CHAPTER - IV

PROCESS OF DISBURSEMENT AND RECOVERY OF LOANS

LOAN DISBURSEMENT PROCESS

According to sub-section 4(A) and 5(b) the Land Development Bank advances loans only to its members. The following persons are qualified for the membership of the bank:

(1) Individual farmers who are the owner of their land and have right to mortgage their land and who are not disqualified to contact by the law, lives within the jurisdiction of the bank and are solvent and below the age of eighteen years.

(2) Co-operative agricultural societies and primary co-operative loan societies approved by the registrar.

(3) Any incorporated body and some specified co-operative societies are also qualified for the general membership of the bank.

(4) And lastly other such types of illiterate persons, dumbs, who can understand the conditions of the mortgage bonds, can also be admitted for the membership of the bank.

PREPARATION OF LOAN APPLICATION FORM

Application for loans are required to be submitted to the primary land mortgage bank. A
A preliminary investigation is made by the bank's supervisor and if it is a fit case, the applicant is required to obtain an encumbrance certificate in respect of lands proposed to be mortgaged. All available documents of title relating to lands offered as security are required to be submitted with this application. The lands in question are then inspected by two members of the board of the primary bank deputed for the purpose. The members so deputed are enjoined to submit an accurate estimate of the value of the lands, his capacity and income from lands. Papers are then forwarded to the legal adviser for his opinion. The legal adviser has to satisfy himself about the applicant's rights to various items of property and the evidence on which such rights are based. He has also to make clear that there are no outstanding encumbrances on the hypotheca except those sought to be discharged.

**SUB REGISTRAR'S REPORT**

The whole record is than handed over to the co-operative Sub-Registrar, who after scrutiny submits a report containing the following particulars:

(i) Whether the security offered is adequate.

(ii) Whether the applicant has sufficient repaying capacity and income.
(iii) The basis on which the applicant has estimated the value and income from the land.

(iv) Whether the applicant has absolute title to the land.

(v) Whether he himself has inspected the lands, and satisfied himself about the purpose of the loan.

(vi) Whether any encumbrances still subsist on any of them. The directors and supervisors may carry out investigation jointly.

TRANSMISSION OF THE APPLICATION TO THE CENTRAL LAND DEVELOPMENT BANK AND SANCTION OF LOAN

The files of the cases which have been sanctioned by the primary land development bank are then forwarded to the central land development bank through the Deputy Registrar, Land Development Banks. The Deputy Registrar forwards the files to the central land development bank after his scrutiny is over. The Executive Committee of the central land development bank deals with cases of loans on their merit and it is open to it to reject cases which are not sanctioned with the reasons for refusal briefly noted. The decision of the Executive Committee is communicated to the primary land development bank. A specific further procedure is laid down in case of those loan applications that have been sanctioned and the loan files are
returned. The primary bank is required to obtain a further encumbrance certificate for the period between the date upto which it was obtained and the date of registration of the mortgage deed. The mortgage deeds taken from the borrowers are assigned to the central land development bank in the prescribed form. In the assignment deed the same system of repayment whether equal to equated instalment as adopted by the borrowers concerned in mentioned in the mortgage deeds. The assignment deeds together with mortgage deeds are then forwarded to the central land development bank. The primary bank is required to send a resolution of the Board authorising the President and Secretary to receive the amount of loan sanctioned. A Central Land Development Bank then sends a draft in favour of the Primary bank on the nearest Central Co-operative Bank nearly and/or close to the headquarters of the primary bank, the central land development bank forwards a draft obtained from the Reserve Bank of India on the Local Government Treasury. The primary bank then intimates to the borrowers of the loan having been sanctioned, so that they may request their creditors to be ready to receive their dues without delay. If the loan is taken for clearance of prior debts, the primary bank should arrange to make direct payment to the creditors and obtain from them vouchers duly discharged Primary banks are enjoined as far as possible to avoid
handling cash. The primary bank calls upon the creditors to go to its office and receive payment of their dues. A document under the Law of Registration is required to be registered within four months within the date of its execution. A mortgage created in favour of a third party before the mortgage to the bank but registered subsequent to the mortgage to the bank will not be disclosed in the subsequent encumbrances certificate. To protect the interest of the Primary bank, it should obtain a further encumbrance certificate to cover a period of four months after the registration of mortgage deed in favour of the land development bank. The discharge documents should be attached to the loan file and the file forwarded to the central land development bank with a certificate of disbursement by the Co-operative Sub-Registrar in the prescribed form. After receiving the papers the central land development bank deposits the land papers with the Trustee for Debenture-holders for safe custody. When a loan is completely repaid, the primary land development bank sends a certificate to that effect in the prescribed form together with a copy of the resolution of the board countersigned by the Sub-Registrar. The Trustee then releases the documents concerned to the members through central land development bank.
VALUATION OF LAND

