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3.1 Introduction:

Advances play an important role in the gross earnings of urban banks, and promote the economic development of the country. The basic function of credit is to enable individuals and business enterprises to purchase goods and/or services. Demand for credit by business firm arises, because of time consuming nature of the productive and distributive processes. Consumers demand credit to acquire goods in advance for which they pay in future. The time gap between production, distribution and consumption gives scope for the wide use of credit.

Among all the functions of banking the lending of funds with or without security of immense importance. Balance-sheets of urban co-operative banks reflect that about 85 per cent of their total revenue arise from interest and discount. Similarly, according one estimate the proportion of advances in total assets of the urban banks constitute 70 per cent of the total and thus advances act as the backbone of banking business. Hence, success or failure of banking business mainly depends upon the management of advances. Urban banks through their consumer loan, contribute to consumption activity - creating constant demand for consumer goods like houses, furniture etc.

Lending of funds to the constituents, mainly traders, business and industrial enterprises constitutes the main business of a banking company. The business of lending, nevertheless, is now without certain inherent risk. Largely depending on the borrowed funds, a banker cannot afford to take undue risks in
lending his funds. He, therefore, follows a very cautious policy while lending his funds and conducts his business on the basis of well-known principles of sound lending in order to minimise the risk.

But before discussing in detail the sound principles of bank lending, it is necessary for us to know much about the characteristics of bank loans.

3.2 Characteristics of Bank Loans:

Some of the most important characteristics of bank loans are given below:

1. The bulk of the urban bank loans are provided to trade and industries. Basically, urban co-operative banks (UCBs) are in character and hence they do not take much interest in disbursing loans to agriculture. Again such loans are having relatively greater credit risks inherent in them. Nevertheless, industrialists and traders are the prominent borrowers of the banks.

2. Another striking feature of a bank loan is nearly three-fourths of it is given for a period of less than one year. This is essentially because of the high liquidity of such loans. The short-term loans are given to finance the seasonal needs of businessmen and also for working capital purposes to facilitate the process of production and distribution. Seasonal loans are given primarily for the purpose of increasing the inventory of a business
firm and are repayable within short time as the inventory is more liquid in nature.

3. Short-term loans may take the form of cash credit, overdraft, demand loans and the purchase and discount of bills. Among these cash credit and overdraft are the most popular methods.

4. A high profitable firm would rely less on bank loans to finance expansion or current needs because it has sufficient earnings to do so. Contrary to this, the less profitable concerns or the less self-sustaining concerns need bank support to help them to tide over the financial difficulties caused by the shortage of liquid funds. Banker should be very careful while granting loans to firms and should take all possible protective steps to minimise the risk.

5. Another characteristic of bank borrowers is that most of them own relatively small, young and growing businesses. Smaller firms depend more on bank loans to finance their needs because of their limited access to other sources of finance. Young concerns which have sufficiently established themselves and which do not have enough accumulated earnings make frequent trips to the bank. Growing concerns rely more on bank credit than the older and more established counterparts because the former are not capable of generating sufficient income to take care of their growing financial needs.
3.3 Principles of sound lending:

Every banker has to follow principles of good lending while appraising a proposal for advance. Some of the important principles are discussed below:

1. Safety:

The most important principle of advance is the safety that money advanced is definitely recoverable and that is not spent for unproductive or speculative purposes by the borrower. A borrower should be honest and competent enough in his business to run it profitably. If a borrower is incompetent he may incur loss in his business and with the result he may not be in a position to repay the banker's dues. Thus, money advanced should go to the right type of borrower so that it could be recovered with interest in time. It is not sufficient only to see the safety of advance at the time of lending, but it should also be ensured till the time of recovery.

2. Liquidity:

Money advanced to the borrower must be recoverable on demand or as per the terms and conditions of repayment. Generally, advances should be made for short-term requirements and the borrower should not lock it up in acquiring fixed assets or in such schemes which take a long time for repayment. The sources of repayment of advances should be definite. A bank should maintain sufficient liquid resources to meet with normal banking business and such liquidity is as important as safety.
3. Purpose:

Advances should be made towards specific purpose such as trade, manufacturing and for other productive purpose which provides a definite source of repayment. Secondly, advances should be made for short-term period. In the modern concept of banking, purpose of advances assumes a specified significance.

4. Profitability:

Bank must earn profits as they have to meet with expenses such as payment of interest on deposit, on borrowings, incur expenses for establishment, rent, stationary make provisions of depreciation on fixed assets and for bad and doubtful debts and also to set aside for statutory reserves and payment of dividend to shareholder as provided in the by-laws.

Considering all this, banks have to decide about its lending rates. Lending rates are also affected by the bank rate, inter bank competition and the directives of the RBI. Moreover, rates also differ depending upon the type of borrowers, borrowers' credit, nature of security, mode of change, form and type of advances, such as cash credit, loan, consumption finance etc.

5. Security:

The accepted fact and practice is that bank do not lend as far as possible, except against security. However, security to be offered is not only criteria. Other factors such as the character, capacity and capital of the borrower in addition to
the safety, liquidity and purpose for advances are also to be considered. Important among other factors is the repaying capacity of the borrower. The security obtained by the bank against advance serves the purpose of safety valve in time of need. For it becomes impossible for the borrower to raise secured advance from another source against the security which is already lodged to the previous sources.

6. Diversified advances:

Element of risk is involved in each types of advances. Therefore, risks involved in lending should be spread over to a large number of borrowers, over a large number of industries, areas and over different types of advances against proper securities. Prudent bankers should see that their advances are diversified. Advances in particular type of trade/industry is fraught with risk as in case of such trade/industry is caught-up by depression. To put it in other words, bank should try to adhere the proverb "do not put all the eggs in one basket" while disbursing the loans.

7. National interest - Public interest:

Advances should not be made which are detrimental to national or public interest. Now-a-days the national policy is to see that advances are made for productive purposes to agriculture, small borrowers, export oriented industries and which help amelioration of the weaker sections of the community in generating employment and better standards of living.
Ideal advances are those which are granted to realiable borrowers, for approved purposes, and considering the repaying capacity of borrower as well as for productive utilization and towards timely repayment.

8. Importance of advances:

Of all the functions of the bank, lending is the most paying, that the income of the bank is derived from interest from advances, discount and commission and earned from bills discounted and bills purchased as well as interest received on investments. The strenth of the bank could be judged by sound advances.

3.4 Organization of Bank Lending:

The principle responsibility for formulating a loan policy for a bank and its implementation lies with the Board of Directors. Since the members of the Board are pre-occupied with other important activities, they do not attend to the day-to-day lending functions of the bank. They constitute a seperate lending body. Lending body of a bank performs the following functions:

1. It receives loan applications.
2. It collects credit information about the applicants from numerous sources and conducts interviews with the applicants to solicit additional information and to verify the accuracy of the information given by them in the application.
3. It investigates the credit worthiness of applicants by making use of numerous tools of credit analysis.

