated level of cash reserve ratio (CRR) and statutory liquidity ratio (SLR).

1.2 In regard to cash reserve, the provisions of section 42(1) of the Reserve Bank of India Act, 1934, governs the scheduled PCBs whereas, non scheduled PCBs are governed by the provisions of section 18 read with section 56 of the Banking Regulation Act, 1949 (As applicable to co operative Societies ), hereinafter referred as Act.

1.3 The provisions of section 24 of the Act ibid govern maintenance of SLR for all the banks (scheduled as well as non-scheduled).

2.1 (B) Section 42 (1) of Reserve Bank of India Act, 1934 – Maintenance of CRR (Amendment)

(i) The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with effect from June 22, 2006, with its notification in the Gazette. Consequent upon the amendment to sub-section (1) of Section 42 of the Reserve Bank of India Act, 1934, the Reserve Bank having regard to the needs of securing the monetary stability in the country, can prescribe the Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate.

The statutory minimum CRR requirement of 3 per cent of total demand and time liabilities no longer exists with effect from June 22, 2006. In exercise of the powers conferred on Reserve Bank of India, it has been decided to continue the status quo on the rate of CRR to be maintained by Scheduled Primary (Urban)
Co-operative Banks and the extant exemptions, which will be operative till further changes are notified. Accordingly, Scheduled Primary Urban Co-operative Banks shall continue to maintain CRR of 5 per cent of their total demand and time liabilities, subject to the exemptions as indicated in our circular UBD. PCB.Cir.No.60/16.26.000/2005-06 dated June 22, 2006.

(ii) Further, as part of the amendments carried out to Reserve Bank of India Act, 1934, sub-section (1B) of Section 42 of the Act has been omitted. Accordingly, the Reserve Bank will not be paying any interest on the CRR balances maintained by Scheduled Urban Co-operative Banks with effect from the fortnight beginning June 24, 2006.

2.1.4 Multiple Prescriptions for CRR

(i) For the purpose of maintenance of CRR and SLR the Reserve Bank may specify from time to time with reference to any transaction or class of transactions that such transaction or transactions shall be treated as liability in India of a scheduled PCB.

(ii) With a view to facilitating the development of a more realistic rupee yield curve and term money market, the liabilities of scheduled PCBs to the Banking System as computed under clause (d) of explanation to section 42(1) of the RBI Act, 1934, are exempted from maintenance of CRR with effect from the fortnight beginning April 26, 1997. Effective from the fortnight beginning June 14, 2003, the scheduled PCBs were required to maintain a CRR of 4.5% of the NDTL. The CRR of Scheduled Primary (Urban) Coop. Banks was again increased by one half of one percent point of their Net Demand & Time Liabilities (NDTL) in two
stages, effective from the fortnight beginning from September 18, 2004, i.e. 4.75% of NDTL and from October 2, 2004, i.e. 5% of NDTL.

(iii) In order to provide flexibility to banks and enable them to choose an optimum strategy of holding reserves depending upon their intra period cash flows, the scheduled PCBs are presently required to maintain on average daily balance, a minimum of 70% of the prescribed CRR balance based on their NDTL, as on the last Friday of the second preceding fortnight.

As in the case of commercial banks, primary (urban) Co-operative banks are also required to maintain certain amount of cash reserve and liquid assets. The scheduled primary (urban) Co-operative banks are required to maintain with the Reserve Bank of India an average daily balance, the amount of which should not be less than 5 per cent of their net demand and time liabilities in India in terms of Section 42 of the Reserve Bank of India Act, 1934. Non-scheduled (urban) Co-operative banks, under the provision of Section 18 of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) should maintain a sum equivalent to at least 3 per cent of their total demand and time liabilities in India on day-to-day basis. For scheduled Co-operative banks, CRR is required to be maintained in accounts with Reserve Bank of India, whereas for non-scheduled Co-operative banks, it can be maintained by way of either cash with themselves or in the form of balances in a current account with the Reserve Bank of India or the state co-operative bank of the state concerned or the central Co-operative bank of the district concerned or by way of net balances in current accounts with public sector banks. In addition to the cash reserve, every primary (urban) Co-operative bank
(scheduled/non-scheduled) is required to maintain liquid assets in the form of cash, gold or unencumbered approved securities which should not be less than 25 per cent of the total of its demand and time liabilities in accordance with the provisions of Section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). Out of the prescribed SLR, the UCBs have been advised to maintain a certain amount in the form of SLR Securities as under:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category of bank</th>
<th>Minimum SLR holding in Government and other approved securities as percentage of Net Demand and Time Liabilities (NDTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Scheduled banks</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>Non-Scheduled banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) with NDTL of Rs.25 crore &amp; above</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>b) with NDTL of less than Rs.25 crore</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Supervisory Functions:**

To ensure that the UCBs conduct their affairs in the interests of the depositors and also comply with the regulatory framework prescribed by the Reserve Bank of India, the department undertakes on site inspection of these banks with frequency ranging from one to two years depending upon the financial condition / status of banks. The thrust of supervision is to ensure that banks' affairs are not conducted in a manner detrimental to the depositors' interest and also to assess the solvency of the bank its liabilities, besides examining the banks' compliance with the existing regulatory framework. The department also undertakes off-site surveillance of scheduled banks and non-scheduled banks with
a deposit base of Rs 100 crore and above based on a set of quarterly and annual returns.

**Developmental Functions**

With a view to extending institutional credit support to tiny and cottage units, the Reserve Bank of India grants refinance facilities to urban Co-operative banks under the provisions of Section 17 of the Reserve Bank of India Act, 1934. The refinance is given at the Bank Rate.

Training is imparted to the middle and top management of urban Co-operative banks through College of Agricultural Banking, Pune.

**Sections / Divisions of Urban Banks Department**

1. Administration

This Section handles staff matters of the department.

2. New Bank Licensing and Branch Licensing

This section frames policies for issue of bank licence /allots centres for opening of branches and authorizes regional offices to take action accordingly. It also deals with conversion of Co-operative credit societies into urban banks.

3. Returns

Returns section at each of the regional offices is responsible for monitoring receipt of various statutory returns under the provisions of Banking Regulation Act, 1949, (AACS) and Sec 42 of Reserve Bank of India Act 1934 in case of scheduled UCBs. They also verify compliance with the provisions of the Acts, ibid, and take suitable action against non-compliant UCBs.

4. Banks Supervision
This division arranges inspection of urban Co-operative banks through regional offices and closely monitors the action taken by the UCBs to rectify the irregularities / deficiencies pointed out in inspection reports. The division also associates itself with the RCS of respective states in rehabilitation of financially weak UCBs.