The most important work in a primary land development bank relates to valuation of lands offered as security. Here, an elaborate procedure is laid down. The appraising officer has to bear in mind the following points:

(i) Lands offered as security have to be inspected and their condition ascertained by actual inspection on the spot. The result of the inspection should be noted in separate note-books maintained for the purpose, where the lands are distinct survey fields or subdivision may be noted and identified from the survey map. Sketches of lands inspected may be prepared and attested either by the land-holders of adjacent lands or by the village accountant or Karnam. The condition of the crops, if any, grown on the land, the proximity of the land to road or market or other favourable situation and any other point such as the existence of a well or proximity or distance from the irrigation source must also be noted in the note-books. This record forms the basis on which loans are granted.

(ii) The value of a piece of land is ascertained on any one or more of the following basis:-
(a) The price paid for the same land or a portion of it is pre-war years, after making all the necessary allowances for lapse of time, difference of situation and any other peculiar difference between the land sold and that offered as security. Enquiries should be made with a view to ascertaining whether the purchaser has paid any fancy price and whether there has been any rise or fall in the value of land in the neighbourhood, since the date of his purchase.

(b) The price paid for lands of similar description and quality in the vicinity in pre-war years after making proper allowance for lapse of time, advantage of situation etc. In considering such sales care should be taken to exclude all transactions in which the seller obtained a higher price than normal owing to the pressing need of the buyer for any reason. When considering the ease of neighbouring lands which have been sold, the transaction should be compared with the case of land to be mortgaged to see in what points they do or do not resemble each other. There may be trees,
wells or sheds or buildings, the value of which may have to be deducted and net price for the land sold ascertained for the purpose of assessing the value of land to be mortgaged.

(iii) The net annual income from the land may be capitalized at a certain number of years' purchase. The number of years will depend upon the nature of the land, the state of money market and other circumstances of the case.

(iv) The opinion of the members of the managing committee of the local credit society, if one exists, or of some disinterested respectable persons of the locality.

(v) Awards made by revenue or civil courts in case of acquisition of neighbouring lands.

(vi) Sale value of similarly situated property in the vicinity in court or revenue auction.

These are the criteria which determined the value of land in normal times. But after the world war II there has been an abnormal rise in the value of lands and the banks are enjoined to follow a safe and cautious policy in determining the amount of the loan to be advanced. The basis adopted is that the
hypotheca should be valued at not more than 25 percent above the pre-war values of lands.

In view of the complaints that were often made that the valuation of lands offered as security for the loan was low and that many deserving applicants were denied the assistance of land development banks, the central land development bank, Madras, appointed a sub-committee in 1950 to examine the basis of valuation and the method of valuation of the hypotheca. The recommendations of the sub-committee were later endorsed by a Conference of Land Development Banks during the same year. Government thereupon approved a revised basis of valuation which is at present in vogue. The valuation is made at not more than 25 percent above the pre-war price, provided the average so arrived at of the pre-war and the post-war value is not exceeded. In addition, the value of improvements made to the particular hypotheca is to be taken into account.

The formula of value of land in the present time is based upon the revenue of land holding, for the purpose of loan disbursement by land development bank valuation of land is to be made to find the loan repayment capacity of the borrower.

The valuation method of land at hill areas is different from the plain areas.
LOAN REPAYMENT CAPACITY

Under the instructions of Reserve Bank of India, the loan to the farmer is granted on the base of loan repayment capacity of the farmer. This capacity is drafted upon Land Development Bank-17 Form, the capacity of repaying the loan is deemed to be based upon the incremental income from the land after starting the project. The following points should be taken into consideration while computing the loan repayment capacity:

(a) Effective area of land after the completion of plan.

(b) Croping pattern of the farmer.

(c) Incremental income i.e. total income of the farmer after start of working of the plan.