4. Once the loan has granted, it supervises loans by visiting the borrowers, keeping a constant vigil on their deposit balances, obtaining financial and other reports and checking with other creditors and calling the attention of the borrowers to their unsatisfactory performance.

5. It maintains records of credit information and revises them constantly so that bank officers may come to know the status of their accounts.

6. It furnishes credit information to other banks and creditors who seek it.

In an ideal situation, the loan policy statement is usually prepared by the Board of Directors, and its implementation is done by the loan committee in most banks, all the directors do not meet each week. All the loan applications are received by the manager, which are then referred to the concerned individual loan officer possessing the sanctioning authority. Where the loan requests exceed the stipulated amounts of the individual officer's loan authority, they are referred to the loan committee. The loan committee consists of the Chairman of the Board, two or three Directors and one or two senior loan officers.
The organisational set-up of the loan function in a bank would depend upon a number of factors, including the size of the bank and the attitude of the Board of Directors towards the extent of the authority delegated.

The organisational structure of loan department is as under:

**ORGANISATION OF LOAN DEPARTMENT**

**BOARD OF DIRECTORS**

**MANAGERS**

**ASST. MANAGER (LOANS)**

- Cash section
- Hypothecation section
- Pledge section
- Loans section
- Overdrafts section
- Recovery section

**SUPERVISORS**

**INSPECTORS**

3.5 Scrutiny of Loan Applications and Types of Borrowers:

The scrutiny of loan applications and types of borrowers discuss as below:

Loan application forms provided for exacting detail information about the borrower who has to fill in answers in detailed questionnaire.

The bank should enquire about borrower's business, trade experience, assets and liabilities from various sources. His
operations of bank's account and business dealings are to be studied. His financial strength should be assessed by referring to his income-tax returns. If necessary, personal interview with the applicant is also to be arranged. Reports or information of other banks with which the applicant is associated are very important and hence they are to be obtained because of much practical use.

Types of borrower:

First of all, borrower must be competent to enter into contract as per provisions of law of contract. Minors, lunatic and undischarged insolvents cannot enter into a valid contract and cannot therefore be entertained as borrowers. Person who enters into contract should be of sound mind at the time of making a contract that is he must be capable of understanding the contract, and its effect upon his interests. A married woman can be made liable to the extent of her separate estate and her husband is not responsible for the debts incurred by her, unless the debts are for her necessities of life or that he undertakes to pay the debts.

Borrowers are classified as follows:

1. Sole proprietorship
2. Joint account
3. Husband and wife
4. Joint Hindu families
5. Agents
6. Local authorities
7. Clubs, literary societies, schools etc.
8. Non-trading Associations
9. Trust Accounts

These are briefly discussed below:

1. Sole Proprietorship:

In a sole proprietary concern, the business is carried on by an individual in his own name or with a trade name in which case he must sign clearly as the Sole Proprietor of the company. While entering into contract he has to give a declaration that he himself and no other person has any interest in the business as a partner or otherwise and that he has the Sole Proprietor is and will be liable for all dealings and obligations in the name of the business.

2. Joint Accounts:

Joint account means a bank account conducted in the names of two or more persons, who are neither partners or administrators, nor executors nor trustees. A banker while opening such an account should obtain a clear and specific authority from the joint holders in regard to overdraw the account, while taking an advance or charging a security by one or more of them.

3. Husband and Wife:

When husband and wife are joint account holders and if an advance is made jointly to them the bank must ask for their joint and several liabilities. If shares and securities are lodged in
the joint account of husband and wife, then question may arise in the event of husband's death as to whom these should be delivered.

4. Joint Hindu Families:

A prudent banker should not favour advance to joint Hindu family concerns on accounts of names of legal implications and complications. In the law, the Karta has an implied authority to borrow money, execute documents and pledge securities on behalf of the joint Hindu family business.

5. Agents:

An agent is a person employed to do any act for another or to represent another for dealings with third persons. The person for whom the agent is employed or the person who is so represented through the agent is called the principal, when an agent borrows on behalf of the principal, the banker insist for a power of attorney or a proper authority in favour of the agent. An agent must be major, of sound mind, capable to contract and to be responsible to his principal.

6. Local Authorities:

Statute of a local authority must have provision to borrow. It is also necessary to obtain a resolution passed by the Committee or Board of such body in accordance with its by-laws or constitution. The banker before making advances should ascertain its power to borrow and also the limitations of that power,
together with authorised forms of borrowing and security which could be offered and sanction of the government or competent authority, if necessary.

7. Clubs, Literary Societies, Schools etc. :

If not registered under any Act, clubs, literary societies, schools etc. have no legal entity to borrow and these bodies cannot be sued in court of law. Advance should be discouraged by banks to such institutions.

8. Non-trading Associations :

In considering an advance to non-trading associations, the banker should examine its Memorandum and Articles of Association. Particularly in borrowing powers and its exercising. A certified copy of a resolution for borrowing from the bank should be obtained. It is also advisable to insist upon a guarantor in addition to the charge on the assets of the association.

9. Trust Accounts :

Trustees have no individual powers. They are required to act together and cannot delegate their authority to any other person or to one of the trustees unless provided in the Trust Deed. They do not have any implied powers to borrow against the trust property unless specifically authorised to do so by the Trust Deed. Without any express powers, they cannot pledge or change the trust property. Trust Deed should be carefully examined to know, if such an advance is permissible.
3.6 Factors Influencing Loan Policy in a Bank:

The important factors which go into the determination of the loan policies of a bank are:

1. Capital position
2. Deposit variability
3. State of local and national economy
4. Monetary policy
5. Ability and experience of loan officers
6. Competitive position
7. Credit needs of the area served

1. Capital Position:

The capital position of the bank is probably the most important factor influencing its loan policy. As observed earlier, capital provides the cushion which absorbs the losses that may occur. It serves as a protective factor against losses for depositors and guarantees funds for the creditors. A bank with a strong capital position can assume more credit risks than one with a weak capital position. Accordingly, the former can follow a liberal lending policy and provide different types of loans, including long-term loans promising higher interest rates, which the latter cannot do because of the greater risk involved.

2. Deposit variability:

Banks that have experienced erratic movements in their deposits will have to follow a conservative lending policy. They cannot afford to incur undue risks by extending their term
lending facilities. A similar policy should also be followed when banks are faced with declining deposits. In a refreshing contrast with this, a liberal lending policy can be pursued by banks whose deposits show little or no functions, and which can easily predict the functions in deposits and loan demands, and make a provision for them in their secondary reserve. Banks whose deposits have shown a rising tendency in the past, and which expect the rising trend to persist in future, can also be liberal in their loan policy.

