CHAPTER 4

SAMPLE SURVEY OF CUSTOMERS
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4.1 TYPES OF CUSTOMERS APPROACHING PFCs:

Under this survey 100 customers have been covered and the survey is based on random sampling method. The customers are broadly classified into 3 groups.

- Businessmen
- Employees
- Farmers

According to the survey the percentage of customers are as follows:

<table>
<thead>
<tr>
<th>Customers</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businessmen</td>
<td>60</td>
</tr>
<tr>
<td>Employees</td>
<td>35</td>
</tr>
<tr>
<td>Farmers</td>
<td>5</td>
</tr>
</tbody>
</table>

The above table shows clearly that among the customers businessmen and employees are preferred in sanctioning the loans. The farmers are favoured least. The Management of Private Finance Corporations appears to be under the impression that the loans given to the farmers would not be recovered.
Businessmen:

The persons who are engaged in production or distribution of goods and services are the businessmen. For the sake of convenience businessmen can be classified into two groups; Big businessmen and small businessmen. In this study it has been revealed that generally small businessmen approaching the Private Finance Corporations for their credit requirements. Big businessmen approach the banks.

Small businessmen are the persons who have a turn over of less than Rs.1000 per day. These people depend on TBDs (Time Bill Discount). Under this scheme the amount which is sanctioned by the Private Finance Corporations is recovered within 100 days in 100 equal installments on daily basis.

Small businessmen generally consist of Vegetable vendors and owners of Panshop, Kirana stores, Barbar shops, Laundry shops etc.

The following table shows the precedence orders of the small businessmen in getting the favour of loans from the Private Finance Corporations.
Table 4.2
Types of Businessmen

<table>
<thead>
<tr>
<th>Type of businessmen</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetable vendors</td>
<td>30</td>
</tr>
<tr>
<td>Panshop owners</td>
<td>8</td>
</tr>
<tr>
<td>Kirana stores</td>
<td>7</td>
</tr>
<tr>
<td>Barber shops</td>
<td>7</td>
</tr>
<tr>
<td>Laundry shops</td>
<td>3</td>
</tr>
<tr>
<td>Others</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>

Employees:

The employees covered in the study may be as follows:

**Officers**: Persons drawing a salary of more than Rs. 10,000/- p.m. are defined as Officers.

**Teachers**: Persons who are engaged in teaching profession and are earning less than Rs. 10,000/- p.m., come under this category.

**Clerical Staff**: Persons who are engaged in non-teaching professions and are earning less than Rs. 10,000/- p.m are classified as Clerical Staff.
### Table 4.3

<table>
<thead>
<tr>
<th>Types of Employees</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
<td>20</td>
</tr>
<tr>
<td>Officers</td>
<td>2</td>
</tr>
<tr>
<td>Clerical Staff</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>35</td>
</tr>
</tbody>
</table>

In the case of farmers, no credit facility is given to the small farmers; only the influential farmers, who are economically better placed are given loans.

#### 4.2 Specific Needs of the Customers:

The needs of the customers in approaching the Private Finance Corporations is classified into:

i) Business needs   
ii) Social needs

**Business needs:**

If a loan is taken for the purpose of investment, with the motive of earning a rate of return higher than the rate of interest charged by the Private Finance Corporations it is called a Business need. Business needs arise in search for fulfillment of working
capital needs and also for capital budgeting requirements. Generally Private Finance Corporations sanction the loans for working capital requirements, but not for capital budgeting requirements.

Social needs:

If a loan is taken for the purpose of fulfillment of social obligations it is a social need. Social needs arise in the performance of functions for the sake of maintaining traditions and customs.

The businessmen approaching the Private Finance Corporations to fulfill their business needs. Private Finance Corporations sanction only short period term loans, which are repayable within three months or at the maximum within 100 days. With the short term credit the business people fulfill their working capital requirements. To fulfill their capital budgeting requirements these organisations are not helpful.

The employees approach the Private Finance Corporations for the social needs in celebration of festivals, marriages and other social and family functions.
The farmers generally approach for crop loans but, it is very difficult to get crop loans from the Private Finance Corporations. The reason is that farmers returns from the crop loan investments are uncertain.

While sanctioning the credit the Private Finance Corporations bother more about the security of the credit rather than the need of the customers. In the sanctioning of loans the prime concern of the PFCs is the security of the credit, need of the customers is not a point of consideration.

4.3 CONDITIONS TO BE FULFILLED BY THE CUSTOMERS;

A prospective customer as a first step has to submit an application in the following proforma for the purpose of obtaining a loan.

Proforma of Application

Application for Bills Discount

To

______________________________

Date:__________

______________________________

CD/TBD No.:__________

Sir,

I/We request you to discount for me/us the bills drawn by me/us for Rs. ________ for _______ days at ______ per cent of discount.
I/we beg to state that I/we am/are not agriculturist(s).
I/we agree to abide by the rules of time bills Discount/Cheque Discounting as printed below.