5. Banking Policy

This section frames policies on prudential norms, investment policies, monitoring priority sector targets, refinancing, issue of directives on interest rates, CRR/SLR, etc. Policies relating to para banking activities such as merchant banking, hire purchase, leasing, insurance business, etc. are also formulated by this division. Besides, the section also attends to compliance with the directions of Local Board / Central Board / BFS, furnishes requisite material for Bank's publications such as Annual Report, Report on Trend and Progress of Banking in India, Currency and Finance, etc.

Further, the section interprets the provisions of Banking Regulation Act 1949 (AACS), initiates amendments, coordinates with the Government, corresponds with various State Governments on matters pertaining to amendments of State Co-operative Societies Acts, coordinates with DICGC on matters pertaining to banks under liquidation, maintains and updates the list of urban Co-operative banks, monitors Co-operative credit societies having paid up capital above Rs one lakh, watches compliance to Sec 9, 29 & 31 of Banking Regulation Act, attends to Co-operative banks going out of the purview of Banking Regulation Act etc.
Interest on Eligible CRR Balances

(i) With effect from fortnight beginning November 3, 2001, scheduled banks are being paid interest at the Bank Rate (presently 6.0%) under section 42 (1B) of the RBI Act, 1934 on all eligible cash balances maintained with by the banks u/s 42(1)& 42(1A) of the act ibid with RBI. The eligible cash balances are the cash balances maintained in excess of the statutory minimum prescription of 3 percent of NDTL excluding shortfall, if any. With effect from the fortnight ending April 2003, the interest was to be paid on a monthly basis.

(ii) With effect from fortnight beginning September 18, 2004, the interest on cash balances maintained with Reserve Bank of India under Cash Reserve Ratio was to be paid at the rate of 3.5 per cent per annum on eligible cash balances.

(iii) As part of the amendments carried out to Reserve Bank of India Act, 1934, sub-section (1B) of Section 42 of the Act has been omitted. Accordingly, the Reserve Bank will not be paying any interest on the CRR balances maintained by Scheduled Urban Co operative Banks with effect from the fortnight beginning June 24, 2006.

Reporting Requirements

(i) In terms of section 42(2) of the RBI Act, 1934, every scheduled bank is required to send to the Reserve Bank, a return in Form B (Annex 2), at the close of business on each alternate Friday within seven days after the date to which it relates, duly signed by two responsible officers of bank, containing the information relating to the following:
(a) The amount of its demand and time Liabilities and amount of its borrowings from banks in India, classifying them into demand and time liabilities,

(b) [Omitted by Act 51 of 1974, S.11]

(c) The total amount of legal tender notes and coins held by it in India

(d) The balances held by it at the bank in India.

(e) The balances held by it at other banks in current account and the money at call and short notice in India.

(f) The investments (at book value) in Central and State Government Securities including treasury deposit receipts,

(g) The amount of advances in India,

(h) The inland bills purchased and discounted in India and foreign bills purchased and discounted.(at the close of business on each alternate Friday and every such return shall be sent not later than seven days after the date to which it relates)

(ii) Where such alternate Friday is a public holiday under the Negotiable Instruments Act, 1881, for one or more offices of the bank, the return should give the preceding day's figures in respect of such office or offices, but should nevertheless be deemed to relate to that Friday.

(iii) Where the last Friday of a month is not an alternate Friday for the purpose of the above return, the banks should send to RBI, a special return in Form B giving the same details as specified above as at the close of business on such last Friday or where such last Friday is a public holiday under the Negotiable Instruments Act, 1881, as at the close of business on the preceding working day and such
return should also be submitted within seven days after the date to which it relates.

(iv) Banks are required to calculate the proportion of their savings bank deposits as at the close of business on the 31st March and 30th September, into demand and time liabilities in terms of Regulation 7 of the RBI Act, Scheduled Bank's Regulations, 1951 and report in the prescribed form.

(v) Whenever there are wide variations between the sources and uses of funds as being reported in the fortnightly return and the variations exceed 20%, the banks concerned should advise the reasons for such wide variations in the return.

(vi) In terms of Regulation 5(1)(c) of the Scheduled Banks' Regulations, the banks are required to furnish a list of the names, the official designations and specimen signatures of the officers of the bank who are authorised to sign on behalf of the bank returns prescribed under Section 42(2) of the Act, of whom only two may sign such return. The bank has to submit to RBI fresh set of signatures whenever there is change in the incumbency. The banks should forward to RBI the specimen signatures of officials (restricted to four) who are authorized to sign the periodical statements of interest claims-on CRR balances in the proforma given in Annex 3. The official whose signature is already on RBI record should attest these signatures.

Penalty

Penalty for Non submission/delayed submission of return:
Failure to submit the return/late submission of the return attracts the provisions of section 42 (4) of RBI Act, 1934 and the banks are liable for imposition of penalties as indicated therein.

**Penalty on default in maintenance of required CRR:**

(a) Consequent to Amendment to RBI Act, 1934, paragraph 2.1.10 (iii) above, from the fortnight beginning June 24, 2006, the penal interest will be charge as under.

i) In case of default in maintenance of CRR requirement on daily basis, which is presently 70% of the total Cash Reserve Ratio requirement, penal interest will be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if short fall continues on the next succeeding days, penal interest will be recovered at a rate of five per cent per annum above the bank rate.

ii) In case of default in maintenance of CRR on average basis during a fortnight, penal interest will be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934.

**SLR NORMS FOR CO-OPERATIVE BANKS:**

The Reserve Bank of India (RBI) has asked non-scheduled urban co-operative banks (UCBs) with capital of less than Rs 100 crore to invest at least 7.5 per cent of their deposits in government and other approved securities. The rule has to be implemented by September 30, 2009.
These banks have to step up their investments in government securities to as much as 15 per cent of their deposits by March 31, 2010. Earlier, the so-called Tier-I UCBs had the flexibility on its investments to comply with the statutory liquidity ratio (SLR) on 15 per cent of the deposits.

The UCBs could invest in government and approved securities, including interest-bearing deposits with the State Bank of India, their subsidiary banks, public sector banks and also Industrial Development Bank of India.

In respect of non-scheduled UCBs in Tier-II, the current level of holding SLR in government and other approved securities is not less than 15 per cent of their total net demand and time liability (NDTL) and this shall continue up to March 31, 2010.

“It is a welcome decision as keeping deposits in district central co-operative banks (DCCBs) or state co-operative banks is a losing proposition as most of them are in shambles. In such volatile situations, government securities are a safe alternative,” Mukund Ghaisas, director, Ahmednagar Shahar Shahkari Bank.

“UCBs will have to keep in mind the maturity-date while keeping deposit with DCCBs as it should mature before April 2011,” he said.

