CHAPTER - IV

FINANCE I

(MCHFS and Co-operative Housing Movement)

"CO-OPERATION CONSIDERS MAN, NOT CAPITAL, AS THE
DOER OF ALL ECONOMIC ACTIVITIES"
CONTENTS

1. INTRODUCTION.

2. STRUCTURE OF MCHFS.
   2.1 Early structure
   2.2 Present structure
   2.3 Membership

3. CONTRIBUTION OF MAHARASHTRA GOVERNMENT TOWARDS SHARE CAPITAL OF MCHFS.
   3.1 Beginning of MCHFS activities in Yavatmal Tahasil

4. OBJECTS OF MCHFS.

5. OBJECTIVES OF LOANING POLICY.
   5.1 Contribution of MCHFS in housing loan in Yavatmal tahasil
   5.2 Linkage of housing Loan to income

6. PROCEDURE TO GET THE LOAN.
   6.1 Practicably in procedure in sanctioning the loan

7. RATE OF INTEREST.

8. INDIVIDUAL LOAN SCHEMES.
   8.1 Finance through Sahakari Griha Taran Sanstha
   8.2 Direct finance to individuals
   8.3 Comparative findings
1. INTRODUCTION.

Housing finance is a factor of production quite distinct from labour materials and risk taking. " *

The price of other factors involved in housing construction need to be paid mostly in cash at the time they are used. In housing sector, finance serves the following vital purposes. Finance is needed for -

a) Purchase and development of house sites, purchase of building materials and actual building a house.

b) Meeting the annual charges consisting of the upkeep and maintenance expenses including rehabilitation of kacha houses, taxes, interest and amortisation charges on capital and

c) Covering risks involved in long term housing investment.

From the foregoing definition it is obvious that housing sector is indissolubly linked with financial sector. The fact that housing is a very expensive commodity, which needs heavy capital outlay and testifies to the vital role of finance in housing sector. In fact, housing leans heavily on finance which makes housing a function of finance to a considerable extent.

In view of the importance of finance in construction of a house, it becomes an essential factor, that there should be an institution, which will provide housing finance. In Maharashtra “The Maharashtra Co-operative Housing Finance Society Ltd.”, was registered under the Bombay Co-operative Societies Act 1960, to take over the activities of the Bombay co-operative housing finance society Ltd., whose assets and liabilities were required to be bifurcated as a consequence of the reorganisation of the Bombay state and creation of the state of Gujarat and the state of Maharashtra. The society was, therefore, registered with an area of operation extending over the newly formed state of Maharashtra. In the beginning the bye-laws of the society were similar to those adopted by the Bombay Co-operative housing finance society Ltd.

2. STRUCTURE OF MCHFS.

2.1 EARLY STRUCTURE.

Structurally, the society was formed of different constituent members such as -

1) Scheduled Banks
2) Insurance companies
3) Co-operative banks
4) Co-operative Housing Societies and
5) Government of Maharashtra.

The scheduled banks, insurance companies and other different institutions had joined membership of the society and
contributed to its share capital only to provide it a strong financial base. Although the membership of the society was made-up of different types of institutions, its objects were limited to the provision of loans and advances to the housing societies only. The bye-Laws, however, provided to give representation to its different constituent members on its Board of Directors. After nationalization of the life insurance business as also of the banking business, demand for refund of the share capital contributed by these institutions was received. Other companies and institutions, other than housing societies, which had contributed to the share capital of the society and who could not receive any services from it, began to ask for refund of their share capital. The society had built-up its share capital structure with the help of its borrowing primaries and it no longer required to retain the share capital contributed by non-housing agencies to maintain its borrowing capacity. The society therefore, refunded the share capital contributed by the scheduled banks, insurance companies and other non-housing agencies. The society could therefore amend its bye-laws deleting the representation on its board given to non-housing agencies. A decade of progress during 1960-70 had witnessed an expansion of the activities of the society in all the districts of the state. There was, therefore, a demand for district-wise representation on the board of directors from the constituent members of the society.
2.2 PRESENT STRUCTURE.

