

LENDING AND RECOVERY OPERATIONS OF MAYILADUTHURAI CO-OPERATIVE URBAN BANK – A STUDY WITH REFERENCE TO MAYILADUTHURAI

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Abstract

Lending loan to the borrowers is play a vital role in urban cooperative banking sector to survival of banking sector. Recovery of loan is also a difficult task made by the bank to this customers. In this paper examine the measures to regulate the lending and suggest measures for recovery Mayiladuthurai Urban Co-operative Bank.

Introduction

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, workplace groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably. Urban cooperative banks were set up with the objective of promoting sustainable banking practices amongst a relatively specific target clientele viz., the middle income strata of the urban population. They were brought under the regulatory ambit of the Reserve bank by extending certain provisions of the banking regulation act, 1949, effective from March 1, 1966.

Scope of the Study

Co-operative Urban Banks are not the competition for commercial banks and they supplement only certain services rendered by the commercial banks. Co-operative urban bank provides loans to the urban people, to satisfy their personal needs and requirements. Hence, an attempt has been made to analyse the lending operations and recovery performance of the Mayiladuthurai Co-operative Urban Bank Limited, Mayiladuthurai (MCUB).

Objectives of the Study

The following are the objectives of the study:

- To analyse the lending operations of the MCUB.

- To examine the recovery performance of the MCUB.
- To offer suitable findings and suggestions.

Methodology

The study is based on secondary data. The secondary data were collected from the Annual Reports, Office Records and Registers of the MCUB. The study period is confined to a period of five years from 2009-2010 to 2013-2014.

Lending Operation of the MCUB

Lending of funds constitutes the main business of Urban banks. The resources of urban Banks are mostly invested in the form of loans and advances. The lending policy of Urban Bank is laid down in the bye-laws of the bank. The MCUB provides three different types of loans. They are: 1. Short-term loan; 2. Medium-term loan and 3. Long-term loan.

Short – Term Loan

Short-term loan is usually granted for a period less than one year.

Table 1 – Total Short Term Loan

Year	2009-10 Rs.	2010-11 Rs.	2011-12 Rs.	2012-13 Rs.	2013-14 Rs.
Cash Credit Loan	69,07,782 (2.97%)	71,12,692 (2.98%)	85,22,251 (2.79%)	96,12,524 (3.07%)	1,11,13,603 (4.015)
Jewel Loan	22,05,11,150 (94.67%)	22,47,08,670 (94.17%)	29,24,67,470 (95.66%)	29,48,34,351 (94.245)	32,31,68,405 (96.30%)
Deposit Loan	35,34,250 (1.52%)	38,12,430 (1.59%)	41,22,580 (1.35%)	46,53,644 (1.49%)	52,61,513 (1.65%)
Staff Festival Advance	78,250 (0.03%)	87,500 (0.03%)	1,25,000 (0.04%)	1,26,000 (0.04%)	1,29,000 (0.08%)
Micro Credit to Women Members	2,07,552 (0.08%)	2,28,992 (0.09%)	1,86,543 (0.06%)	1,85,549 (0.06%)	1,81,350 (0.09%)
Self-Help Group Loan	16,96,562 (0.73%)	26,59,161 (1.11%)	2,98,374 (0.10%)	34,54,204 (1.10%)	38,60,305 (2.90%)
Total	23,29,35,546 (100%)	23,86,09,445 (100%)	30,57,22,218 (100%)	31,28,96,27 (100%)	34,37,14,181 (100%)

Source : Bank Records

The above Table No.19 shows the total short-term loan provided by the MCUB during the study period of five years from 2009-10 to 2013-14. The different short-term loan includes cash

credit loan, Jewel loan, Deposit loan, staff Festival Advance, Micro Credit to women Members and self-help group loan. Out of the total short-term loan, Jewel loan constitutes a major share every year during the study periods followed by the cash credit loan, Deposit loan, Self-Help group loan, Micro credit to women members and staff festival Advance.

Medium-Term Loan

The medium term loan is given for a period ranging from 12 months to 60 months for the purposes such as reclamation of land, building and other land improvement, purchases of livestock, machinery and sinking of wells.