3. State of local and national economy:

In formulating the lending policy, the banker should keep in mind the economic conditions that prevail in the region served by the bank. A bank operating in an area which is subject to seasonal and cyclical fluctuations can ill afford to adopt a liberal policy because that would entail the hazards of illiquidity. But in a stable economy, where the possibility of fluctuations in the level of deposits and loan demands is limited, the banker may follow a liberal loan policy. Consideration should also be given to national economy. If the economic conditions of the country are expected to improve, and the level of business activity is likely to increase, banks may liberalise their lending policies and accommodate those borrowers who were hitherto refuse banking facilities because of a stiff credit policy. If the economy is likely to recede in the future, the banker must revise the existing policy and design a new one with stiffer terms and conditions of lending. So that only
borrowers of a very high credit character are eligible for bank accommodation.

4. Monetary policy:

The variation in the minimum reserve requirement and the net liquidity ratio influences the lending policy of banks. For example, by reducing the proportion of the minimum cash reserve, and by reducing the net liquidity ratio, the bank would get additional funds which can be utilised in making further advances. If the cash reserve ratio and the net liquidity ratio are increased, lending ability of the banks would be somewhat restricted.

5. Ability and experience of loan officers:

The loan officers of a bank play a significant role in the execution of its loan policies. The Board should, therefore, consider the skill and competence of its loan officers while laying down a loan policy. When a bank is staffed by a larger number of credit officers having expertise, knowledge and rich experience in diverse forms of loans, the banker can afford to provide different types of lending facilities, and formulate his policy accordingly. But this cannot be done by banks whose credit officers are competent to deal with only certain types of loans. This is why smaller banks have restricted their lending business to short-term loans. Most of these banks have abstained from consumer lending and term lending to business enterprises because they are ill equipped with skilled personnel.
6. Competitive Position:

In formulating a loan policy, the management should give consideration to the competitive position of the bank. Where a bank finds that strong competing institutions exist, say, in the field of term lending and, the management feels that it cannot afford to provide loans on the terms that are offered by the other existing institutions, it might follow a policy of refraining from entering the sphere of term loans.

7. Credit needs of the area served:

The credit needs of the area served by the bank would also influence its loan policy. A bank is supposed to meet the loan demand of all the local borrowers, who present logical and economically sound loan requests the grant of which is not contrary to prudent banking practices. If this cannot be done, there will be little justification for an institution to exist in the region. For example, in an economy predominantly dependent on business, the bank must tailor its loan policy to meet the seasonal loan demands of the businessmen.

3.7 Forms of Advances:

Bank credit may be classified in variety of ways, according to security, maturity, methods of repayment and purpose. Advances are generally reflected in such forms as: cash credits, overdrafts, loans, and discounting of bills. These are explained in detail in the paragraphs to follow.
1. Cash credits:

The detailed discussion of cash credits is presented hereunder:

Cash credit is the system of providing financial accommodation by the bank to its customers under their current account where in the limits of financial assistance are fixed according to the maximum requirements of the borrowers and actual withdrawals are allowed from time to time related of course to the security deposited.

It is the universally accepted method for dispensing credit. From the point of view of the lender as well as the borrower, cash credit advances are more suitable than loans. The lender is able to keep a watch on the transactions of the borrowers from day-to-day. From the point of view of the borrower, there is considerable amount of savings in interest paid as the borrower is able to draw and repay amount any number of times. The cash credit are generally sanctioned for a period of one year.

The cash credit accommodation can be provided by UCBs under (i) clean cash credit, (ii) hypothecation cash credit, and (iii) pledge cash credit, which are summarised below:

Clean Cash Credit:

Clean cash credit are normally sanctioned against the general assets of the society without any tangible security. The amount of limit sanctioned under this loan is generally very small. It is to the extent of the owned funds of the bank.
Hypothecation cash credit:

Hypothecation cash credit is generally granted against stocks in trade or goods belonging to the borrowers. The goods/stocks remain in the custody of the borrower. Generally, the stocks are valued at cost price or market price whichever is lower. The borrower has to take out necessary insurance for the full value of the stocks in the joint names of the bank and the borrower and the stocks are required to be stored properly either in factory, godown or in the shop as the case may be.

Pledge Cash Credit:

In the case of pledge advances the custody of the stocks remains with the lender and not with the borrower, as is case of hypothecation advances. The bank has to take effective custody of the goods, i.e. the bank has to appoint godown-keeper to take custody of stocks that are to be pledged to it. The insurance of stock is necessary to cover the risk arising out of fire, theft, burglary etc.

Procedure:

The UCBs provide for three types of cash credit: (i) clean cash credit, (ii) hypothecation cash credit, and (iii) pledge cash credit.

To obtain the clean cash credit, the following procedure as laid down by UCBs is required to be followed by individuals firms or by corporate bodies:
1. Submission of an application by the purposed borrower in the form prescribed by the bank, giving such details as:
(a) the applicant's details about his membership and roll number;
(b) amount of cash credit, the duration for which required and the details of securities offered;
(c) details of immovable properties, buildings etc. held by the applicant in the town under the area of operation of the bank, giving approximate cost of the assets, city survey and municipal numbers thereof;
(d) the purpose for which the cash credit is needed; and
(e) details of the proposed two surities with particulars of their professions, service/business, addresses and monthly incomes.

2. Execution of an affidavit by the proposed borrower, covering such details as:
(a) applicant's profession/business;
(b) period of his doing the said business/profession;
(c) amount invested by him in the business;
(d) period of his living in the town;
(e) monthly income;
(f) whether he is a member in any other co-operative credit societies/banks, and if yes, particulars of that institution or corporate body;
(g) information regarding advances drawn by the applicant from any other co-operative credit societies/banks;
(h) with whom his money transactions are going on at present;
(i) whether he is a debtor? If yes, for how much amount and to whom;
(j) profession of his surety;
and (k) monthly income of surety.

3. Furnishing of two surities.

4. Presenting statement containing the description of the applicant's property as also the properties of his surities.

5. Presentation of the receipts of payments of municipal taxes on the properties of the applicant and his sureties.

6. Giving details, if any of transactions of credits and debits with the bank through current/savings/cash credit accounts.

On the receipt of the application for clean cash credit on the above lines consisting of all embracing and full fledged details and information. The loan officer assisted by field staff will assess the genuineness of the cause and repaying capacity of the proposed borrower and with full comments, submit his report to the Manager. The Manager in turn, will screen the factual data and will, if found genuine, present the case with his comments and recommendations, if any, to the Board of Directors who will take decision in their periodical meeting and grant sanction for the proposed cash credit after due deliberations on the issue. The Board of Directors may curtail the amount of limit of grant of cash credit, if so desired.