Act Provisions

In terms of provisions of section 24 of the Banking Regulation Act 1949, (As applicable to co-operative societies), every primary (urban) Co-operative bank is required to maintain liquid assets which at the close of business on any day should not be less than 25 percent of its demand and time liabilities in India (in addition to the minimum cash reserve requirement).
The banks may hold such liquid assets in the form of cash, gold or unencumbered approved securities. ‘Approved securities’ as defined by section 5(a) (i) & (ii) of the Banking Regulation Act, 1949 (AACS) mean -

(i) Securities in which a trustee may invest money under clause (a), (b), (bb), (c) or (d) of Section 20 of the Indian Trust Act, 1882.

(ii) Such of the securities authorised by the Central Government under clause (f) of Section 20 of the Indian Trust Act, 1882 as may be prescribed. Holding in Government/other approved Securities

All primary (urban) co-operative banks are required to achieve certain minimum level of their SLR holdings in the form of government and other approved securities as percentage of their Net Demand and Time Liabilities (NDTL).

GUIDELINES ABOUT SLR:

1. Primary (urban) co-operative banks should not undertake any purchase/sale transactions with broking firms or other intermediaries on principal to principal basis.

2 No sale transaction should be put through by banks without actually holding the security in its investment account i.e. under no circumstances banks should hold an oversold position in any security. However, scheduled primary (urban) co-operative banks may sell a government security already contracted for purchase, provided:

2.1 The purchase contract is confirmed prior to the sale,

2.2 The purchase contract is guaranteed by CCIL or the security is contracted for purchase from the Reserve Bank and,
2.3 The sale transaction will settle either in the same settlement cycle as the preceding purchase contract, or in a subsequent settlement cycle so that the delivery obligation under the sale contract is met by the securities acquired under the purchase contract (e.g. when a security is purchased on T+0 basis, it can be sold on either T+0 or T+1 basis on the day of the purchase; if however it is purchased on T+1 basis, it can be sold on T+1 basis on the day of purchase or on T+0 or T+1 basis on the next day). Sale of government securities allotted to successful bidders in primary issues on the day of allotment, with and between CSGL constituent account holders is permitted.

3 For purchase of securities from the Reserve Bank through Open Market Operations (OMO), no sale transactions should be contracted prior to receiving the confirmation of the deal/advice of allotment from the Reserve Bank.

4 Only scheduled banks, not classified as Grade III/IV, are at present permitted to become members of NDS and participate in DVP III mode for settlement of Government Securities transactions.

5 Banks should exercise abundant caution to ensure adherence to these guidelines. The concurrent auditors should specifically verify the compliance with these instructions. The concurrent audit reports should contain specific observations on the compliance with the above instructions and should be incorporated in the monthly report to the Chairman and Managing Director/Chief Executive Officer of the bank and the half yearly review to be placed before the Board of Directors.

CCIL will make available to all market participants as part of its daily reports, the time stamp of all transactions as received from NDS. The mid office/back office
and the auditors may use this information to supplement their checks/scrutiny of transactions for compliance with the instructions.

Any violation noticed in this regard should immediately be reported to the concerned Regional Office of Urban Banks Department and the Public Debt Office (PDO), Reserve Bank of India, Mumbai. Any violation noticed in this regard would attract penalties as currently applicable to the bouncing of Subsidiary General Ledger (SGL) forms even if the deal has been settled because of the netting benefit under DVP III, besides attracting further regulatory action as deemed necessary.

6. Banks successful in the auction of primary issue of government securities, may enter into contracts for sale of the allotted securities in accordance with the terms and conditions as indicated below:

6.1 The contract for sale can be entered into only once by the allotted bank on the basis of an authenticated allotment advice issued by Reserve Bank of India. The selling bank should make suitable noting/stamping on the allotment advice indicating the sale contract number etc., the details of which should be intimated to the buying entity. The buying entity should not enter into a contract to further resell the securities until it actually holds the securities in its investment account. Any sale of securities should be only on a T+0 or T+1 settlement basis.

6.2 The contract for sale of allotted securities can be entered into by banks only with entities maintaining SGL Account with Reserve Bank of India for delivery and settlement on the next working day through the Delivery versus Payment (DVP) system.
6.3 The face value of securities sold should not exceed the face value of securities indicated in the allotment advice.

6.4 The sale deal should be entered into directly without the involvement of broker/s.

6.5 Separate record of such sale deals should be maintained containing details such as number and date of allotment advice, description and the face value of securities allotted, the purchase consideration, the number, date of delivery and face value of securities sold, sale consideration, the date and details of actual delivery i.e. SGL Form No., etc. This record should be made available to Reserve Bank of India for verification. Banks should immediately report any cases of failure to maintain such records.

6.6 Such type of sale transactions of Government securities allotted in the auctions for primary issues on the same day and based on authenticated allotment advice should be subjected to concurrent audit and the relative audit report should be placed before the Board of Directors of the Bank once every month. A copy thereof should also be sent to the Regional Office concerned of Urban Banks Department.

6.7 Banks will be slowly responsible for any failure of the contracts due to the securities not being credited to their SGL account on account of nonpayment / bouncing of cheque etc.

7 Banks should seek a scheduled commercial bank, a primary dealer, a financial institution, another primary (urban) co-operative bank, insurance company, mutual fund or provident fund, as counter-party for their transactions. Preference
should be given for direct deals with such counter parties. It will be desirable to check prices from the other banks or PDs with whom the primary (urban) co-operative bank may be maintaining constituent SGL Account (CSGL). The prices of all trades done in government securities, including those traded through Negotiated Dealing System are also available at RBI website.

8 Scheduled urban co-operative banks may undertake retailing of Government Securities with non-bank clients, such as provident funds, non banking financial companies, high net worth individuals etc. subject to the following conditions:

8.1 Banks may freely buy and sell Government securities on an outright basis at the prevailing market prices without any restriction on the period between sale and purchase.

8.2 Retailing of Government securities should be on the basis of ongoing market rates/yield curve emerging out of secondary market transactions.

8.3 No sale of Government securities should be affected by banks unless they hold securities in their portfolio either in the form of physical scraps or in the SGL account maintained with RBI.

8.4 Immediately on sale, the corresponding amount should be deducted by the bank from its investment accounts and also from its SLR assets.