Table 2 – Total Medium Term Loan

Types	2009-10 Rs.	2010-11 Rs.	2011-12 Rs.	2012-13 Rs.	2013-14 Rs.
House Mortgage Loan	2,51,26,909 (29.32%)	2,90,02,463 (32.46%)	3,78,91,031 (41.77%)	4,04,37,003 (44.29%)	5,02,48,008 (49.90%)
Deposit Loan	25,22,892 (2.94%)	28,45,036 (3.18%)	44,07,301 (4.79%)	56,12,559 (6.15%)	67,18,300 (7.81%)
Staff Loan	13,82,415 (1.61%)	32,72,573 (3.66%)	18,30,862 (1.99%)	47,42,908 (5.20%)	42,68,617 (4.71%)
Government Security Loan	41,43,879 (4.84%)	32,72,573 (3.66%)	29,47,932 (3.20%)	27,88,869 (30.55)	25,70,490 (2.89%)
Surety Loan	5,18,61,413 (60.53%)	5,00,03,707 (55.95%)	4,42,50,643 (48.08%)	3,70,81,525 (40.62%)	2,90,78,540 (3.97%)
Employee Provident Fund Loan	6,35,500 (0.74%)	9,58,425 (1.07%)	6,83,510 (0.74%)	5,90,300 (0.65%)	4,79,480 (0.34%)
Share Capital Loan to Members	11,524 (0.01%)	13,674 (0.25)	16,624 (0.3%)	43,668 (0.6%)	51,308 (0.8%)
Total	8,56,84,532 (100%)	8,93,68,451 (100%)	9,20,27,903 (100%)	9,12,96,832 (100%)	9,34,14,734 (100%)

Source: Bank Records

The above table reveals the total medium-term loan provided by the MCUB during the study period of five years from 2009- 2010 to 2013-2014.

The medium-term loan forms house mortgage loan, deposit loan, staff loan, government security loan, surety loan, employee provident fund loan and share capital loan to members. Out of the total medium-term loan, surety loan advanced by the bank, constitutes a major share every year during the study periods followed by the house mortgage loan, government security loan, deposit

loan, staff loan, employee provident fund loan and share capital loan to members.

Long-Term Loan

The MCUB grants long term loan only for building houses against the mortgage of such property.

Table 3 – Total Long Term Loan

Types	2009-10 Rs.	2010-11 Rs.	2011-12 Rs.	2012-13 Rs.	2013-14 Rs.
Housing Loan to Staff	44,01,856 (44.145)	35,63,056 (25.685)	30,78,115 (25.68%)	32, 53,115 (14.855)	33,60,716 (66.655)
Housing Loan to Members	55,69,907 (55.86)	1,03,07,014 (74.325)	1,60,13,531 (74.32%)	1,86,51,031 (85.155)	1,90,40,531 (40.31%)
Total	90,71,763 (100%)	1,38,70,070 (100%)	1,9,91,646 (100%)	2,19,04,146 (100%)	2,24,01,247 (100%)

Source: Bank Records

The above Table No.21 shows the total long-term loan provided by the MCUB to its staff and members during the study period of five years from 2009-10 to 2013-14. The table shows the decreasing trend of loan provided by the MCUB to its staff every year with an increasing trend of loan to its members every year except 2013-2014, when compared to the base year 2009-2010.

Recovery Performance of the MCUB

The recovery performance of the MCUB during the study periods 2008-09 to 2012-13 are presented below:

Table 4 – Short Term Loan Recovered by the MCUB

Year	Loan Outstanding Rs.	Recovered Rs.	Balance Over due Rs	% of Recovery	% of Over Due
2009-10	42,06,50,684	25,29,53,176	16,76,97,508	60.13	39.87
2010-11	57,84,88,823	33,70,02,747	24,14,86,076	58.25	41.75
2011-12	72,33,14,310	42,86,19,094	29,46,95,215	59.25	40.75
2012-13	80,10,17,370	43,96,33,787	36,13,45,992	54.88	45.72
2013-14	87,11,61,060	51,12,49,771	35,99,11,289	58.68	41.32

Source: Bank Records

The above Table No.31 shows the total short-term loan recovered by the MCUB during the study period from 2009-10 to 2013-14. It was inferred that the loan outstanding of the bank was

increased every year while comparing the base year. The recovery of loan was increased at an increasing rate. The overdue of loan was also increased when compared to the base year 2009-2010.

