

**DIRECTORATE OF COOPERATION
HIMACHAL PRADESH.**

No. 6-4/02-Coop.(T&M)-II

Dated Shimla-9,the

31st March ,2006

Subject :- **Consolidated instructions regarding functioning of non-agriculture Credit cooperative societies in the State.**

CIRCULAR

In supersession of previous instructions issued on the subject cited above it has been felt necessary to issue comprehensive instructions regarding functioning of the Non-Agriculture Credit Societies to ensure that they function within the almost of Cooperative Act, Rules made thereunder and provisions of the Banking Regulation Act, 1949. The RBI has also repeatedly emphasized that Non Agriculture Credit Societies can't accept deposits from non-members since that amounts to violation of the Banking Regulation Act, 1949 which prohibits any banking business without approval of RBI/License.

In view of the above, following consolidated instruction and issued in suppression of all previous instructions and the Management /Committees of Non Agriculture Credit Societies shall henceforth follow the guidelines as hereunder: -

a) Maximum Borrowing Limit:-

1. The Non Agriculture Credit Societies shall fix maximum borrowing limit (MBL) 15 times of the owned capital and shall submit the certificate to this effect to concerned Assistant Registrar Cooperative Societies, within a period of one month of such fixation by incorporating suitable amendments in its Bye-Laws etc., if not provided earlier.

(Explanation:- For the purpose ,owned capital will mean total paid-up share capital and accumulated reserve funds and other funds and un-distributed profits minus accumulated losses as per latest audited balance sheet of the society)

2. The Non Agriculture Credit Societies shall regulate their deposit and loaning business as per provisions of Himachal Pradesh Cooperative Societies Act, 1968 and rules made thereunder and instructions issued from time to time in this behalf and shall deal with members only to avoid violation of B. R. Act 1949. However, Non Agriculture Credit Societies may enroll their borrowers/depositors as members/nominal members as per provisions of section 17 and 18 of H.P. Cooperative Societies Act, 1968 to carry out their business operations in accordance with the provisions of the Act, ibid and to avoid violations of other related laws like B. R. Act, 1949 etc.

b) Fixation of maximum credit limit of Non Agriculture Credit Societies:-

The Non Agriculture Credit Societies working in State may advance credit to its members for any of the following purposes :-

- (i) Domestic requirements.
- i) Education of children.
- ii) Religious & Social Occasions.

- iii) To meet working capital and other financial requirement of business units.
- iv) Purchase of consumer durable like television sets, Washing Machines, Almirahs, Refrigerators, Furniture, Computers etc.,
- v) Construction/addition/alteration of house, shop etc.,
- vi) Purchase of vehicles both for personal & commercial use.

c) **Extent of Advancement of Credit & Nature of Security :-**

- i) The societies should advance credit to their members after assessing the Capacity and ability to repay.
- ii) In case of salary earner's cooperative societies, the amount of loan and the monthly installment of repayment of each members should be decided in such a way that monthly installment does not exceed 35% of gross salary provided that entire loan be scheduled to be repaid before the date of superannuation of such member.
- iii) In traders cooperatives, the borrowing limits of each member should not exceed ¼th of loanees annual gross income. Such loanee members shall be asked to submit a certificate income tax return and affidavit about their gross income before the advancement of loan.
- iv) In case of women cooperatives, advancement to individual members should be done on the basis of furnishing personal sureties by two Govt. employees to the satisfaction of the Managing Committee or on the mortgage of immovable property as the case may be.
- v) Detailed financial appraisal of each loan application/proposal shall be carried out by the Managing Committee/Secretary of the respective societies who shall also assess the need of loan, source of income, repaying capacity, credit history and technical appraisal etc., before advancement.
- vi) The advancement to a single member in all such societies should not Exceed Rs. 5.00 lacs subject to the fulfillment of other conditions stipulated herein.
- vii) The Non Agriculture Credit Societies shall frame regulations for loan making policy as per provisions of the section 58 of the Act ibid which shall broadly include provisions for advancement of medium term loan to its members only on the basis of prescribed security and resources available for such advancements. These regulations shall include amongst others:-
 - 1. Member should not be defaulter of the society.
 - 2. 1:10 share linkage with total borrowing from the society.
 - 3. Borrower should execute the loan bond in favour of the society.
 - 4. Borrower should execute the loan agreement with society specifying the terms of loans, interest rates and repayment schedule and penal clause on account of default etc.,