To obtain pledge cash credit, the following procedure has been laid down by the bank:
1. Application has to be made on printed prescribed forms to the President of the bank furnishing therein the following main points:

(a) Details of membership, Roll No. etc., if the applicant is already a member.

(b) If application for membership is done, the date of such application.

(c) The amount and the period of pledge cash credit requisitioned.

(d) Details with approximate cost of immovable properties held by the proposed borrower, certifying that such properties are neither attached nor mortgaged under any other previous financial commitments and that the titles thereof are clear, giving approximate cost of such immovable properties.

(e) Survey No., Census No. and City Survey No. and municipal no. of such property.

(f) In addition, two sureties with their names, profession, monthly incomes and place of business/service are to be offered.

(g) In the like way as is described earlier in case of procedures for furnishing details in connection
with "clean cash credit", here also, parallel and similar details as regards borrower and both the sureties are required to be furnished in the application.

2. Execution of a promissary note affirming that when even demanded by the bank the specified amount will be repaid to the bank or to the party assigned by the bank, by the borrower jointly and severally at the specified rate of interest - in keeping with the term of agreement - with the interest accruing at the interval of every six months.

3. Execution of an agreement pertaining to pledge cash credit by the proposed borrower.

Subsequent to the receipt of detailed application, after due survey and test - check by field-cum-technical staff and loan officer, the papers with full comments of prevalent positions and capacity of the proposed borrower for repayment go to the Manager who after due scrutiny will recommend the case for full or partial grant or for rejecting the request. The Board of Directors, after full study and discussions will suitably deal with the proposal.

ii) Over draft :
Concept :

In case when a client-member is in need of a temporary financial accommodation, the bank may allow him to overdraw his current account, normally against collateral securities. Just in
keeping with the cash credit advances, this is also advantageous to the borrower because interest is to be paid under this scheme also on the amount actually used and for the period used by him.

The customer, although permitted by the banker to draw more than what stands to his credit, in other words availing the facility of overdraft as and when required, is expected when feasible to repay it by means of deposits in his account.

The marked difference between a cash credit and overdraft is that the overdraft is, but a form of bank credit which could be availed of occasionally, whereas in the case of credit, its salient features provide its usage for long-term especially by those transacting regularly in the commercial and industrial sectors.

A large proportion of such advances are found in UCBs having huge number of trader-members.

Rules:

The rules regarding overdrafts as framed by the bank are as under:

1. The rules govern 'overdraft' given to members of the bank on deposit accounts, such as current account, savings bank account, special savings bank account and on fixed deposit accounts.

2. These overdraft rules are applicable to such members as are living or serving or doing business within the area of the bank.
iii) The borrower and his sureties have to execute such bank's documents as agreement, promissory note, letter of continuing guarantee bond, acknowledgement of advanced sum, surety bonds, etc. in favour of the bank as may be required by it.

iv) The member offering suretiship shall not bear any overdues in the bank, i.e. shall not be a defaulter.

v) If there are any overdues in the name of either the borrower or the surety, the same will have to be prepaid before commencing such overdraft account.

vi) The tenure of overdraft will not be limited for more than one year.

vii) The application for extension of 'overdraft limit' will have to be made three months in advance of the date of its actual expiry.

viii) Bank, without giving notice, will stop any account at any time of any individual or firm.

ix) The actual payment of such current account can be withheld by the bank.

x) If bank's dues are outstanding and if a cheque for encashment for drawal from a current account is presented to the bank, the bank will first, exercise full deduction of its dues from the said account and will pay from the balance
the remaining on the said account, money if sufficiently left over in account to meet with the amount requisitioned to be withdrawn by the cheque otherwise, will return the cheque unpaid in which case neither the firm nor firm's partner/s will be able to raise any dispute.

xi) Bank may make any additions and alterations as the same may deem fit in the 'Approved List'.

xii) The service charge for services rendered by the bank will be received at every six months from such accounts.

xiii) The mature insurance policy may be endorsed in favour of the bank.

xiv) Overdraft facility can be closed by the bank at any time.

xv) A firm or individual who has extended the overdraft facility will have to execute all his banking transactions through this bank only.

xvi) The bank reserves the right of additions, alterations or commissions of any clause of their rules whatsoever.

xvi) Firm or individual who has applied for overdraft facility should invariably furnish in writing full details of financial accommodation - advances, etc., if obtained from any other institutions.

Procedure:

To avail the facility of overdraft, the depositor-member has to undergo the following procedure:
(i) The member-depositor has to submit to the President of the bank an application, furnishing the amount upto which he is desirous of drawing: (a) clear overdrafts against his current, savings, special savings or fixed deposit accounts, or (b) pledge overdraft under the terms and conditions, more or less on the same or similar terms and conditions as prevalent for pledge cash credit.

(ii) The applicant has to declare the details of his immovable properties possessed with clear title of ownership in the area of operation of the bank, giving the approximate cost of such property with locations, areas, city survey no., municipal no., census no., etc.

(iii) Affirmation is also to be given by the proposed borrower that such property is neither attached nor mortgaged under any previous financial commitments with any other agencies.

(iv) Cause of availing this financial accommodation is also required to be furnished.

(v) Two sureties with details of their names, addresses, professions, monthly incomes and addresses or their service/business will be required to be furnished.

(vi) The applicant has to execute an agreement with the bank embodying the terms and conditions as determined by the bank.
(vii) The applicant has to execute a Promissary Note agreeing to promise and abide that whenever demand, he is required to pay to the bank, as to any one assigned by the bank, the sum borrowed at the rate of specified per cent of interest accruing at every six months, the outstanding amount along with the interests.

(viii) The sureties of the applicant have to execute on 'Overdraft Security Bond' in favour of the bank agreeing: (a) to stand as surety of the applicant for the security of the amount of the overdraft, and (b) abiding to pay whenever demanded by the bank the outstanding amounts, and if he fails in doing so, the bank is authorised to recover the amount from him and from all types of properties and assets held by him.

(ix) The applicant has to present a 'Letter of Continuing Security' to the bank.

On receipt of the application, along with the required documents, the Board of Directors take a decision on the recommendations made on the application by the bank Manager.