8.5 These transactions should be looked into by the concurrent/statutory auditors of the bank.

8.6 Scheduled banks should put in place adequate internal control checks/mechanisms as advised by RBI from time to time.
9 Banks may take advantage of the non-competitive bidding facility in the auction
of Government of India dated securities, provided by RBI. Under this scheme,
banks may bid up to Rs. two crore (face value) in any auction of Government of
India dated securities, either directly, through a bank or through a primary dealer.
For availing this facility, no bidding skill is required, as allotment up to Rs. two
crores (face value) is made at the weighted average cut-off rate which emerges in
the auction. Primary (urban) co-operative banks may also participate directly or
through a bank or a primary dealer in the auctions of state development loans,
where coupon is mostly fixed in advance and notified by RBI. An advertisement
in leading newspapers is issued 4-5 days in advance of the date of auction. Half
yearly auction calendar of Government of India securities is also issued by RBI.
10 CSGL Accounts should be used for holding the securities and such accounts
should be maintained in the same bank with which the cash account is maintained.
For all transactions delivery versus payment must be insisted upon by the banks.
11 In case CSGL account is opened with any of the non-banking institutions
indicated above, the particulars of the designated funds account (with a bank)
should be intimated to that institution.
12 All transactions must be monitored to see that delivery takes place on
settlement day. The fund account and investment account should be reconciled on
the same day before close of business.
13 Officials deciding about purchase and sale transactions should be separate
from those responsible for settlement and accounting.
14 All investment transactions should be perused by the Board at least once a month.

15 The banks should keep a proper record of the SGL forms received / issued to facilitate counter-checking by their internal control systems/RBI inspectors/other auditors.

16 All purchase/sale transactions in Government securities by the banks should necessarily be through SGL account (with RBI) or constituent SGL account (with a scheduled commercial bank/state co-operative bank/primary dealer/Stock Holding Corporation of India) or in a dematerialised account with depositories (NSDL/CDSL/NSCCL).

17 No transactions in Government securities by a primary (urban) Co-operative bank should be undertaken in physical form with any broker.

18 The entities maintaining the CSGL/designated funds accounts are required to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sales before putting through the transactions.

19 The security dealings of banks generally being for large values, it may be necessary to ensure, before concluding the deal, the ability of the counter-party to fulfill the contract, particularly where the counter-party is not a bank.

20 While buying securities for SLR purposes, the bank should ensure from the counter parties that the bonds it intends to purchase have and would continue to have SLR status. The bank should also verify this from independent sources in case of doubt.
21 In order to avoid concentration of risk, the banks should have a fairly diversified investment portfolio. Smaller investment portfolios should preferably be restricted to securities with high safety and liquidity such as Government securities.

22 The primary (urban) co-operative banks may seek the guidance of Primary Dealers' Association of India/Fixed Income and Money Market Dealers' Association (FIMMDA) on investment in Government Securities.

3.5 CONTROL BY RBI ON CO-OPERATIVE BANKS.

The Co-operative Banks were brought under the fold of the Banking Regulation Act in 1966 by the introduction of a separate section (Section 56), there have been regular steps taken by RBI by appointing committees from time to time and addressing the issues through acceptance of recommendations of these committees. The formation of the Maharashtra Urban Co-operative Banks' Federation Ltd, Mumbai in 1979 and its active interventions have helped in solving many issues of the sector.

Recommendations of the Madhav Das Committee (1978), the Marathe Committee (1999) and their acceptance by RBI have removed many angularities. These steps significantly helped the urban banks to groom at a rapid pace during the eighties and the nineties. Introduction of all the prudential norms were made to urban co-operative banks. During the last fifteen years most of the urban Co-operative banks have internalized the basic concepts of the prudential norms and are also complying with all the related provisions fairly satisfactorily.
However, some highly visible indiscretions committed by a handful of banks during the last 8 years have brought about serious erosion in the confidence level of the depositors in the sector. A combination of factors like lack of professional approach and commitment on the part of the Board and Management in some cases wrong intentions, lack of appreciation of prudential practices of banking and sometimes certain local factors like factionalism and political bureaucratic interferences could not be the main reasons attributable to the state of affairs.

Development in the wake of some of these failures prompted RBI to take a series of measures to tighten controls and ensure better compliance of its Directives and Instructions in the last five years. Amongst the steps taken by RBI in last one decade:-

a) Imposition of ban on all types of loans to the Directors of the banks and their relatives and to organizations in which the directors/relatives have interest.
b) Introduction of 90 days impairment norms to all loans above Rs. 100000/-
c) Compulsory investment of SLR funds in Government securities as against the earlier freedom of investing them with State / District Central Co-operative Banks.
d) Introduction of compulsory concurrent audit and also designation of compliance officers in respect of audit and inspection report comments.
e) Setting up of Audit Committees, ALM Committees in all the banks.
f) Introduction of all the disclosure norms for the balance sheets of UCBs that are applicable to commercial banks.

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g) Strict prohibition of UCBs undertaking financing operations in sensitive sectors like stockbrokers and builders etc.

h) Monitoring of investment of urban co-operative banks and imposition of clear and strict rules regarding sale, purchase, and trading of Govt. securities. Of late, RBI in its anxiety to see that the Indian Banking Industry catches up with the international banking norms and with its focus on risk based supervision has been reacting rather strongly to every development in the Co-operative banking sector. This could spell trouble for a number of small urban banks that have the potentially to improve and to be of use to the local community in which they are operating. A few of the difficulties are illustrated below.

1) Branch Licensing Norms for Primary (Urban) Co-op. Banks-Liberalization

2) 180 days NPA norms instead of 90 days for loans for all banks (Tier-I and tier-II) irrespective of size.

3) Increasing ceiling on Unsecured advances.

4) Nanded district Central Co-operative Bank Ltd., Nanded Directions issued under Section 35 (A) of BR Act 1949 (AACS)

   Relaxations thereof.-

5) Exposure norms for (i) Housing Finance and (ii) Real Estate Finance for UCBs

6) Urban Co-operative Banks – Deployment of Funds

7) Additional interest on Deposits of Disabled / handicapped persons

8) Scheduling of UCBs
9) To extend membership of RTGS & NEFT facilities with RBI to Grade-I and Grade-II Banks irrespective of Net Worth and NDS membership to nonscheduled Urban co-op. Banks.

10) Revision of Individual Housing Loan Limits-

11) Delay in up gradation of Banks in Rehabilitation:

12) Default in Maintenance of CRR/SLR- Waiver of penal interest imposed on Urban Co-operative Banks by RBI.

3.6 STATE CO-OPERATIVE ACT AND CO-OPERATIVE BANKS:

3.6.1 STATE CO-OPERATIVE ACT:-

Amendments to the Maharashtra co-operative society act, 1960.

Maharashtra Act No. VII of 1997. (First published after having received that assent of the Governor, in the “Maharashtra Government Gazette’ on the 2nd January 1997). An Act further to amend the Maharashtra Co-operative Societies Act, 1960.WHEREAS it is expedient further to amend the Maharashtra Co-operative Societies Act 1960, for the purpose hereinafter appearing; It is hereby enacted in the Forty-seventh Year of the Republic of India as follows :-

1. This Act may be called the Maharashtra Co-operative Societies (Amendment) Short title Act, 1996.

2. In section 9 of the Maharashtra Co-operative Societies Act, 1960 (hereinafter referred to as “the principal Act”) in such-section (2), after the words “deemed to have been registered” the words” and thereafter the Registrar shall issue a certificate of registration under his seal and signature within a period of fifteen
days “shall be added. Our Comments:-Section 9, had been amended to clarify the provision as regards Registration of Co-operative Society more explicit.