The present constitution of the Board of Directors of the society as provided under bye-laws No. 56(1) is as under -

a) 26 Directors, who shall be elected, one from each of 26 districts on the basis of one director form each district. All the members of the society in a district shall be entitled to vote in the constituency for that district, provided that the members outside the state shall be entitled to vote in the district constituency of Kolhapur.

b) One Director to be nominated by government from among the backward class co-operative housing societies in the state.

c) The government officials nominated by the Government of Maharashtra of whom the commissioner and Registrar of co-operative societies, Maharashtra state Pune, himself or his nominee shall be one.

d) Managing Director shall be the Ex-office Director.

e) Directors representing the employees in accordance with the provision of section 73 BB of the MCS Act 1960.

f) One Director to be nominated by life Insurance corporation of India. Such nominated director shall not be required to hold any qualification shares, nor shall be liable to retire by rotation.

Provided that the directors to be elected under (a) above shall be a director or member of the committees
of a co-operative housing society, which is a members of the society.

2.3 **MEMBERSHIP.**

Bye-laws 22 - The membership of the society will be open to -

Any co-operative society, Banking Company, Insurance company, Investment Company or other financial institution, which is a company, registered or deemed to be registered under any law for the time being in force in Indian Union.

3. **CONTRIBUTION OF MAHARAstra GOVERNMENT TOWARDS SHARE CAPITAL OF MCHFS.**

The Government of Maharashtra vide GR. No. CSH – 2460-K co-operation & Rural Development Department dated 20th Oct. 1960 granted Rs. 15 Lakhs as a contribution towards the share capital of the MCHFS, which is to be refunded within a period of three years from the date of registration. The MCHFS agreed to undertake housing programmes as an agent of the State Government in respect of housing schemes, which have been or which may be sponsored by the state Government.

The society also agreed and undertook that no dividend higher than 3.5 % will be declared to the members except with the previous approval of the state government. These are the two main conditions, which the state government laid down,
while contributing to the share capital of the society, along with other conditions. These conditions indicate the out-look of the government towards the importance of a financing institute, which will promote housing construction programme in the state. The government put restrictions upon the declaration of dividend so that the society may not give stress on earning the profit, on the contrary it is expected that the society will work to promote co-operative movement in the housing sector.

The position regarding holding of shares, by the government, co-operative societies and other corporate bodies and institutions, in 1963 was as under – Table No. 4.1.

**Table No. 4.1**

Table showing composition of share capital of MCHFS.

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Particulars</th>
<th>No of Members</th>
<th>No. of Shares</th>
<th>Amount Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Scheduled banks</td>
<td>4</td>
<td>541</td>
<td>2,70,500</td>
</tr>
<tr>
<td>2.</td>
<td>Insurance company and investment trusts and other Financial Institutions</td>
<td>8</td>
<td>5332</td>
<td>26,66,000</td>
</tr>
<tr>
<td>3.</td>
<td>Co-operative banks and co-operative societies other than CHSs.</td>
<td>15</td>
<td>500</td>
<td>2,50,000</td>
</tr>
<tr>
<td>4.</td>
<td>Co-operative Housing societies</td>
<td>531</td>
<td>2947</td>
<td>14,73,500</td>
</tr>
<tr>
<td>5.</td>
<td>Share capital contributed by Govt. of Maharashtra including the share, in the share holding of the Bombay co-operative Housing Finance society Ltd.</td>
<td>01</td>
<td>9103</td>
<td>45,51,500</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>559</strong></td>
<td><strong>18,423</strong></td>
<td><strong>92,11,500</strong></td>
</tr>
</tbody>
</table>

(Source: 25 Year on the co-op Housing front by D D Naik P. 65-66)
The paid up share capital of the society as on 30-6-1985 was Rs. 13,15,04,000/-*. The society refunded the share capital contributed by the government, as also that contributed by agencies other than cooperative housing societies.

The society has succeeded in building-up its share capital base to have adequate borrowing capacity. According to the provisions of its bye-laws No 7, the society has been permitted by the Registrar to borrow funds up to 18 times its total amount of the paid up share capital, accumulated reserve fund and building fund minus accumulated losses. The society has linked up its lending with the contribution to its share capital as under:

<table>
<thead>
<tr>
<th>Area of state</th>
<th>Scale prescribed for the Share capital Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Borrowing societies from Greater Bombay town of Thane and Pune.</td>
<td>10% of the amount of the loan disbursed.</td>
</tr>
<tr>
<td>b) Societies from other areas.</td>
<td>5% of the amount of loan Disbursed, if the amount of loan sanctioned does not exceed Rs 10 Lakhs.</td>
</tr>
</tbody>
</table>