Concludingly, the subject of procedures as for availing facilities of clean cash credit, pledge cash credit, clean overdraft and pledge overdraft, the applicant has to process the application with severally enumerated details explained above, and submit to the bank along with Promissory Note, Security Bond,
Surety Bond etc., Manager details the Loan Officer and the field staff to investigate facts and offer assurance as regards capacity of the proposed borrower to repay the amount sanctioned with interest. The Manager after further scrutiny and recommendations submits the same to the Board of Directors, who after the considerations and discussions thereof sanction the advance, either fully or partly or rejects the same entirely as may be deemed fit. For the sanctioned advances, the agreements are executed and on fulfilment of the initial pre-requisites, the proposed borrower becomes entitled to turn over his transactions on the deed with the bank.

iii) LOANS:

Loans are one of the forms of bank advances. This form of advances is generally availed of by individuals and enterprises who need finance for a specified period of time. The UCBs are mini-commercial banks and their main activity is of advancing loans of varied scales to their members.

Concept:

Loan is a specified amount of money for a well-defined purpose sanctioned by an UCB to its members for a definite period. The latter may either draw the same in entirity in cash or deposit the amount back in the bank in his current or savings account, but in essence, the full amount of loan is thus largally granted and drawn by the member. He has to pay interest on the full amount from the date of drawal of the loan. As for repayment of the loan, the same may generally be done wholly at a time in
lump sum or in instruments if so permitted under the terms and conditions agreed upon earlier.

**Distinction between cash credit and loan:**

While there are a number of distinguishing points between a loan and a cash credit, mention may be made of an important one, namely, cash credit enjoys continuity, whereas loan is for a specified period. A loan when once repaid in full, or in part, cannot be drawn again by the borrower unless the banker sanctions a fresh loan again loan accounts are supposed to have lower operating cost than cash credits, because of a large number of operations in the case of the latter as compared to the former, and consequently, a lower rate of interest on loans appears to be justifiable than in the case of cash credits.

**Types of loan:**

On the basis of duration of loans, they are classified as:

(i) short-term loans, and (ii) medium-term loans.

The short-term loans are provided by the bank to their members/customers to meet with the working capital requirements. These short-term loans are granted for a period not exceeding one year. Middle class persons, salary earners, traders etc. are popularly availing of this type of loans for meeting consumption expenses. This type of loans are granted to the members against:

(i) personal securities of the borrowers, or (ii) certain collaterals like, gold and silver ornaments, government papers, fixed deposit receipts etc.
Medium-term loans provided by the banks are popularly reckoned as 'Termed Loans'. These loans are granted for the purposes of establishment, renovation, expansion and modernisation of industrial units, such loans being granted for a period ranging between two and five years.

Another point to be noted is that the period of repayment of such loans is longer, and the degree of risk involved in them is greater than that of the short-term loans. Further, the repayment of the medium term loans are expected to come out of the resultant increased earnings of the borrowing concerns. Thus, in the case of lendings in medium-term loans a closer and vigilant appraiser on the borrowing concern is required to be exercised.

The UCBs, however, provide both types of loans to their clientele, consistent with the restrictions laid down, from time to time, by the RBI.

The by-laws of the UCBs do prescribe the maximum limit upto which the loans may be granted by them. These limits are dependent upon the resources at the command of the UCBs. The Board of Directors, therefore, need to take due care to ensure that they strictly adhered to the set limits. The limits for short-term and medium-term loans, and secured and unsecured ones are different in each case.

PROCEDURE:

An intending borrower has to go through the new well-defined
and laid down formalities for securing a loan from an UCB. The following are the main stages involved in this process:

(i) Submission by the proposed borrower of an application in the prescribed form with full and correct data honestly filled in.

(ii) Investigation by the bank's field-cum-technical staff as regards genuineness and feasibility of the proposal contemplated by the proposed loanees.

(iii) Assessment by the bank's Loan Officer as regards the capacity of the proposed borrower to repay the loan within prescribed time limit and his submission thereof to the Bank Manager.

(iv) Scrutiny of the papers by the Bank Manager and his submission to the higher level.

(v) Recommendation and fixation of limit of credit by the Cash Credit Loan Committee.

(vi) Actual sanction by the Board of Directors.

(vii) Execution of: (a) a Promissory Note by the borrower; (b) the Bonds of two competent surities; and (c) the agreement in the case of pledged loans, hypothecation and mortgaged deals. In the case of hypothecation, as the charge does not remain with the bank, the inventory of movable articles, which will be a part of agreement will be verified from time to time. In the case of
mortgage, documents of clean title of the immovable properties duly endorsed by the borrower in favour of the bank will be required to be kept in the charge of the bank.

(viii) Sanctioning of Loans:

All applications for loans, either for short-term or for medium-term, are first scrutinised by the technical-cum-field staff who with their comments on all facts and facets and their opinion regarding capacity of the borrower for repayment are routed to the Manager through the Loan Officer. The Manager, in turn, studies the case and with his observations submits the file for final decision to the Board of Directors. In certain cases, however, the powers of sanctioning upto specified amounts are delegated by the Board of Directors to the Manager/Managing Director.

Most of the UCBs, in respect of grant of credits, set up the Credit Committee, out of the members of the Board of Directors, with some members co-opted from other ordinary members in order to facilitate the grant of credits. Where such credit committee will go into the details and fix the credit limit. The Board of Directors in turn while sanctioning the loan will take due cognisance of actions processed by the Credit Committee and limit fixed by the letter. Normally, in no case the Board goes beyond the limit fixed by the Credit Committee while sanctioning the loans, it is besides, needless to say that the Board does definitely enjoy the powers to reduce the limit decided by the Credit Committee.
ix) Disbursement of loan sanctioned:

Before the disbursement of loan is made to the borrower, the bank authorities, will ensure that:

1. All the documents are fully executed as per extant rules and surrendered in the charge of the bank,
2. Pledged goods are surrendered to the bank,
3. Additional shares are purchased by the borrowers (or share margin deposit is deposited by the banker).
4. Verification is done of hypothecated movable articles.
5. Agreements are largely executed in case of pledged, hypothecated and mortgaged loans; and
6. All the items as per procedures are fully compiled with the borrower.

iv) BILLS DISCOUNTING:

Purchase and discounting of bills differs from the collection of the bills. In case of purchase of bills, an UCB credits the amount of the bill to the drawer's account before the realisation of bill, i.e. it lends its funds instantaneously to the drawer. In the balance-sheet of the bank, the bills purchased and discounted are reflected as part of loans and advances.*

In both the cases of purchase and discounting of bills, an UCB will credit the customer's account with the amount of the
bill after deducting prescribed charges or discount. As regards the demand bills, the same are repayable on demand as there is no term of maturity, thus the UCB draws the payment immediately on presentation to the drawee. Thus, the demand bill, in effect, is known as the purchase of the bill. Regarding usance bills maturing after a period of time, the UCB has put to retain the bill for that period and realise the amount of the bill from the drawee on its due date. This is termed discounting of the bills. In fact, the 'discount' charged by the bank is at a higher rate than the charge made in case of purchase of bills. The discount includes the expenses incurred in realisation, the interest on the bill is dishonoured on the due date the amount due on the bill together with the interest and other charges is debited to the drawer's account.