3. In section 22 of the principal Act, in sub-section (2), after the words “deemed to have been admitted as a member of the society”. The words “If any question arises whether a person has become a deemed member or otherwise, the same shall be decided by the Registrar after giving a reasonable opportunity of being heard to all the concerned parties.” shall be added.

4. In section 23 of the principal Act, in sub-section (1A), after the words ‘become a member of such society”, the words, “If any question arises whether a person has become a deemed member otherwise, the same shall be decided by the Registrar after giving a reasonable opportunity of being heard to all the concerned parties”, shall be added. Our Comments: – Section 22(2) and 23 (1A) has been amended to clarify that as regards membership the power shall be exercised by the registrar.

5. In section 27 of the principal Act, for sub-section (9), the following sub-section shall be substituted, namely: – “(9) No nominee of the Government or any financing bank on the committee of any society shall be entitled to vote at any election of officers of such committee such as, the President, Vice President, Chairman, Vice Chairman, Secretary, Treasurer or any other officers by whatsoever designation called, who holds the office by virtue of his election to that office. Our Comments: – Section 27 has been amended so that the powers as regards Government nominees as regards election of office bearers have been curtailed.
6. In section 73-1 D of the principal Act. -a) in such-section (I), - i) for the words “two-third majority” the words simple majority” shall be substituted; ii) for the words “for the time being entitled to sit and vote at any meeting of the committee ”the word as” entitled to vote at the election of such President, Vice President, Chairman , Vice Chairman, Secretary, Treasurer or any other officer” shall be substituted. (b) in sub section (2) for the time being entitled to sit and vote at any meeting of the committee” the words entitled to elect the President, Vice President, Chairman, Vice Chairman, Secretary, Treasurer or any other officer, as the case may be, of the committee” shall be substituted; (c) in sub-section (7) for the words “six months” the word as “one year” shall be substituted.

Our comments: - section 73 (1D) have been amended so that no confidence motion can be passed with simple majority instead of 2/3 majority. Subsection 7 of this section has been amended so that the requisition for a Fresh Motion of no confidence can be brought only after a period of one year. Instead of the previous period of six months. The term of the administrator is now extended up to one year from the previous period of six months.

7. In section 73BB of the principal Act, in sub-section (I) – (a) for the words “union then the selection shall be made by the union with the largest membership, and where there is no union at all, then by an election by such employees from amongst themselves in the prescribed manner” the words “recognised union or unions and where there is no union at all or where there is a dispute in relation to such issues including whether a union is recognised or not, then the seats so reserved shall be filled by an election by such employees from amongst
themselves in the prescribed manner” shall be substituted. (b) the following Explanation shall be added at the end, namely :- “Explanation – For the purpose of this section the members of the committee shall mean and include the representatives of the employees”.

8. In section 73BB of the principal Act, – (a) to sub-section (1), the following Explanation shall be added, at the end, namely :- ‘Explanation – For the purpose of determining the number of committee members under this sub-section, committee members who are elected, co-opted nominate, appointed or otherwise occupying the position on the committee under 73B, 73BB and under this sub-section shall not be included”, (b) in sub-section (2), for the existing provision, the following provision shall be substituted, namely :- ‘Provided that, where the bye-law of a society already provide for reservation of seats for women on the committee thereof, the total number of seats to be reserved for women shall be equal to the number of seats specified in sub-section (1)”.

9. In section 73H (2), of the principal Act, in sub-section (2), for the words, “where there is a willful failure on the part of the committee to hold election to the committee before the expiration of its term, the committee before the expiration of its term, the committee before the expiration of its term, the committee” the words “The committee” shall be substituted. Our Committee, to conduct the elections before the expiry of the tenure of the committee. The above said amendment appears to have been made to bring consistency with the provisions of subsection (2B) of subsection 73-G.
10. In section 77A of the principal Act, in sub-section (3), the following provision shall be added, namely: - "Provided that, if a new committee is not, or cannot be constituted at the expiry or termination of the term of office of the committee or Administrator, for any reason beyond the control of the committee or Administrator, the term of office of the committee or Administrator, as the case may be, shall be deemed to be extended, until the new committee is duly constituted." Our Comments :- Section 77 (A) has been amended so that the tenure of office of the Managing Committee or Administrator would be deemed to have been extended if for any reason whatsoever a new committee cannot be constituted before the expiry of the term office.

11. In section 78 of the principal Act, in sub-section (3) the following provision shall be added, namely: - "Provided that, the member who has been so removed, shall not be eligible to be re-elected, re-appointed, re-nominated, or re-co-opted, as a member of any committee from the date on which he has been so removed or till such lesser period as may be laid down under the provisions of section 73FFF or 144E, as the case may be". Our Comments :- if a member of the committee has been removed under this section than he cannot be re-elected, reappointed, denominated or recopied as a member of the Managing Committee for one full term from the date he has been removed or for such period as laid down in provisions of sections 73FFF or 144E of the M.C.S. Act 1960. Our comments: – Subsection of 104 has been substituted to specify in which cases the appeal should lie with the registrar and in which places the appeal should lie with the State Government.
12. In section 104 of the principal Act, for sub-section (I), the following sub-section shall be substituted, namely:—

"(1) The committee or any member of the society ordered to be wound up may prefer an appeal against the final order of winding-up within two months from the date of the issue of the order made under section 102.—(a) if made by the Registrar, or the special or Additional or Joint Registrar on whom the powers of the Registrar are conferred, to the State Government; (b) If made by any person other than the Registrar, or the Special or Additional or Joint Registrar on whom the powers of the Registrar are conferred, to the Registrar. Provided that, no appeal shall lie against order, issued under sub-clause (i), (ii) or (iii) of clause (c) of sub-section (I) of section 102".

13. In section 112B of the principal Act, in sub-section (I) in clause (b), in sub-clause (iv), for the words "such employees", the following shall be substituted namely:

"such employees. Where there is no recognised union or unions or where there is no union at all, the employees shall elect representatives from amongst themselves. The election shall be held by the Collector in the manner laid down in Chapter XI-A of this Act".

14. In section 148 of the principal Act, for sub-section (3), the following sub-section shall be substituted, namely:— (3) No prosecution under this Act shall be lodged, except with the previous sanction of the Registrar.

3.6.2 CO-OPERATIVE BANKS:

The Co-operative banks in India started functioning almost 100 years ago. The Co-operative bank is an important constituent of the Indian Financial System,
judging by the role assigned to co operative, the expectations the co operative is supposed to fulfill, their number, and the number of offices the Co-operative bank operate. Though the co operative movement originated in the West, but the importance of such banks have assumed in India is rarely paralleled anywhere else in the world. The Co-operative banks in India play an important role even today in rural financing. The businesses of Co-operative bank in the urban areas also have increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks.