Though valuation of lands would ensure ultimate repayment of loan, it is the correct assessment of the repaying capacity that can ensure punctual repayment of annual instalments fixed under the award. Though no rigid rules can be laid down for assessing the repaying capacity, the following considerations should weigh with the Land Valuation Officer in giving the estimates:
2(a) **Agricultural Income:**

(i) Permanent source of income from lands owned by the borrower should be taken into account.

(ii) Income derived from lands taken on lease may be taken only to the extent to which the agriculturist taking such land on lease would have derived an income by his manual labour elsewhere had he not taken such lands on lease and by hire of bullocks which would have been let for hire elsewhere, if not engaged in cultivating the lands in question.

(b) **Income from sources other than agriculture:**

   Income from subsidiary occupations such as carting on hire or sale of milk or other dairy produce or poultry produce can be taken as reliable provided the Land Valuation Officer is satisfied in all cases that such a source of income is likely to last at least for the period of the currency of the award.

(c) Income from service which confers no security of tenure and which exceeds the limits allowed under the act should not be regarded as a source of income for the purpose of repaying capacity.

(d) In cases where the repaying capacity is partly dependent on manual labour or income from other sources classed as non-agricultural, such income for assessing
repaying capacity should be taken with due caution as there is no fixity of account of such income during the period of the instalments.

3. **Net Annual Income:**

   The net annual income of the debtor shall mean the balance of his annual income after deducting such sum as is necessary for the maintenance of the debtor and his dependents and the sum due from the debtor to repay his debts due to Government and local authorities and to pay off the loan borrowed for the purpose of financing of crops.

**RECOVERY OF LOANS AND ADVANCES**

   The loans advanced by Land Development Banks are made repayable in annuities fixed at the time of the grant of loans. This annuity of equated payment consists of interest and principal, the contribution to the farmer decreasing and the latter increasing as the loan goes not being repaid. Thus the borrowers are enable to liquidate their loans in instalments payable over a number of years. The Land Development Banks cannot call in their loans even if the rates of interest go up except in the event of defaults, or deterioration or fall in the value of security or in the event of failure on the part of borrower to make good the deficit in the margin. Still, however, the
Land Development Banks offer their borrowers the facilities to make advance payments in order to enable them to repay their debts as early as possible. Borrowers are also persuaded to repay their instalments in amounts which are in excess of the instalments fixed, so that the surplus may be retained to the credit of the borrowers in saving bank account or fixed deposits to be utilised towards repayment in years when the borrowers are not in a position to repay the usual amount of instalments due to causes beyond their control such as the failure of crops, drought, flood etc. The interest on such special savings accounts may be paid at the loan rate or at a slightly lower rate.

SPECIAL POWERS OF RECOVERY OF LOANS

It is normal to find that Land Development Banks are, in all countries, given special powers for recovery of their loans in the case of default. They are also given powers to sell the hypothecation without recourse to court in case of default. They have been further empowered to institute receivership proceedings without petitioning the court. In India also most of these powers are enjoyed by the Land Development Banks. Unless proper measures are taken for recovering defaulted amounts, the entire system of Land Development Banking will be paralysed and ruined.
RECOVERY PROCESS OF LOANS ADVANCED

The loans advanced by Land Development Banks are made repayable in annuities fixed at the time of grant of loans. This annuity of equated payment consists of interest and principal. The process of the recovery of loans advanced by Uttar Pradesh State Co-operative Land Development Bank can be explained in the following way:

(1) There were the standing orders by the bank that the due dates for recovery of loans will be 1st June and 15th December every year. But now due dates are changed to 1st October and 1st April from September, 1974. The date on which first instalment becomes due, on the same date in next year the second instalment will fall due.

(2) The each borrower will have only one account in the bank, though the loan might have been advanced to him in a number of dates, but the instalments are annual for recovery and the demand is made on a single date.

(3) When the loan is disbursed in many dates then after the period of eighteen months after the last date of loan disbursement, the first instalment of the total loan is fixed on 1st October or 1st April, which is earlier. The
first instalment includes the interest upon total loan between the dates of first instalment due date and last date of loan disbursement, but in case of pumpset, the first instalment is charged after twelve months in place of eighteen months.

(4) Separate accounts are opened for instalments falling due in April and October.

(5) After the full recovery of the granted loan to any member, recovery table is immediately prepared, in which the computed amount of all instalments including principal and interest, is posted in the loan ledger account of the borrower. The loan ledger account should be signed by the both the person preparing recovery table and its checker.

