

To Study the Pattern of Lending Practices in Urban Cooperative Banks in Delhi

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Abstract: A bank in a broader sense has a cluster of financial institutions open to the public to serve individuals, various institutions, and different businesses. These financial stakeholders are authorized by state and federal laws to receive or lend money from any kind of businesses, individuals, NGO etc. from their own or from any country around the world. Banking business has done wonders for the world economy. In the absence of banking business, savings would sit idle in our homes, the entrepreneurs would not be in a position to raise the money, ordinary people dreaming for a new car or house would not be able to purchase cars or houses. Cooperative banks are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure in rural and semi urban areas. The study is based on some urban co-op banks in Delhi (India). The study undertakes the bank's performance along with the lending practices provided to the customers of their banks. This study highlights the lending patterns of the customers from various cooperative banks in Delhi. This study will help us to find the role of lending practices in credit risk Management.

Key words: Cooperative movement of India, Usury, Rural Indebtedness, Cooperative Banks, Lending Practices, Loan, Internet/Online Banking, Credit Cards.

Introduction

A bank in a broader sense has a cluster of financial institutions open to the public to serve individuals, various institutions, and different businesses. These financial stakeholders are authorized by state and federal laws to receive or lend money from any kind of businesses, individuals, NGO etc. from their own or from any country around the world. These commercial establishments are meant for catering such a vast population which is further creating more and more complexity in their operations. This financial complexity is involved with an array of risks and problems in management of banks.

Cooperative banks are one of the types of financial institutions equipped with a dynamic operating environment for serving the financial need of the urban population of India. They have vast variety of operations specifically for common people in rural and urban area throughout India. This complexity of operations at national level makes them prone to a high level of operational risk involved in financial transactions. This risk at the climax level is clearly visualized from the cooperative bank's financial wellbeing. This risk analysis can be observed by net interest margin to market value of equity, default in repayment of loans by borrowers, change in value of assets or disruption of day to day basis operations due to technological failures. The factors which are responsible for risk analysis in a cooperative bank may be classified as credit risk and market risk. Generally cooperative banks have all types of risks including credit

risk, market risk, operational risk, non performing assets, Asset Liability Management, Risk in Foreign Exchange Management, New technology and its risk in banks and different values of banks at risk etc.

These banks provide most services such as savings and current accounts, safe deposit lockers, loan or mortgages to private and business customers. For middle class users, for whom a bank is where they can save their money, facilities like Internet banking or phone banking is not very important. Although they are not better than private banks in terms of facilities provided, their interest rates are definitely competitive. However, unlike private banks, the documentation process is lengthy if not stringent and getting a loan approved quickly is rather difficult. The criteria for getting a loan from a UCB are less stringent than for a loan from a commercial bank.

Meaning of Lending Practices

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent. The lending policies of Central Co-operative Banks in Delhi have undergone many changes due to the implementation of various development schemes. These schemes envisaged "Package of Practices" and meeting of credit needs, a marketing facilities and supply of inputs by Co-operative.

Objectives of the Study

- To understand various lending practices of urban cooperative banks in Delhi.
- To compare the efficiency of urban cooperative banks in Delhi.
- To suggest the appropriate measures to improve the efficiency of the urban cooperative banks in Delhi
- To know different type of loans preferred by different sets of customers from Cooperative banks.
- To know the satisfaction level of the customers from Bank's lending policies and their future recommendations.

Review of the Literature

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) talked about Non-performing assets and asset quality, Kannan Committee (1998) opined about working capital and lending methods, Basel committee (1998 and revised in 2001) recommended capital adequacy norms and risk

management measures. Kapoor Committee (1998) recommended for credit delivery system and credit guarantee and Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance. Several other committees constituted by Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks. Experts suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically cooperative banks. These have focus on the analysis of financial viability and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these cooperative institutions.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters. **Dutta and Basak (2008)** suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. **Singla (2008)** emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA. **Campbell (2007)** focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs. **Pal and Malik (2007)** investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular. **Mavaluri, Boppana and Nagarjuna (2006)** suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India. **Singh and Singh (2006)** studied the funds management in the District Central Co- operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets. **Jain (2001)** has done a comparative performance analysis of District Central Co- operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra. **Bhaskaran and Josh (2000)** concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking.