Co-operative Banks in India are registered under the Co-operative Societies Act. The Co-operative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Rural Co-operative Banks were the first formal institutions established to provide credit to rural India. Rural Co-operatives have been a key instrument of Financial Inclusion reaching out to the last mile.

**Framework of Rural Co-operative Banks:**

In India Co-operative banks are registered under the respective State Co-operative Societies Act or Multi State Co-operative Societies Act, 2002 and governed by the provisions of the respective acts. Rural Co-operatives structure in India is bifurcated into short-term and long-term structure.

1. **Short Term Co-operative Structure:**

The short-term Co-operative structure is a three-tier structure

1. State Co-operative Banks at the apex (State) level,
2. District Central Co-operative Banks (DCCBs) at the intermediate (district) level
3. Primary Agricultural Credit Societies (PACS) at the ground (village) level.

The short-term structure caters primarily to the various short / medium-term production and marketing credit needs for agriculture.

2. **Long Term Co-operative Structure:**

   The long-term Co-operative structure has the

   1. State Co-operative Agriculture and Rural Development Banks (SCARDBs) at
      the apex level
   2. Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)
      at the district or block level.

   SCARDB and PCARDB were conceived with the objective of meeting long-term
   credit needs in agriculture.

**Number of Rural Co-operative Banks:**

By the end of 2008, there were around 31 State Co-operative Banks, 371
DCCBs and 94,950 PACS. There were 717 Long Term Rural Co-operative Credit
Institutions (LTCCIs) comprising 20 SCARDBs and 697 PCARDBs.

**Regulatory Framework:**

The Rural Co-operative Structure in India is regulated by NABARD. The
Board of Supervision, a Committee of the Board of Directors of NABARD, gives
directions and guidance in respect of policies and matters relating to supervision
and inspection of State Co-operative Banks and DCCBs.
Rural Co-operative Banks and Rakesh Mohan Committee:

The Rakesh Mohan Committee had recommended that there should be a roadmap to ensure that only licensed banks operate in the Co-operative space and that banks which fail to obtain a license by 2012 should not be allowed to operate to expedite the process of consolidation and weeding out of non viable entities from the Co-operative space. A roadmap has been put in place to achieve this position.

CRAR Norms for Rural Co-operative Banks:

Please note that currently CRAR norms are not applicable to State Co-operative Banks and DCCBs. Since March 31, 2008, they are only required to disclose the level of CRAR in the ‘notes on accounts’ to their balance sheets every year. The income recognition, asset classification and provisioning norms are applicable as in the case of commercial banks.

Co-operative banks in India finance rural areas under:

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Co-operative banks in India finance urban areas under:

- Self-employment
- Industries
- Small scale units
• Home finance
• Consumer finance
• Personal finance

Some facts about Co-operative banks in India

• Some Co-operative banks in India are more forward than many of the state and private sector banks.

• According to NAFCUB the total deposits & lendings of Co-operative Banks in India is much more than Old Private Sector Banks & also the New Private Sector Banks.

• This exponential growth of Co-operative Banks in India is attributed mainly to their much better local reach, personal interaction with customers, their ability to catch the nerve of the local clientele.

Some of the co-operative banks are quite forward looking and have developed sufficient core competencies to challenge state and private sector banks.

According to NAFCUB the total deposits & lendings of Co-operative Banks is much more than Old Private Sector Banks & also the New Private Sector Banks. This exponential growth of Co-operative Banks is attributed mainly to their much better local reach, personal interaction with customers, and their ability to catch the nerve of the local clientele. Though registered under the Co-operative Societies Act of the Respective States (where formed originally) the banking related activities of the co-operative banks are also regulated by the Reserve Bank of India. They are governed by the Banking Regulations Act 1949 and Banking...
The Co-operative banks/credit institutions constitute the second segment of Indian banking system, comprising of about 14% of the total banking sector asset.

- Bulk of the Co-operative banks operates in the rural regions with rural coop banks accounting for 67% of the total asset and 67% of the total branches of all Co-operative banks.

- Co-operative banks have an impressive network of outlets for institutional credit in India, particularly in rural India

3.7 CD RATIO AND NPA NORMS BY RBI FOR CO-OPERATIVE BANK:

3.7.1 CD RATIO OF CO-OPERATIVE BANK:

The Credit Deposit Ratio (CD), of commercial banks (CBs) and regional rural bank (RRBs) declined to 109 per cent as of March 31, 2010 from 114 per cent, in Maharashtra. However the CD ratio of the Co-operative Banks has increased to 141 per cent from 107 per cent. According to industry representatives, there is no unbanked block in the state.

According to National Bank for Agriculture and Rural Development (NABARD) the total deposits, by all the banks, outstanding registered an increase of Rs 54,916.56 crore during in 2009-10, to Rs 3,00,056.19 crore from Rs 2,45,139.63 crore, in 2008-09, an increase of 22.4 per cent. Total advances increased to Rs 3, 68,405.92 crore from Rs 2, 86,061.87 crore, an increase of 28.8 per cent.
The priority sector advances of commercial banks increased by 13-23 per cent in 2009-10, the share of priority sector advances of total credit as of March 2010 was 44.61 per cent, as against the norm of 40 per cent. Agriculture advances of commercial banks increased by 18-22 percent; the share in total advances was 18.44 per cent, against the norm of 18 per cent.

Credit potential for 2011-12, for the priority sector, at Rs 57,831 crore, up by 21 per cent over the previous year. This includes short term credit for crop loans, non-farm sector and other activities under the priority sector. The state has a wide network of bank branches totaling 7,921 with 5,989 branches of commercial banks (including nationalised banks, private sector and foreign banks), 46 state co-operative bank, 768 branches of 24 district central Co-operative banks, a state Co-operative agriculture and rural development bank and two RRBs with 290 branches. The average per branch population works out to 8,558 and the per capita deposit was Rs.48,000 and the per capital credit was Rs.59,000 for the state.

Kudos to urban Co-operative bank as it has beaten commercial banks in at least one major parameter. While the Credit deposit ratio of commercial banks has declined the same has registered an upward swing for the UCBs.

According to data released by the NABARD, the CD ratio of Urban Banks has risen to 141 percent from 107 per cent last year. The same figure for commercial banks has registered a downward swing.