The facility of discounting of bill is extended to members only. No such facility is granted to non-members by any UCB.

PROCEDURE:

A member desirous of taking advantage of discounting facilities given by the bank, shall have to apply on a printed form for the grant of a credit under this Scheme furnishing all the information as contained in the form. The same shall then be placed before the Board with recommendations from the Manager and the President for the purpose of final decision. This decision will then be communicated to the party/parties who shall then execute an agreement in favour of the bank. The party/parties then can present the bills to the bank and the same will be discounted across the counter like a cheque.
This is such a business activity in which UCBs hesitate to enter, as this is considered to be highly risky operation in lending. Complete financial knowledge about the parties discounting the bills will have to have with a banker before granting any discounting facility to a customer. This is a challenging proposition even for the well-established commercial banks. Therefore, many UCBs in smaller urban areas refrain from undertaking this activity.

3.8 Precautions in case of advances against various types of securities:

There are various types of securities which are used for taking loans. For example:

1. Government and other trustee securities;
2. Shares and Debentures;
3. Fixed Deposits/Recurring Deposits
4. L.I.C. policies;
5. Pledge/Hypothecation of goods;
6. Government supply bills;
7. Warehouse Receipts;
8. Gold and Gold ornaments;
9. Land and Buildings;
10. Plant and Machinery;
11. Motor vehicles; and
12. Surety Loans.

When banks advance against above securities, banks must take some precautions regarding various types of securities. These are discussed below:
1. Advances against government and other Trustee Securities:

(a) Government and other Trustee securities should be accepted from the bank's constituents or from persons who are satisfactorily introduced to the bank. The securities pledged to the bank should be duly transfered or endorsed in the name of the bank. Endorsements on securities should be verified that they are regular and in order. Government Promissory Notes should stand enfaced for payment of interest at a place nearest to the bank/branch. If interest has remained uncollected for a long time, it should be normally viewed with suspicion. Government securities should be sent to the Public Debt Office of the RBI to ensure that they are in order.

(b) In cases where the securities stand in the names of third parties, i.e. other than the borrowers, a letter of guarantee may be obtained from the borrower regarding his good title to the securities and/or Letter of Renunciation by the registered holder of the securities. As regards securities in the names of minors, a declaration from the guardian that the advances is sought for the minor's benefit, should be obtained for keeping on record.

(c) The bank should periodically verify whether the margin retained was adequate by calculating the market value of the securities.

(d) Interest on the securities should be collected promptly and credited to the party's loan account. The bank should
maintain for the purpose a Diary of Due Dates for collection of interest.

(e) The necessary documents such as Demand Promissory Note, Letter of Pledge/Lien and Mandate to collect interest should be obtained. Stock certificates are not transferable by endorsements and they are not good security for advances unless they are transferred in the bank’s name.

UCBs can accept National Savings Certificates/Postal Time Deposits as security for advances.

2. Advances against Shares and Debentures:

(a) Generally, banks should make advances against the security of the shares of companies which are on the bank's approved list or such shares which are readily marketable and regularly quoted on the stock exchange and the companies should have declared dividend continuously for atleast a period of three years. Partly paid shares and shares of private limited companies should not be accepted. Banks should avoid concentration of risk in the shares of any one company.

(b) The share certificates should be genuine and should bear the common seal of the company, with certificate number and distinctive number of the shares. Share certificate should not have been reported as lost, stolen or forged. The bank should not accept torn and mutilated share certificates. Transfer endorsement on the share certificates must be authenticated and dated by the company concerned.
(c) In all cases, the bank should intimate its lieu on the shares with it to the companies concerned and confirmation thereof should be obtained from them.

(d) In case of advance over Rs.50,000 granted to an individual the shares should be got transferred in the name of the bank. While granting or before the renewal of the limit. Letter of authority to sell the securities in the event of default should be obtained from the borrower. In the event of default securities should be sold after giving due notice to the borrower.

(e) Debentures (in the form of stock securities) should be got transferred on the bank's name.

(f) Mandates from the borrower for collection of dividend/interest in respect of shares/debentures should be obtained. Dividends and interest should be collected promptly and credited to the party's loan account.

(g) The bank should review the market value of the securities periodically and revise the drawing power accordingly.

(h) In case of advances of Rs.1 lakh to a single party, suitable programme of recovery should be drawn up.

(i) The bank should obtain necessary documents such as Demand Promissory Note, Letter of Pledge/Lien, Mandate to Collect Dividends/Interest. When the securities are released such withdrawals should be recorded in the Security Ledger and
Security Register and notice of lien to the companies should be withdrawn and if the shares are registered in the bank's name, the same should be delivered with the transfer deed stamped or otherwise endorsed with the date on which such shares are returned.

3. Advances against Fixed Deposit Receipts/Recurring Deposits:

   (a) The Fixed Deposit Receipt should be in the name of the borrower and should be duly discharged by him. If third party's deposit receipts are accepted, the bank should get the receipts duly discharged by the third party and obtain letter signed by the third party authority the bank to grant advances against Fixed Deposit Receipt and authority to adjust the proceeds of Fixed Deposit Receipts on maturity towards liquidation of the advances. In case of Fixed Deposit on the name of minor's, a declaration that the advances is for the minor's benefit should be obtained from natural guardians mentioned in the receipt. If the deposits are in the joint names, the discharge from all the joint holders should be obtained on the deposit receipts on requisite revenue stamps and all the relative documents.

   (b) Margins as stipulated by the RBI from time to time in its directives should be maintained in the relative accounts.

   (c) The bank should obtain the necessary documents such as Demand Promissory Note, Letter of Continuity, Letter of Lien and set-off.
While making a loan to a depositor against his Fixed Deposit, banks usually obtain the discharge (undated) of the depositor on the Fixed Deposit Receipt itself and in addition take a letter from him to the effect that the discharged Fixed Deposit Receipt has been kept with the bank as security for the loan advances and that the proceeds of the deposit on maturity can be adjusted towards outstanding balance of the loan, if any. Instead of above practice, a few banks get the Fixed Deposit Receipt assigned in its favour by making the depositor execute a form of assignment on the reserve of the Fixed Deposit Receipt. In such case, the banks may also get a letter from the depositor to the effect that the Fixed Deposit Receipt for the loan advanced and that the proceeds of the deposit on maturity can be adjusted towards outstanding balance, if any.