(6) It is also emphasized that the details of recovery table should be posted in the pass book of the member.

(7) The first instalment is charged after the expiry of eighteen months, from the last date of the loan disbursement. In many cases recovery is started after two years. So the instalments are fixed on the basis of the total borrowing period
minus one. For example if loan for pumpset is advanced for a period of 9 years, then the total instalments for recovery of total loan will be divided in eight only.

(8) While preparing the recovery table, the rate of interest, period of loan and period of loan repayed should be kept in mind.

(9) In the case of loan disbursement on any date of a month, the whole month will be taken for the calculation of interest.

(10) In the first instalment, the interest is charged from the date of loan disbursement and due date of recovery, so the first instalment includes the interest and remaining other instalments includes principal and interest.

(11) The adjustment of state grants and repayment in advance in the instalments:
Generally the loan is disbursed to the farmer in two or three instalments. As per the instructions of Government of India the last instalment of loan should be disbursed after the adjustment of grant received and instalments should be charged only on the real amount of loan disbursed to the farmer. But in practice, the whole amount of grant is recovered after the disbursement of loan. So the regular instalments
are charged on the basis of total loan granted minus grants received from the Government.

12. **Adjustment of Sundries:**

In the case of when a farmer deposits the loan instalments before its due date, then counter interest is paid for this period, at the rate of the interest of loan. The adjustment of cultivator's share can be made, if desired by him in the last instalment of loan.

13. **Rebate in interest:**

In case of repayment of loan instalments of the year being made within one month of its due date, a rebate of $\frac{1}{2}$ percent on outstanding principal amounts is given for a period of twelve months.

Rebate in interest is also provided if instalment is paid in advance. If current instalment is deposited in advance by the borrower, a counter interest is also given to him. But rebate is provided on current instalments only, not on the overdue instalments.

14. **Recovery of General and Penal Interest:**

If any borrower does not deposit the instalment within 60 days from its due date, a penal interest at the rate of two percent on
(Principal+interest) instalment is charged. Penal interest is extra interest to be charged from the borrower for the period of its due date and actual date of its deposit.

**Recovery Notices:**

15. Each borrower is informed fifteen days earlier before the due date of instalment.

16. After 30th June every year a demand register for dues is maintained farmer-wise. Afterwards legal actions are taken for the recovery of dues.

17. The statement of recovery is maintained on the Proforma Land Development Bank-82, every month, at the branch level.

**Pass Book:**

18. Each borrower is provided a pass-book free of cost at the time of disbursement of loan to the member, which will contain the certified photograph of borrower and particulars of purchased engine, borrowed money and the instalments. This facility is available for the both new and old member. If, for any reason, a farmer seeks to get the pass-book once again, he has to pay Rupees two.
Necessary action for the recovery of Dues:

19. The instalments fall due on 1st April or 1st October every year. If a farmer does not deposit the instalment on due date even being noticed fifteen days earlier, he is again informed by a notice with registered post to deposit the amount.

Legal actions for the Recovery:

20. If any member fails to pay his instalment on due date, the amount is considered due and legal actions against such borrower can be taken under the following provisions:

(a) By Auction under the section 24 to section 43 of Uttar Pradesh Co-operative Land Development Bank Act.

(b) By issuing warrant and kurki, under the section 95(a) of the act.

(c) By salsi action under the act.

Under the section 23 and 24 the following persons are authorised for taking legal action:

(i) Branch Manager, or
(ii) Additional Branch Manager, or
(iii) Internal Auditor, or
(iv) Field Officer
The employees performing better in recovery work are rewarded. The standards are fixed for every year separately.

CONCLUSION:

The recovery of loan is equally important as to the job of loan disbursement. In addition of being non-recovery of loans, the loan disbursement capacity of the bank reduces. This why the bank has been remained fully conscious and attentive in recovery of the loans.

the data shows that there has been an additional recovery of ₹. 4.06 crores in the year 1994-95 as compared to the amount of recovery in 1993-94 in Uttar Pradesh State Co-operative Land Development Bank. The bank also provides various concessions to the farmer, if dues are paid within or before the time. The bank also imposes penal interest and other measures against the borrowers, who fail to pay the dues within the period of 30 days from the date instalment falling due. This shows the disbursement of loan and recovery process is very systematic and calculated.