* 25 years on the Co-op. Housing front by DD Naik P - 158.
The reserved fund of the society was 5,53,78,000 as on 20-6-1985 and the building funds was Rs. 50,25,000 on the same date. *

3.1 BEGINING OF MCHFS ACTIVITIES IN YAVATMAL TAHASIL.

The first co-operative housing society in Yavatmal tahasil which have registered its membership with MCHFS is middle class co-operative housing society Yavatmal. This co-operative housing society is registered as a member with MCHFS during the year. 1960. At present there are 39 CHSs which have registered their membership with MCHFS. The number of shares purchased by these CHSs is 263 and the total amount of share money contributed by these CHSs is Rs. 131, 500 /-. **

4. OBJECTS OF MCHFS.

As per Bye-Law Number 3 (1): 

(1) To grant loans or advances to and to invest in debentures issued by housing societies registered in the state of Maharashtra, which are members of the society on the security of the immovable property or such other security as may be considered necessary.

* - Ibid P - 158.

** - Information collected from the Yavatmal office of the MCHFS.
(2) With the prior sanction of the government to borrow or raise or secure the payment of money by the issue of debentures, debentures stock and bonds and to charge or secure the same by trust deed on the undertaking of the society or upon any specific property and rights of the society.

3) To receive deposits and borrow money otherwise than by the issue of debentures.

5. OBJECTIVES OF THE LOANING POLICY.

The society modified its terms and conditions and imposed restrictions on the size of the flats, size of society, cost of the flat, income and residence, sub-letting and on the utilisation of floor space index. The society modified the terms and conditions for granting loan in view of the Mirdha committee report, which reported the malpractices in the society, to built up the image of the society. Objectives behind the modified terms and conditions are as follows:

a) To ensure the safety of the funds.

b) The funds available with the society should go only to the deserving people and particularly to those who are economically week and depend upon the borrowed funds for solving their housing problem.
c) Laying down the quantum of loans to individual members of the borrowing society and to link the loans to their income and repayment capacity.

d) Laying down conditions to ensure proper utilisation of loans.

e) Prescribe procedure for scrutiny of loan applications.

f) To maintain security.*

The terms and conditions were first revised in the year 1966 with the above mentioned objectives. However, they were amended form time to time taking in to consideration the changing situation and developments necessitating modifications. The amendments were made after 1966 with regard to increase in quantum of loans to individual members of the borrowing societies and to raise ceiling on the cost of construction, due to increase in the cost of construction certain new provisions were incorporated to assist certain sections of the community by granting loans on more liberal terms. Special provisions were made to enable borrowing societies to purchase already constructed buildings and to give second charge or redeem prior mortgages. However, the main objectives of the loaning policy remained unchanged.

* 25 years on the cooperative housing front 1960 to 1985 by D.D. Naik P. 122
5.1 CONTRIBUTION OF MCHFS IN HOUSING LOAN IN YAVATMAL TAHASIL.

The members of CHSs, which have taken a loan form MCHFS, can be classified as under, according to their annual income.

Table No - 4.2.

Table showing classification of members of category ‘A’ on the basis of their income.

<table>
<thead>
<tr>
<th>Income Group Year 1991 - 1992</th>
<th>No. of members in the Groups</th>
<th>%</th>
<th>Groupwise %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20,000</td>
<td>43 Lower Group</td>
<td>28.66</td>
<td>53.33</td>
</tr>
<tr>
<td>20,001 to 30,000</td>
<td>37</td>
<td>24.67</td>
<td></td>
</tr>
<tr>
<td>30,001 to 40,000</td>
<td>13 Middle group</td>
<td>8.67</td>
<td>20.67</td>
</tr>
<tr>
<td>40,001 to 50,000</td>
<td>18 Higher group</td>
<td>12.00</td>
<td></td>
</tr>
<tr>
<td>50,001 to 60,000</td>
<td>23</td>
<td>15.34</td>
<td>26.00</td>
</tr>
<tr>
<td>60,001 and above</td>
<td>16</td>
<td>10.66</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source - Data collected through questionaire for members Q No. 1.8)

Form the above data, it is revealed that the % of members from lower income group is 53.33 whereas it is 20.67 for middle income group and 26 for higher income group. The total % of lower & middle group comes to 74 %. It proves that the housing
finance scheme of MCHFS have contributed in solving the
housing problem of the lower/middle income group in Yavatmal
tahasil.