Yours faithfully,

1) Name ____________________
   Father's Name ______________
   Address ____________________
   (signature) ____________________

2) Name ____________________
   Father's Name ______________
   Address ____________________
   (signature) ____________________

Rules

1. The Corporation serves all traders without any discrimination.

2. The Corporation would advance loans to the Traders and Depositors depending upon their limits and credibility.

3. The traders requiring financial assistance shall apply in the prescribed form obtained from the corporation and shall receive the advance executing necessary documents in favour of the corporation. Loanee shall be bound by the Rules of the Corporation and the terms & conditions of the loan advances.
4. The discretion to sanction or reject the application for loan of trade shall vest with the Corporation and the authority of the Corporation in this regard can't be questioned.

5. The intending Lonees shall furnish all information called for by the Corporation in respect of the Assets, Liabilities and other Properties to enable the Corporation to consider their application for loan. Failure to furnish such information would be a sufficient reason for rejection of their application.

6. The advances against negotiable instruments shall be mainly on the basis of customer's undertaking to be liable for money received by him from the Corporation.

7. Where the loanee fails to repay the loan amount on due date in full, the Corporation shall be entitled for the delayed interest at 24% per annum over the amount due under the loan account other than secured loan account.

8. The Corporation shall be entitled to adjust any amount to the credit of the loanee or his surety in any account with the Corporation against outstanding dues under the loan account with or without the consent of the said loanee and his surety.
9. The facilities provided by the Corporation for the convenient repayment of loan or advance by opening discounting in hundi, daily account shall be availed of voluntarily by the loanee.

10. The loanee shall be entitled to receive the sanctioned loan or advance offering surety of another trader to the satisfaction of the Corporation. The loanee and his surety shall be jointly and severally liable for the repayment of money advanced.

11. Each loanee shall be at liberty to obtain clarification in respect of his account and to verify the same to satisfy himself as to their correctness.

12. The loanee shall bear all necessary expenses for the execution of valid documents in respect of any loan or advance in favour of the Corporation; besides, the Corporation shall be entitled to collect service charges from its customer.

13. The traders who have availed the facility of loan under TBD account shall not be eligible for loan on their deposits in other account.

14. The cost of Hundi forms must be paid by the parties.
15. Bill sanctioned and not availed of within three days of such advice, will be treated as cancelled; thereafter if the party requires the amount fresh sanction should be obtained.

16. When bills are signed by two or more parties their liabilities are considered as joint and several.

17. All bills are payable at Corporation Office.

18. The date of payment must be ascertained by constituent. If the due date falls on weekly holiday or any other holiday payment should be made on the previous working day. The Corporation is bound to give notice of due dates but may do so as a matter of courtesy. No days of grace are allowed.

19. Failure to repay a bill on the due date may result in the cancellation of the constituent's credit limit.

20. Overdue interest will be charged and collected at 24% p.a.

21. The Corporation has the first charge on credit balance in all the accounts of the signatories and it can adjust such amounts against the due of the signatory as per rules.
22 In case of disputes, suits etc., the Courts at places specified by PFCs shall have jurisdiction.

23 The applicant shall be tried by the rules of the Corporation.

The above rules and the other rules were, gone through by us, read over and explained to us and having understood fully, we hereby bind ourselves and declare that we shall abide by the said rules.

Signatures of Applicants:

1)  
2)  

Recommendation: Manager/Accountant.

Proceedings of the Board:
Sanctioned Rs. advanced on DD .

Due Date  
Managing Partner.

After going through the application, if the Managing Partner satisfies himself regarding the credit worthiness of the customer he asks the customer to submit the following documents duly filed in, in order to receive the loan/credit.
Dear Sir(s),

I/we have today taken ________ days TBD loan as detailed below for Rs.__________ (Rupees________________ only) which will be repaid on or before the date I/we have today for our convenience opened a separate Hundi Daily A/o with you. I/we subscribe regularly at Rs.__________ per day to this a/c. After the 100th day the amount this subscribed will become Rs.__________ which may kindly be adjusted to my/our TBD loan by allowing ________ days of grace. I/we agree to be charged interest at 0.06 Ps. per cent per day for the repayments after due date.