Research Methodology

Type of Research - Descriptive research is used in this study in order to identify the lending practices of bank and determining customer's level of satisfaction. The method used was questionnaire and interview of the experienced loan officers.

Collection of Data

1. **Primary Data:** Interview Method by using a Structured Questionnaire
2. **Secondary Data:** by using Annual reports of the bank, Manual of instructions on loans and advances, Books published in the area, Articles and Research Papers and using Internet.
3. **Sampling Size:** 150 respondents

4. **Sampling Population:** The Study population includes the customers of bank and Sampling Unit for Study was Individual Customer.

Data Analysis and Interpretation

Primary Data was collected for analyzing the lending pattern in urban cooperatives banks of Delhi. The data is represented in table 1-9. It is observed that maximum no. of customers are availing house loans (34.67%) followed by personal (20.67%) and educational loans (16.00%) from these banks. Thus it can be concluded that home loan is the most sought after loan and there is systematic credit risk management policy must be drawn out for escaping fraudulent home loan borrowers. Table 2 shows the maximum amount of loan disbursal was more than Rs. One lakh (37.33%) followed by loan amount ranged from Rs.20000 to 50000 (33.33%). It is concluded that there are

S.No.	Kind of Loan	No. of Respondent	Percentage (%)
1	House loan	52	34.67
2	Personal loan	31	20.67
3	Consumer loan	15	10.00
4	Educational loan	24	16.00
5	Vehicle loan	18	12.00
6	Other	10	6.67
	Total	150	100.00

Table 1. Types of loans lent by the cooperative banks In Delhi to its customers.

S.No.	Loan Amount	No. of Respondent	Percentage (%)
1	Less than 20,000	24	16.00
2	20,000-50,000	50	33.33
3	50,000- 1 lac	20	13.33
4	More than 1 lac	56	37.33
	Total	150	100.00

Table 2. Table shows the maximum amount of loans availed by the cooperative banks in Delhi to its customers

S.No.	Reason for taking loan	No. of Respondent	Percentage (%)
1	Reasonable rate of interest	16	10.67
2	More schemes	15	10.00
3	Less formalities	36	24.00
4	Easy repayment	72	48.00
5	Any other	11	7.33
	Total	150	100.00

Table 3. Table shows the reasons given by customers for taking loans from cooperative banks in Delhi.

two types of who are availing small amount of loans and other class of customers is availing big amount of loans. So precautions must be taken care while sanctioning these loans to avoid any potential credit risk. Table 3 shows the number of reasons given by the customers for availing loans from the cooperative banks. The most sought after reason was easy repayment policies of the cooperative banks (48.00%) followed by less formalities (24.00%) adopted by the banks. It is concluded from the table that repayment and documentation are the most attractive parameters which influence costumers to avail loans from banks. But on other hand it also increase credit default chances as repayment and documents made easy by banks.

Table 4 concludes that maximum term of loan availed by customers is more than 3 years (68%) followed by 1 to 3 years (20%). Thus it is observed that loan disbursed by the UCB's in Delhi has maximum loans for more than 3 years duration which further increases their chances of credit risk. Table 5 depicts the time taken by the banks for loan sanction and disbursal. It was observed that maximum loans were disbursed in 7-14 days period (22.67%) followed by 14 days+ (21.33%). Thus we can conclude that loan sanction and disbursal process is very quick in cooperative banks. It builds a fear of improper assessment of customer's profile

and loan disbursal in haste. Thus further increase credit risk in UCB's in Delhi. Table 6 shows the opinion of the customers about bank facilities. Maximum customers ranked it average (46.00%) followed by above average (30.67%). This suggested that cooperative banks need its systemic overhauling and should improve their facilities up to the customer's satisfaction level.