Table 5 – Medium Term Loan Recovered by the MCUB

Year	Loan Outstanding Rs.	Recovered Rs.	Balance Over Due Rs.	% of Recovery	% of Over Due
2009 -10	47,86,35,28	14,54,01,59	33,32,369	30.37	69.63
2010-11	53,12,049	17,64,888	35,47,161	33.22	67.61
2011-12	7,30,62,912	2,72,88,808	4,57,74,104	37.34	63.66
2012-13	7,01,78,925	2,09,83,509	4,91,95,416	29.90	70.10
2013-14	7,19,99,026	2,11,71,943	5,08,27,077	29.40	70.60

Source: Bank Records

It was inferred that the loan outstanding was increased when comparing the base year. The recovery of loan was increased for the study periods 2009-2010, 2010-2011 and 2011-2012 with a decreasing in the year 2012-2013 and 2013-2014. The overdue loan was increased at the increasing rate during 2009-2010, 2010-2011, 2011-2012, 2012-2013 and 2013-2014 when compared to the base year 2009-2010.

Table 6 – Long Term Loan Recovered by the MCUB

Year	Loan Outstanding Rs.	Recovered Rs.	Balance Over Due Rs.	% of Recovery	% of Over Due
2009-10	1,30,20,162	30,48,399	99,71,763	23.41	76.59
2010-11	1,59,01,263	20,31,193	1,38,70,070	12.77	87.23
2011-12	2,11,66,892	20,75,246	19,091,646	9.80	90.20
2012-13	2,19,04,146	25,61,783	1,93,42,363	11.69	88.31
2013-14	2,34,49,563	26,88,093	2,07,61,470	11.46	88.54

Source: Bank Records

The above table clearly indicates the percentage of recovery of loan shows a decreasing trend every year during the study period 2010-11, 2011-2012, 2012-2013 and 2013-2014, when compared to the base year 2009-2010. The overdue shows an increasing trend every year when compared to the base year 2009-2010.

Findings

- There has been an increase in the amount of short-term loan provided by the Bank during the study period of five years. Out of the total short-term loan, jewel loan constitutes a large proportion every year during the study periods, followed by the Deposit loan, cash credit loan, Micro Credit to women members, self—help group loan and staff festival advance.
- There has been an increasing trend in the medium-term loan disbursed by the MCUB during the study periods. Surety loan and House Mortgage loan provided by the sample Bank contributes major share of medium-term loan.
- Regarding long-term loan provided by the MCUB, housing loan to members shows an increasing trend and Housing loan to staff shows a decreasing trend during the study periods, when compared to the base year 2009-10.
- Regarding the Total loan disbursed by the MCUB, short-term loan represents a major share of total loan followed by the medium-term and long-term loan during the study period of five years from 2009-10 to 2013-14.
- During the study period of five years from 2009-10 to 2013-14, more than 89.39% of loan has been recovered by the Bank every year. Recovery performance of the Bank with regard to short-term loan during the study periods has been good as compared to medium-term and long-term loan.
- The Recovery performance of the medium-term loan during the study periods 2009-10 to 2013-14 represents more than 84.09% of loan disbursed by the MCUB.
- During the study periods, the highest level of recovery of Long-term loan was 23.41% in the year 2009-10 and lowest level was 9.80% in the year 2011-12 representing 76.59% of over dues in the year 2009-10 which is highest level of overdue when compared to the base year 2009-10.

Suggestions

- Regular and Strict supervision and inspection should be made for better recovery of the loan and to prevent misutilization of loan by the borrowers of the MCUB.
- Incentives like preference over others for further loan, reduced rate of interest for loan may be offered to prompt repayers of loan. Awards can be given to encourage regular repayers.
- The bank should concentrate its interest rates for recovery of loan. The bank charged huge rate of interest to recover the loans from its customer. Hence, the bank should decrease its interest rates for their convenient rates.
- The bank charged interest on interest for some loans, viz., personal loan, etc. it may be reduced or ignored. It will help to attract the lending of personal loans from the professionals.

Conclusion

The Mayuram Co-operative Urban Bank has achieved good progress in terms of paid up capital and Deposits. It shows better growth in all types of deposits. To conclude, the MCUB has been functioning well with successful strategies.

The MCUB shows sound lending operations during the study periods. To increase recovery performance and to reduce overdues, the MCUB should take necessary steps like giving incentives such as, reduction in the interest rates, giving further loan to those who promptly repay loans, non-interference of political parties in co-operatives, discouraging of wiping off of loans, conversion of loans except under unavoidable circumstances and severe action against the willful defaulters. To conclude, The MCUB is functioning well efficiently with suitable and successful strategies.

References :

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