5.2 **LINKAGE OF HOUSING LOAN TO INCOME.**

While granting the loan by MCHFS one of the criteria for
deciding the quantum of loan to be sanctioned is the income of
the borrower. But income is not the only factor deciding the
repayment capacity of a borrower. The other factors such as size
of family, number of children taking education, future liabilities
also affect the repayment capacity of borrowers. During the
survey, it is observed that the percentage of defaulters in this
category is 45.33, which is too high.* It is therefore expected
that while judging the repayment capacity, the other factors,
affecting the repayment capacity, should be taken in to
consideration, so that proper quantum of loan can be decided,
while sanctioning the loan. It will help to reduce the
percentage of defaulters. This aspect have also been dealt with
in the chapter No VIII.

6. **PROCEDURE TO GET THE LOAN.**

Any person desirous of getting loan form MCHFS,
should be a member of any cooperative housing society or co-
operative griha turan sanstha. That particular society shold be
a member of MCHFS. For becoming a member of MCHFS a

* - Data collected through questionnaire for members. Q. No. 5.2 (D)
co-operative housing society is to contribute to share capital of MCHFS by paying Rs. 500/- along with the prescribed form.

A member co-operative housing society is to prepare the plans and estimates of the house, proposed to be constructed, form the certified architect and also to obtain the permission of Nagar parishad or Grampanchayat as the case may be. Then along with the plans and estimates and permission of municipal committee or Gram panchayat, the application in the prescribed form with necessary fees is to be submitted to the local office (District headquarter) of the MCHFS. The Local office after due scrutiny will forward this application form to the Head office of MCHFS at Bombay.

The application received by MCHFS head office will be put before the loan committee for consideration, and the loan committee will decide either to sanction or to reject the loan application of that co-operative housing society. If the loan committee approves the application then the necessary information is sent to district office. The district office then releases the loan as under.

1) 20% of the loan sanctioned as first instalment
2) 30% of the loan sanctioned as second instalment
3) 40% of the loan sanctioned as third instalment and
4) 10% of the loan sanctioned as last instalment.

Before granting the first instalment the concerned society or the member is to spent 20% amount of the total cost of
construction. The architect appointed by the MCHFS is to certify that the amount as desired, by the MCHFS, is spent, then only the loan as given above is released. The last instalment is released only after completion of the proposed construction work.

6.1. **PRACTICABILITY IN PROCEDURE FOR SANCTIONING THE LOAN.**

On the surface, the above procedure seems to be very easy, simple and time saving, but in practical it is different. The office bearers of the CHSs in category ‘A’ while expressing their opinion regarding the financing facilities available for the CHSs, put forth their dissatisfaction with regard to the loan sanctioning procedure. According to them they feel that there is delay in getting the loan sanctioned due to two main facts A) red tapism B) vested interest of the personnel empowered to sanction the loan.

A) **RED TAPISM**

Out of 12 office bearers in this category 10 office bearers told that there is a prevalence of red tapism in sanctioning the loan, because of which it takes much time to get the loan sanctioned. Due to delay in sanction of loan, the construction work suffers. It results in increasing the cost of construction and the member is require to contribute more than the basically expected
contribution. Because of this, he has to face the number of problems.

B) VESTED INTEREST.

Out of 12 office bearers in this category, 8 office bearers told that there is an unwritten law that you have to satisfy the monetary demand of the personnel empowered to sanction the loan then only one can expect to get the loan sanctioned easily.

However, it is observed that these office bearers have no grievance towards the local office of the MCHFS. They told that the local office is quite cooperative in processing the loan proposal as well as in dealing with the other office matters also.

7. RATE OF INTEREST.

As regards the rate of interest on the loan sanctioned by MCHFS, the society is having differential rate of interest scheme. This is because the society is financed by life Insurance corporation of India, urban co-operative banks and Unit Trust of India. The rate of interest of these institutions is not similar and therefore, the rate of interest of MCHFS is also not equal in all cases. For this purpose, the MCHFS has prescribed the quota of loan to be granted, form the funds of each of the above institution, to the co-operative housing societies in each district. When the loan is granted form the
quota of a particular institution then that rate of interest is charged. The rate of interest on loan from the quota of these institutions is as under -

1. 14 % per annum if the loan is granted form the quota of life insurance Corporation of India.
2. 15 % per annum if the loan is granted form the quota of urban banks.
3. 16 % per annum if the loan is granted form the quota of Unit Trust of India.