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Table 3.1:
Cash-Deposit Ratio, Investment-Deposit Ratio and Credit Deposit Ratio of SCBs: 1991, 2001 and 2010

<table>
<thead>
<tr>
<th>Financial Ratios</th>
<th>1990-91</th>
<th>2000-01</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash-Deposit Ratio</td>
<td>13.3</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Investment-Deposit Ratio</td>
<td>39</td>
<td>38.5</td>
<td>30.8</td>
</tr>
<tr>
<td>Credit-Deposit Ratio</td>
<td>60.4</td>
<td>53.1</td>
<td>72.2</td>
</tr>
</tbody>
</table>

Source: RBI Monthly Bulletin

Table 3.1 shows comparative picture of three financial ratios of SCBs. During 1990-91 when reforms were taken place, these two groups of banks were maintaining almost same Cash-Deposit Ratio while a small difference between Investment-Deposit Ratios of SCBs 39.0. After a decade, in the year 2000-01, Cash-Deposit Ratios of both groups have been declined to 6.8 SCBs. It means that banks under consideration had kept a low level of cash in percentage of their deposits in the year the 2000-01 as compared to 1990-91. In 2000-01, Investment-Deposit Ratio of SCBs remained almost same in 1990-91. 49.2 in 1990.

In the same year, C-D Ratio of SCBs declined to 53.1 from 60.4 in 1991 while this ratio increased to 134.5 in 2001 from 118.6 in 1991. If we see
the current picture comparatively, in 2009-10, Cash-Deposit Ratio of SCBs has
been remained same as in the year 2000-01. Investment-Deposit Ratio of SCBs
decreased to 30.8 in 2009-10 from 38.5 in 1990-91. In the year 2009-10, C-D
Ratio of SCBs increased up to 72.2 from 53.1 in 2000-01.

Table 3.2:
Cash-Deposit Ratio of SCBs: 2001- 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>6.8</td>
</tr>
<tr>
<td>2001-02</td>
<td>6.2</td>
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<tr>
<td>2002-03</td>
<td>5.1</td>
</tr>
<tr>
<td>2003-04</td>
<td>5.1</td>
</tr>
<tr>
<td>2004-05</td>
<td>5.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>6.6</td>
</tr>
<tr>
<td>2006-07</td>
<td>7.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>8.6</td>
</tr>
<tr>
<td>2008-09</td>
<td>6.7</td>
</tr>
<tr>
<td>2009-10</td>
<td>6.8</td>
</tr>
<tr>
<td>Mean</td>
<td>6.51</td>
</tr>
<tr>
<td>S.D.</td>
<td>1.07</td>
</tr>
<tr>
<td>Min</td>
<td>5.1</td>
</tr>
<tr>
<td>Max</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Source: RBI Monthly Bulletin

Table 3.2 shows that the average value of Cash-Deposit ratio of SCBs
have been maintaining about , on an average, 7 percent (6.51%) cash in
percentage of total deposits during the study period. The minimum Cash-Deposit Ratio in case of SCBs has been in the years 2003 and 2004 while maximum was in the year 2008. It means that both groups have kept highest cash-deposit proportion in the same year i.e. 2008. This analysis concludes that SCBs have maintained a lower level of cash in percentage of their deposits.

Table 3.3:
Credit-Deposit Ratio of SCB: 2001-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>53.1</td>
</tr>
<tr>
<td>2001-02</td>
<td>53.4</td>
</tr>
<tr>
<td>2002-03</td>
<td>56.9</td>
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<tr>
<td>2003-04</td>
<td>55.9</td>
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<td>2004-05</td>
<td>64.7</td>
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<tr>
<td>2005-06</td>
<td>71.5</td>
</tr>
<tr>
<td>2006-07</td>
<td>73.9</td>
</tr>
<tr>
<td>2007-08</td>
<td>73.9</td>
</tr>
<tr>
<td>2008-09</td>
<td>72.4</td>
</tr>
<tr>
<td>2009-10</td>
<td>72.2</td>
</tr>
<tr>
<td>Mean</td>
<td>64.79</td>
</tr>
<tr>
<td>S.D.</td>
<td>9.02</td>
</tr>
<tr>
<td>Min</td>
<td>53.1</td>
</tr>
<tr>
<td>Max</td>
<td>73.9</td>
</tr>
</tbody>
</table>

Source: RBI Monthly Bulletin
Credit-Deposit Ratio is an important parameter to judge the business policies of any banking institution. SCBs have, on an average, advanced loans about 65 percent in the percentage of their deposits during the study while in the same years, in the earlier years from 2001 to 2005, there was a significant difference between C-D ratios of SCBs. After that, C-D Ratios of come near to each other and furthermore in the year 2009-2010, these ratios were also almost same. Figure 3.3 shows decreasing trend in C-D Ratio increasing trend in the ratio of SCBs. This ratio of SCBs has been more consistent. C-D Ratio of SCBs fluctuated between 53.1 to 73.9 during the same period.

3.7.2 NPA NORMS FOR CO-OPERATIVE BANKS:

The Reserve Bank of India (RBI) has permitted urban co-operative banks (UCBs) to implement the 90-day impairment norm from the financial year end March 2007, thereby postponing the earlier deadline from March 2005. The RBI, in a statement issued on Saturday, said taking into consideration representation from UCBs, it has decided that the 90 day impairment norm for gold loans and small loans up to Rs 1 lakh could be implemented from March 2007. However, loans in excess of Rs 1 lakh will have to comply with the 90-day norm by March 2005. The introduction of the 90 day norm in phases was one of the suggestions made by co-operative bank representatives, who met the RBI governor Y V Reddy on September 2, 2005. The central bank is also likely to lay out dividend paying norms for urban Co-operative banks, banking sources said. Representatives from the urban co-operative bank federation claimed the recent change in non-performing asset (NPA) provisioning had lead to a substantial jump
in net NPAs of most UCBs. The net NPAs of select co-operative banks has more than doubled on account of this norm, said a co-operative bank chairman. This also lead to the RBI imposing directive on two Mumbai-based urban co-operative banks-Souths Indian Co-operative Bank Ltd (SICB) and Maratha Mandir Co-operative Bank Ltd, he added. The customer base, objective and area of working of co-operative banks are different, hence, it’s important that the regulator reviews the period for recognition of impaired loan for urban co-operative banks (UCB’s) from 90 days to 180 days, said a banker.

As a major element of the Financial Sector Reforms in India, RBI introduced prudential norms for banking regulation. Capital adequacy, exposure ceilings for lending to individual and group of borrowers, marking to market of the investment portfolio and, income recognition, asset classification and provisioning norms for the loan portfolio (IRAC in short) formed the core of prudential regulation. The IRAC norms serve two primary purposes - (i) to depict the true position of a bank's loan portfolio and (ii) to help arrest its deterioration. The Committee on Financial System (CFS), under the Chairmanship of Shri M. Narasimham, recommended a policy of income recognition and asset classification based on record of recovery and other objective criteria as also provisioning based on the classification of assets into different categories. RBI largely accepted the recommendations of the CFS and introduced the IRAC norms for the Urban Co-operative Banks (UCBs) in a phased manner over a three-year period from the year 1992-93.
2. Income recognition

(i) Effective from April 1, 1992, banks cannot consider as income interest on loan accounts, classified as Non-Performing Assets (NPA), unless actually received. Such unrealised interest on NPA taken as income in the earlier year has to be provided for. In other words, income from NPA is booked as income only when actually received, and not on accrual basis.