1) Signature ______________________
   Address ____________________________

1) Signature ______________________
   Address ____________________________
**PARTICULARS OF T.B.D. LOAN ADVANCED**

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>Ps.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Pass Book</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Hundi Stamp</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount for ___ days ___%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount taken</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From: ____________________________________________  

To: ____________________________________________  

Date: __________

Dear Sir,

We write to state in respect to the Hundi/Chit or loan sanctioned by you as specified below. We agree to abide the present rules or any other rules of your Corporation that may be made by you hereafter relating to payment of interest, over due interest or repayment of the loan. Your Corporation will be at liberty at any time to recall the loan advanced to us not withstanding the stipulation of any time fixed when the loan is advanced in
case the amount due is not rapid in time. We agree to bind ourselves for any loss the Corporation may sustain including the cost of its recovery further, you will be at liberty to adjust at your discretion any of our amount with you even without our permission against any of our loan due to your Corporation singly or jointly with others. For belated payments we bind ourselves to pay overdue interest at the rate of .06 Ps per Rs. 100.00 per day.

**PARTICULARS OF T.B.D. LOAN ADVANCED**

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<td></td>
</tr>
<tr>
<td>Amount taken</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Rupees


<table>
<thead>
<tr>
<th>1) Signature</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td></td>
</tr>
</tbody>
</table>

1) Signature

| Address |     |

1) Signature

| Address |     |
Dear Sir,

I/We have this day borrowed from you the sum of Rs. ___ (Rupees __________________________) only) in case having discounted with you a Cheque No. __________ dated __________ drawn by me on ______ in favour of __________________________ and endorsed by me/us in your favour this day, which you will please present for collection on __________ or any day thereafter. I/We hold myself/ourselves responsible to re-pay the said amount to you in case the said cheque is discounted with interest at ______ per cent per day from the date of dishonor.

Further, in case of loss of this cheque. I undertake to issue another cheque & enable you to collect the cheque amount on due date or to pay the amount by cash.

From: __________________________

Yours faithfully,
PROMOTE

Rs. __________ ____________ 199 On Demand 1/We

________________________

________________________ jointly &

severally promise to pay to the

________________________ or order the sum of

Rupees ________________

together with interest at the rate of __________

(____________ percent) per annum/day for value received.

Witness:

1

2

After submitting the above documents, as a last step the customer has to sign along with witness on each receipt while receiving the loan amount.
Proforma of Cash receipt

CASH RECEIPT

Received a sum of Rs. _______ (Rupees only) from ________________________________ towards my/our documents executed in your favour on dated __________ bearing No. __________ for Rs. __________ in connection with __________.

Signature.

Witnesses:
1
2

Station: ___________________________ Date: __________

4.4 PROBLEMS OF THE CUSTOMERS IN REPAYMENT OF LOANS:

The customers generally approach the Private Finance Corporations, as a last resort to meet their pressing needs. Taking advantage of the vulnerable position of the customers the Private Finance Corporations exploiting them at the maximum extent.
The problems which the customers face in the time of repayment of loans are:

- Length of Credit period
- Collection Procedure
- Rate of Interest
- Legal litigations

Credit Period:

Credit period allowed by the Private Finance Corporations is at maximum 3 months in case of CDs and 100 days in case of TBDs. From the total amount which is sanctioned as loan to the customers, the total interest is deducted at the beginning itself and only the remaining amount is paid to them. The short duration stipulated for the repayment of the loans is a big and first difficulty faced by the customers.

Collection Procedure:

The collection procedure of Private Finance Corporations is very rigorous. The Collection Clerks, in case of delay in payment mentally harass the customers. In some cases it has been learnt that, the customers were unable to withstand the pressures involved in the collection procedure and resorted to suicide.
Rate of Interest:

The rate of interest charged by PFCs is very high. Legally they are empowered to charge only 18% interest; but in practice the PFCs generally charge 36% and above. In case of default there is no limit in the imposition of penal interest. Therefore, most of the customers, after their first acquisition of loan from the PFCs, become regular customers for the simple reasons that in order to clear the loans they have to fill back upon a fresh loan. Thus obtaining loans to repay the loans the customers are led into a debt-trap.

4.5 DEFAULT - LEGAL LITIGATIONS

In case of default, the guarantor has to pay the money. If the guarantor is also not able to pay, the Private Finance Corporations file a suit against the customers in the Court of Law for recovery of loan.

Local advocates act as the legal advisors to the PFCs. They file suits in the Court of Law for the recovery of loans, on the basis of the documents signed by the customers.
Generally the cases are disposed in favour of the Private Finance Corporations on the basis of the evidence available rather than on a consideration of the reality.

4.6 NON-PERFORMING ASSETS AND BAD DEBTS

Non-Performing Asset

An asset is said to be a Non-Performing Asset, when the interest is not received on a particular advance. In this study it is revealed that the NPAs in Private Finance Corporations is less than 1%.

Bad Debts

The NPAs after some time may turn into bad debts. The advance which is not recoverable under any circumstances is called a Bad Debt. If the beneficiary is a legal insolvent, the advances become bad debts. The percentage of bad debts is also very less in Private Finance Corporations, it is also less than 1%.