4. Advances against Life Insurance Policies:

(a) Advances against Life Insurance Policies should generally be granted by way of demand loans and the life insurance policies offered as security must be at least three years old. The banks should normally prefer endorsement policies participating in profits and advances against whole life policies should not be granted without the prior sanction of the Head Office.

(b) The bank should verify from the Life Insurance Corporation of India that no prior assignment existed at the time of granting advances and that an absolute assignment in the
bank's favour has been made by all the parties benefiting under the policies and the assignment has been duly registered with it.

(c) The bank should ascertain the surrender value of the policies including cash bonuses, if any, and keep a margin of 5 to 10 per cent on the surrender value while making advance against the life policy.

(d) It should be ensured that the policies accepted as security are assignable and not issued prior to 1st July, 1939 as to which the provision of the Married Oman's Property Act 1874 are applicable.

(e) If the policies offered as security are in the name of a person other than the borrower, the bank should ensure that the borrower had an insurable interest in the life of the assured.

(f) The age of the policy holder should have been admitted either on the policy or by a separate letter of the Life Insurance Corporation and the bank should ensure that the policy is in force on the date of granting the advance. The last premium receipt or a letter from the LIC should be obtained. The instructions also apply in general terms of life insurance policies by the Posts and Telegraph Department, reference to the LIC of India being construed as referring to the Post Master General concerned.

(g) The bank should obtain periodically the latest premium receipts to verify that the policies are kept alive.
All life insurance policies held as security for advances must be recorded in the securities register and retained in the strong room.

(h) The bank should obtain the following documents:

(i) Take delivery letter;
(ii) Deed of assignment (unless the assignment was recorded on the policy itself);
(iii) Notice of assignment; and
(iv) Notice of Mandate authorising payment of premium by debit to the borrower's account.

5. Advances against Pledge/Hypothecation of Goods:

I. Pledge:

A. Lodgement of goods:

(a) The bank should prepare a list of goods against which advances can be made. It should ensure that the goods are readily marketable.

(b) The bank should ensure that the goods accepted as security belong to the borrower by verifying the borrower's declaration with his title/original invoices of goods. Goods which are not the sole property of the borrowers should not be accepted as security.

When advances are made against commodities such as cotton or kapas stored in open compounds or godown of ginning pressing and other processing factories, a letter of undertaking should be obtained from such factories that they have no charge
or lien over the goods and that they undertake to hold the goods at the disposal of the bank free from any future dues whatsoever owing to them by the borrowers.

(c) The goods should be stored/stocked properly to facilitate easy verification of their quality and quantity. When part releases are made it should be such that stocking is not disturbed in such a manner as to render checking of the remaining stock difficult.

B. Suitability of Godowns/Precautions:

(a) The godowns should be suitable for the commodities stored and their construction should be in a good condition. They should be first class godowns, pucca built with secure leak proof roof and strong doors. The location of the godowns should be in areas where they would be reasonably secure against theft and burglary.

(b) The doors of godowns should be locked by well-known manufacturer's locks. With the bank's name engraved on them. When a godown key is lost, the pad lock should be immediately withdraw from use.

C. Rented Godown:

In the case of rented godowns, the bank should obtain a declaration from the owners of the godowns that they have no lien over the goods stored therein. The bank should ensured that the rents of the godowns are being paid to the landlords regularly. Under no circumstances, rent should be allowed to remain in areas for more than three months.
Advances should not be made against goods stored in godowns rented in the name of a person other than the borrower (the only exception is goods stored in Port Trust Warehouses).

D. Name Boards:

The bank's name boards should be prominently displayed, both outside and inside the godowns.

E. Godown Cards:

A godown card or register should be maintained in the godown with up-to-date details.

F. Movement of Goods:

The movement of goods should be watched by the bank and goods beyond the maximum period fixed for retention of different commodities should not be allowed to remain with it.

G. Insurance:

The goods pledged/hypothecated should be insured for their full value against fire risks and wherever necessary against burglary. The cost of insurance will be borne by the borrowers. The policy is taken out in the name of borrower alone, it should be assigned in favour of the bank by endorsement on the policy and the assignment registered with the insurance company. The bank should obtain the premium receipt as soon as the policy is effected.
H. Stock Statement:

The bank should ensure that stock statements called for by it are promptly received and these are checked.

I. Delivery of Goods:

Delivery of goods should be made against orders signed by authorised officials of the bank. Proper receipt should be obtained from the borrower on the reverse of the delivery orders and the delivery of the goods should be recorded in the bank's book. Priority should be accorded for the delivery of old stocks.

Delivery orders issued by the bank must be in the name of the borrower only. The practice of issuing instructions regarding deliveries to godown-keeper on the phone should be discouraged.

J. Inspection of Goods:

Stocks pledged to the bank must be inspected at least once a month at irregular intervals so as to be of a surprise nature. The periodical inspection is to ensure that the goods are not old, the goods are easily saleable, the goods are turned over frequently and the invoice value is not out of tune with the current market prices.

The inspecting officer should put his initial in the godown inspection register and in the stock statements.
K. Document to be obtained:
The bank should obtain the following documents:

(i) Demand Promissory Note;
(ii) Continuing Security Letter;
(iii) Pledge/Hypothecation Agreement; and
(iv) Letter of lien and set-off.

II. Hypothecation:

As both ownership and possession of goods under hypothecation arrangements remain with the borrower, the bank should be selective in granting hypothecation advances. In the matter of selection, the emphasis should be on the integrity of the applicant, his capability of running the venture on sound lines and adequacy of the bank's arrangements for supervision (including surprise checks) over the hypothecated goods. The facility may be given to borrowers who are genuine traders of long standing and undoubted integrity and not the customer with a speculative tendency.

All transactions of the borrower, especially the sale of goods hypothecated and the proceeds therefore, should pass through the advance account. The borrowers will be required to submit stock statements once a fortnight. The goods which are included in the stock statement should have been paid for by the borrowers. The bank should have a proper system of ensuring that the same stock have not been hypothecated by the borrowers to different banks for obtaining multiple finance.
6. Advances against Government Supply Bills:

These bills are drawn on government departments, public corporations, etc.; and should be treated as clean advances. Supply bills on government departments are not accompanied by documents of title such as railway receipts etc. These, therefore, do not fall under advances against documentary bills. The bank may have the right/claims to collect the bills, but these are no assets upon which it can lay its hands on the supplier obtaining the proceeds direct from the drawee on the drawee (government department, corporation etc.) applying the proceeds towards settlement of its own dues, if any.

Documents to be obtained:

(i) Demand Promissory Note.

(ii) An irrevocable power of attorney in favour of the bank which is to be registerd with the concerned drawee department.