Now, in practice, each district utilises the quota of life Insurance corporation of India first and the interest is charged at 14 % per annum until the amount form that quota is completely utilised. In this way the preference for using the quota is given according the rate of interest.

If the loan is to be taken through any griha taran sanstha then that griha taran sanstha charges 1 % to 1.5 % interest over and above the rate of interest as stated above. In Yavatmal tahasil, there are nine griha taran sansthas.

8. INDIVIDUAL LOAN SCHEMES.

8.1 FINANCE THROUGH SHAKARI GRIHA TARAN SANSTHA.

In 1993 – 94, the amount of loan sanctioned through these Griha Taran Sanstha is Rs. 33,41,000 against which an amount of Rs. 26,41,000 is distributed. The amount of outstanding loan as on 31st December 1993 is Rs. 13,26,291. The amount of share capital contributed by griha taran sanstha is 1,32,050.
8.2 DIRECT FINANCE TO INDIVIDUALS.

In 1993, the MCHFS have taken a decision to grant the housing loans to the individuals. Uptill 1993, there was no such provision. It is a historical decision in the field of housing loan for co-operative sector. The loan granted under the personal loan scheme is grantable on the security of equitable mortgage. The MCHFS sanctioned 34 loan cases during the period 1st April 1993 to 31st March 1994. The amount of loan sanctioned is Rs. 36,55,000 and the amount of loan actually paid is Rs. 25,04,000. The amount of unpaid installments in arrears was Rs. 13000/- till the end of December 1993. *

8.3 COMPARATIVE FINDINGS.

During the survey, it has been observed that the people prefers to construct their houses individually, rather than constructing their houses through the co-operative housing societies. The classification of the amount of loan sanctioned by MCHFS during the period 1st April 1993 to 31st March 1994 confirms the above contention. The particulars of the loan sanctioned by the MCHFS are given here under.

* - Information collect through office record at Yavatmal office of MCHFS.
Table 4.3.

Table showing the classification of loan sanctioned by the MCHFS form 1st April 1993 to 31st March 1994. (Amt in 000)

<table>
<thead>
<tr>
<th>Loan sanctioned to</th>
<th>Amount of loan sanctioned and paid</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sanctioned</td>
<td>%</td>
</tr>
<tr>
<td>1) Co-operative housing societies</td>
<td>4,624</td>
<td>39.80</td>
</tr>
<tr>
<td>2) Griha taran sanstha</td>
<td>3,341</td>
<td>28.75</td>
</tr>
<tr>
<td>3) Individuals</td>
<td>3,655</td>
<td>31.45</td>
</tr>
<tr>
<td></td>
<td>11,620</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: Information collected from the local office of MCHFS)

From the classification of loan distributed by the MCHFS, in Yavatmal tahasil, during the period of 1st April 1993 to 31st March 1994, it reveals that 60.20% of the loan sanctioned is either to Griha Taran Sanstha or to individuals. The percentage of loan actually paid during the above said period to Griha taran sanstha or to individuals is 66.15. This percentage of loan is about 2/3 of the total loan sanctioned or paid. If the amount of loan sanctioned and paid to Griha taran sanstha and to individuals is taken together it is 69,96,000 & 51,45,000 respectively. Taking these figures in to consideration the
percentage of loan sanctioned to the individuals is 52.24% and
the percentage of loan paid actually is 48.66.

The above figures confirms that the people prefers to take
loan individually and also prefer to construct their houses at
their own accord, instead of involving it with the co-operative
housing societies. Moreover it is also observed that the
individual loan scheme of the MCHFS is also becoming popular
day by day. It was only when, there was no any such facility
available, people prefer to take loan through griha taran
sanstha.

The above facts and figures proves that the co-
operative movement in Yavatmal tahasil failed to promote the
CHM in Yavatmal tahasil. The reasons for the failure of the
cooparative housing movement in Yavatmal tahasil have been
discussed in the forth coming chapters.

Apart form MCHFS, there are various agencies which
provides finance for the construction of houses.

Therefore, unless the comparative study, is under taken, it
will not be possible to have a clear idea about the contribution
of MCHFS and other institutions in development of
cooperative housing movement in Yavatmal tahasil. This has
been dealt with in the next chapter.