S.No.	Term of Loan	No. of Respondent	Percentage (%)
1	Less than 1 year	18	12.00
2	1 to 3 years	30	20.00
3	More than 3 years	102	68.00
	Total	150	100.00

Table 4. Table shows the term of loan taken by customers from cooperative banks in Delhi.

S.No.	Average time for processing of loan	No. of Respondent	Percentage (%)
1	Less than 7 days	84	56
2	Between 7 to 14 days	34	22.67
3	More than 14 days	32	21.33
	Total	150	100

Table 5. Table shows the average time taken by the banks to process the loans sought by the customers.

S.No.	Rank the facility	No. of Respondent	Percentage (%)
1	Above average	46	30.67
2	Average	70	46.67
3	Below average	34	22.67
	Total	150	100

Table 6. Table shows the customers opinion about the facility of the various cooperative banks in Delhi.

Table 7 shows the customers opinion about the bank's customer's service and their response towards customers during loan process. Maximum customers claimed it excellent (42.67%) followed by average (25.33%) and good (22.67%) respectively. It concludes that Customers are satisfied with the bank's customer care system which further strengthens the clientele of UCB's in Delhi. Table 8 shows the percentage of the customers wants to avail form the same banks for their future needs. 62.67% customers said yes followed by 22.67% customers who said cant say. Thus it is concluded that UCB's ahs good service and customers are satisfied with their banks. Table 9 depicted the opinion of the customers about their favorite for their credit needs. 36.67% customers said that they will prefer private banks followed by 32.00% customers who said cooperative banks. Thus UCB's ranked second which again

concludes customer's faith in UCB's in Delhi. Table 10 shows the opinion of the customers about their referral the UCB;s to their close ones. 70.67% customers said yeas they will refer the banks to their known ones because of the good customer service. It is concluded that UCBs have a better reputation in Delhi compare to public sector banks.

S.No.	Rank the customer services	No. of Respondent	Percentage (%)
1	Excellent	64	42.67
2	Good	34	22.67
3	Average	38	25.33
4	Poor	14	9.33
	Total	150	100

Table 7. Table shows the ranking given by the customers for their satisfaction during the process of loan sanction and disbursal.

S.No.	Reference	No. of Respondent	Percentage (%)
1	Yes	94	62.67
2	No	22	14.67
3	Can't say	34	22.67
	Total	150	100.00

Table 8. Table shows the opinion of the customers if they want to take loan in future from the same banks.

S.No.	Preferable banks in future	No. of respondent	Percentage (%)
1	Public banks	47	31.33
2	Private banks	55	36.67
3	Cooperative bank	48	32.00
	Total	150	100.00

Table 9. Table shows the opinion of the customers about banks they will choose in future for availing any types of loans.

S.No.	Bank refer to others	No. of respondent	Percentage (%)
1	Always	106	70.67
2	Sometimes	20	13.33
3	Never	24	16.00
	Total	150	100.00

Table 10. Table shows the opinion of customers weather they will refer the same banks to their known's.

Findings of the Study

1. Majority (34.67%) of the respondent were having housing loan from UCBs.
2. 37.33 % of the customers availed more than 1 lakh of loan from UCBs.
3. Most (68% as per the study) of the customers preferred to take long term loan which is more than 3 years.
4. There is a very simple procedure of loan sanction and disbursal adopted by UCBS in Delhi.
5. Average time for the processing of loan is less i.e. approx 7 days.
6. Easy repayment and fewer formalities are the main factors determining customer's selection of loans from UCBs in Delhi.
7. Quality of services provided by the staff is satisfactory because bank is catering to a small segment only and the customers are properly dealt with.
8. Customers are satisfied with the mode of repayment of installments.

Concluding Remarks

1. The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc.
2. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.
3. The banks should plan for expansion of branches.
4. The banks should improve the customer services of the bank to a better extent.

Limitations of the Study

1. The study is based on the data of past three or four years only.
2. The data for study mainly based on a sanction of people not the whole customers base.
3. As majority of the customers are employees of the bank, they might be biased in giving the information
4. The time period of the research was limited.

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