(iii) A letter addressed by the borrowers to the drawee department advising the Power of Attorney in favour of the bank with a request to the drawee to pay the amount of the bill to the bank.

(iv) A letter from the borrowers to the bank undertaking to repay the amount paid to him directly by the drawee.

7. Advances against Warehouse Receipts:

Advances made by a bank against the pledge of a warehouse receipt to a holder in due course would stand or the same footing as an advance against pledge of a railway receipt or a bill of
lading or other document of title within the meaning of the Indian Sale of Goods Act. Advances may be made only against such warehouse receipts which are marked "negotiable". Warehouse receipt marked "not negotiable" should not be accepted as security

(a) Bank should confirm his lawful ownership to the goods and that they are free.

(b) The signature of the warehouseman on the receipt should be verified with his specimen signature on the bank's record. The warehouse receipt should be endorsed in the bank's name and the bank's lien on the goods intimate to the warehouseman.

(c) The goods covered by the receipts should be insured against the risk of loss by fire and if the warehouse itself did not insure the goods, the policies should be taken by the borrowers and assigned in favour of the bank.

(d) The bank should periodically verify the quality and quantity of the goods and ensure that there were no old stocks, that the rent, insurance premium and other charges were duly paid and that there were no dues to the warehouseman.

(e) The following documents should be obtained by the bank:
   (i) Demand Promissory Note;
   (ii) Pledge agreement;
(iii) Continuing Security Letter;
(iv) Letter of lien and set-off letter; and
(v) Ownership declaration.

8. Advances against Gold and Gold Ornaments:

(a) The banks should ensure that the gold/gold ornaments pledge to it are owned by the borrower. A declaration to this effect should be obtained.

(b) The ornaments should be appraised properly by an appraiser and got valued from him. The ornaments should be valued on the basis of the weight and fineness of their gold contents and a liberal allowance for extraneous matter such as wax, strings, fastenings etc. should be made and a sufficient margin over the market value of gold maintained. Adequate security should be obtained from the appraiser. If the ornaments are sent by the bank to the appraiser's shop, they should be sent through responsible member of the staff in a locked box, one key of which will remain with the appraiser and the other key with the bank. The risks involved in carrying the gold ornaments should be covered by suitable insurance.

(c) Steps should be taken when the accounts full overdue or when the interest remains in arrears for long.

9. Advances against land and buildings:

(a) The properties proposed to be mortgaged to the bank should be evaluated properly and the valuation reports should indicate the basis of valuation.
(b) The bank should obtain legal opinion from its legal adviser. The report of the legal adviser should contain the full name of the owner, description of the property proposed to be mortgaged, information on the nature of tenure, the validity of the title deeds as to whether the mortgager has a good and a marketable title to the property and is competent to create a mortgage and that all the connected title deeds have been obtained. The mortgage deed should be got registered with the appropriate authorities.

(c) In the case of advances against deposit of title deeds, a memorandum of deposit should be prepared by the bank.

(d) Before granting the advances, a second non-encumbrance certificate covering the period upto the date of execution of the mortgage deed should be obtained. After granting the advances, a third non-encumbrance certificate should be obtained which would reflect the bank's rights to the properties.

(e) The bank should get the mortgaged properties insured against fire and other risks. The insurance policies should be in the joint names of the borrower and the bank. If they are in the borrower's name only, the policy should have a bank clause. The policies should be kept in the bank's custody.

(f) The bank should obtain the necessary documents viz., demand promissory note, continuing security letter, mortgage deed, documents of title to the properties mortgaged and the non-encumbrance certificate.
10. Advances against Plant and Machinery:

In the cases where plant and machinery are embedded in the earth, the advances should be by way of mortgage of the property in which the plant and machinery are embedded. Otherwise, the advances can be way of a pledge or hypothecation.

(a) In case advances against existing plant and machinery, the bank should revalue the machinery on a satisfactory basis with adequate depreciation provided before arriving at the value. The bank should get a valuation report of the machinery. The prescribed margin should be maintained in the loan account.

(b) The assets charged to the bank should be insured for their full value and the policies should be taken in the joint names of the bank and the borrower. The policies should be kept in the bank's custody.

(c) The bank should periodically verify the security and review the valuation reports.

(d) A repayment schedule should be prepared by the bank and the loan instalments should be recovered promptly and regularly.

(e) The following documents should be obtained by the bank:

(i) Promissory Note;
(ii) Continuing security letter;
(iii) Document of title to the property;
(iv) Mortgaged deed or pledge/hypothecation agreement;
(v) Non-encumbrance certificate.
11. Advances against Motor vehicles:

(a) The advances should be confined to new vehicles and old vehicles which are not more than 5 years old. In the case of advances made against old vehicles, the bank should obtain an expert's valuation of the vehicles based on the running condition of the vehicles.

(b) The bank should obtain the original invoice for new vehicles.

(c) The margin retained should be adequate and the advances should not exceed the insurable value of the vehicle.

(d) The bank's lien over the vehicles should be registered with the Regional Transport authorities.

(e) The vehicles should be comprehensively insured and the policies assigned in favour of the bank.

(f) The bank should periodically verify/inspect the vehicles to ascertain that they are in a roadworthy condition.

(g) The following documents should be obtained by the bank:

(i) Demand promissory note;
(ii) Continuity security letter;
(iii) Letter on lien and set-off; and
(iv) Letter of guarantee.
12. Surety Loans:

(a) The borrowers and their sureties should be admitted as members of the bank.

(b) The bank may fix a limit as to the number of members as also the aggregate amount for which a person can stand as surety and see that the limit is not exceeded at any time. Normally, a person is allowed to stand as surety for other members for an aggregate sum not exceeding twice the individual maximum limit for surety loans provided in the by-laws.

(c) The monthly instalments should be fixed within the repaying capacity of the borrower. The repaying capacity may be worked out in relation to the salary/income of the borrower after due verification.

(d) In the case of salaried employees, the bank should take advantage of the provisions in the Co-operative Societies Act for getting the instalments deducted by the employer and remitted direct to the bank.

(e) In case of default by the borrowers, the bank should promptly notify the sureties and take necessary action for recovery of the dues.

(f) If consolidation of loan is permitted by the bank, the following points may be come in mind:

(i) There must be a specific provision in the by-laws to that effect.
(ii) The borrower should have repaid at least half the number of instalments of the earlier loan.

(iii) The bank should ascertain whether any instalment of the earlier loan was overdue and whether the borrower's repaying capacity was sufficient to cover the instalment of the consolidated loan.
REFERENCES

1. R. M. Srivastava, Management of Indian Financial Institutions, P. 183.


5. R. M. Srivastava, Management of Indian Financial Institutions, P. 189.


7. Ibid., P. 359.