(ii) Accrued interest on NPA

Banks should not debit to the borrower's accounts interest accrued on NPA, but show them separately under "Interest Receivable Account" and a corresponding amount under "Overdue Interest Reserve Account" on the assets and liabilities side of the balance sheet respectively. (The amount held in the Overdue Interest Reserve Account, however, cannot be regarded as a "reserve" or as part of the owned funds of the Bank as it is not created out of income actually received by the bank).

(iii) Accrued interest on performing assets

In respect of loan accounts, classified as performing assets, accrued interest can be debited to the borrower's account and taken to income account. If the relevant credit facility becomes NPA later, the bank should provide for the interest accrued and credited to income account. In such cases, while making provision the amount held in "Overdue Interest Reserve Account" should be deducted from the advances outstanding.
(iv) **Partial recovery of interest**

Banks can take partial recovery of interest on NPA to their income account, provided such recovery is not out of fresh / additional credit facilities sanctioned to the borrowers concerned.

(v) **Income recognition on investments classified as NPA**

Investments also are subjected to prudential norms on income recognition. As such, banks should not take to income interest on accrual basis in respect of any security irrespective of the category in which it is included, where interest / principal in respect of which is in arrears for more than 90 days.

(vi) **Others**

Wherever the State Co-operative Societies Acts prescribe a more stringent accounting procedure, the same should be followed. Further, where the bank has a more stringent accounting procedure, it can continue to follow such a procedure.

3. **Non-performing assets**

A credit facility is considered non-performing when it ceases to generate income for the bank. Earlier, an asset was classified as NPA if interest and / or installment of principal remained ‘past due’ for a specific period. ‘Past due’ was replaced by ‘overdue’ with effect from the year ended March 31, 2001. Any dues to a bank under a credit facility will be overdue if not paid by the due date fixed by the bank. RBI implemented the 90 days delinquency norm for NPA classification for the UCBs from the year ended March 31, 2004. Given the heterogeneity of the sector, RBI prescribed relaxed IRAC norms for smaller UCBs. Details of those relaxations, together with relaxation in provisioning
requirements, are in the Annex. The criteria for treating a loan account as NPA depend on the nature of facility as under:

(i) **Term loan:**

A term loan is to be classified as NPA if interest and / or principal remained overdue for more than 90 days.

(ii) **Cash credit and overdraft account:**

A cash credit / overdraft account is classified as NPA if the account is ‘out of order’ for more than 90 days. An account is treated as ‘out of order’ if the balance outstanding is continuously in excess of the sanctioned limit or drawing power (whichever is lower) or where the outstanding balance in the principal operating account is within the sanctioned limit or drawing power, but there are no credits continuously for 90 days as on the date of balance sheet, or credits made are not enough to cover the interest debited during the same period.

(iii) **Bills purchased and discounted:**

A bill is treated as NPA, if it remains overdue and unpaid for a period of more than 90 days. Overdue interest should not be charged or taken to income account in respect of overdue bills, unless it is realised.

(iv) **Other credit facilities:**

Any other credit facility is to be treated as NPA, if it remains outstanding for a period of more than 90 days.

(v) **Agricultural advances:**

In case of all direct agricultural advances, effective September 30, 2004 an account should be treated as NPA if interest and / or installment of principal
remained overdue for two crop seasons from the due date for short duration crops and one crop season from the due date for long duration crops. Long duration crops have a crop season longer than one year and crops, which are not long duration crops are treated as short duration crops. Depending upon the duration of crops raised by a farmer, the above NPA norms would also be applied to agricultural term loan availed of by him. The crop season for each crop, which means the period up to harvesting, has to be decided by the State Level Bankers Committee in each state. In respect of other activities like horticulture, floriculture or allied activities such as animal husbandry, poultry farming etc., and NPA classification would be done on 90 days impairment norm as in the case of other advances.

Guidelines for Provisions

a) Advances covered by DICGC / ECGC guarantee

In respect of advances guaranteed by ECGC/DICGC, provisioning is to be made only for the balance exceeding the amount of guarantee. Further, while arriving at the provision for Doubtful assets, realisable value of the securities should be deducted from the outstanding balance before the guarantee is set off.

b) Additional facilities under rehabilitation package

If under a rehabilitation package approved by BIFR / term lending institution, banks allow additional credit facilities to a unit, which has been categorised as sub-standard or doubtful, they need not make provisions for a period of one year from the date of disbursement of such additional facilities. Similar treatment should be made in respect of sick SSI units under a nursing
programme. However, banks should make provisions on existing credit facilities classified as sub-standard or doubtful in both the cases.

c) Certain advances exempted

Advances against banks' own term deposits, NSCs, KVPs, IVPs and life policies are exempted from provisioning requirements. However, advances against gold ornaments, government securities and all other securities attract provisioning.

d) Valuation of security

To have uniform assessment of valuation of security and reduce divergence in provisioning requirements, banks should undertake annual stock audit of current assets by external agencies in respect of NPAs with balance of Rs.10.00 lakh and above. Besides, immovable property charged to the bank should be valued once in three years by the bank's approved valuers.

State and district Co-operative banks are seeking a relaxation in loan delinquency norms from the current 90 days to 180 days, particularly for fresh farm loans of up to Rs 25,000 lent for tenure of one year.

Co-operative banks expect a rise in non-performing assets (NPA) in farm loans as many farmers have stopped repaying in the hope that the government will announce another loan waiver scheme.

"Farmers are refusing to repay their loans, due after March 31, 2007, in anticipation of another waiver. But they fail to understand that they will not be eligible for fresh loans and, even if they repay, they will have to pay a higher interest rate of 11 per cent applicable for defaulters instead of 7 per cent normally."
So, we have asked RBI to classify NPAs based on the 180-day delinquency norms instead of the existing norm of 90 days for short-term loans,” said a head of a state Co-operative bank, which refused to be named.

According to an estimate of Co-operative banks, in 2008-09, NPA levels could be as high as 25 per cent from the current average level of 10 per cent.

“To avoid a hit on our balance sheet due to higher provisioning, we have asked for relaxation in the NPA norms,” the source added. The total amount of crop loan disbursed through district central Co-operative banks and state Co-operative banks during the current financial year was estimated at Rs 7,000 crore.

When contacted, a NABARD official admitted that the recovery rate has declined. “Till February, the recovery rate was fine. But since the loan waiver scheme was announced in the budget, many farmers have stopped repaying.