5. Two personal sureties to be furnished of members of the society.
 6. Ordinarily, a medium term loan is not to be advanced to a person who has already availed such type of loan and or is outstanding against him from any other society or cooperative Bank or the Land Development Bank or Commercial Bank etc.
- viii) The Secretary and the Managing Committee of the society shall be responsible for the prudent loaning and recoveries thereof as per terms of loan agreements within specified period of the loan to reduce over dues and shall restrain from unsecured loaning in the larger interest of society.
 - ix) The society shall restrict its loaning to members up to 70% of its own funds available for investments and shall maintain adequate liquidity for discharge of depositors liabilities on maturity /demand.
 - x) The Managing Committee of the society other than salary earners society can Advance the credit up to sum of Rs. 50,000/- on the basis of personal sureties and guarantors as above. For loans beyond this sum, immovable property of the loanee or his surety equivalent to the value of loan advanced shall be mortgaged in the name of society. The assessment of the value of such property may be got done through revenue authorities or any other competent authority.
 - xi) Subject to above, the maximum credit limits of members, types of loan to be given, sureties obtained and interest rates to be charged by NAC will be decided in their General louse meetings , in accordance with the provision in their bye laws and subject to the condition that the maximum repayment period of any loan may not exceed 60 months or date of superannuation of employee whichever be earlier. In case of salary earners society, exposure to any one member may not exceed 10% of total working capital of the society.
 - xii) The borrowers who is an employee of the Govt. Public under taking, Cooperative Bank etc., shall furnish undertaking under section 46 of the H.P. Cooperative Societies Act, 1968, in addition to other usual securities from his DDO to ensure repayments of loan from his salary in monthly installments.
 - xiii) The maximum credit to a member shall be restricted to the MCL of the members fixed as per norms approved by competent authority and there of by society / bank and the resources available with the society to meet the credit demand of its members.
 - xiv) The charge created under sub-section (I) of section 52 of the H.P. Cooperative Societies Act, 1968, shall be available as against any claim of the Govt. arising from a loan granted under the land improvement loans Act, 1883 of 1983.
 - xv) The loan advanced by the society to its employees and their near relation shall not be more than 2% of the lendable resources available with the society at any point of time.
 - xvi) Similarly the loan advanced by the society to its BOD's and their relation shall not be more then 3% of the lendable resource available with the society at any point of time.

For the purpose of S.No. 12 & 13 above, lendable resources will mean owned capital, member's & non-member's deposits and borrowing from the financing Bank. The above conditions of security shall apply to the loans issued to BOD's & employees of society.

- xvii) No concessional loan of any type shall be made by the society to its employees and members of BOD's.

d) Interest Rate

The societies may fix such rates of interest as is considered appropriate by them for different kinds of loans. It is suggested that keeping in view the cost of funds a maximum margin of 2% be kept by the society. Policies of discount on interest rate, levying penal interest rates and even compound rates of interest on overdue amounts may be adopted to encourage timely payment and discourage default respectively.

e) Financing:

It shall not be binding on the cooperative Banks to accept any loan proposals from these cooperative societies. The Banks shall make an independent assessment of the credit worthiness of a cooperative society and its members and then take a decision on the proposal.

In case the cooperative Banks are not willing to accept the loan proposal of any of these societies then the said society shall be free to approach any commercial Bank with its proposal.

f) Investment of Surplus funds

The society shall invest their surplus funds as provided in section 53 of the H.P. Cooperative Societies Act, 1968 read with rules 68 of H.P. Cooperative Societies Rules, 1971 .

g) Accountability:-

The Managing Committee of the society is custodian of the property of the society and it is their duty/responsibility to ensure proper and safe investment of depositor's money. They will not take any action which is detrimental to the interest of the society and its share holder/depositors. They should therefore, ensure to adhere to the above instructions strictly and also put in place the effective systems, wherever required failing which the liability for un-secured/irregular loaning shall rest squarely on the members of the Managing Committee in the presumption that they failed to discharge their duties in accordance with the provisions of the Act, Rules, Bye-laws and instructions. It shall also be duty of the Managing Committee/ Secretary to launch the arbitration/execution proceedings in cases of default and also to take disciplinary action against the erring employees. Failure to take such action shall naturally be liable to be treated as no performance of the duties and action under H.P. Coop. Act Rules shall lie against them.

The Managing Committee/Secretary of the said society shall ensure that under no circumstances the loan is sanctioned without proper appraisal and that no loan is

disbursed without obtaining prescribed security or creating charge on primary/collateral security and shall report to the Registrar Cooperative Societies directly in cases where any undue pressure is exerted on them to clear loan cases without following these instructions in letter and spirit.

Registrar, Cooperative Societies,
Himachal Pradesh.

Endst No. As above,

Dated Shimla-9, the th March, 2006.

Copy to :-

1. The Addl. Registrar, Cooperative Societies, Dharamsala, Distt. Kangra, H.P. for necessary action and implementation of the instructions with in its Jurisdiction.
2. The Deputy Registrar, Cooperative Societies Dharamsala/ Mandi and Shimla for similar action.
3. All the Assistant Registrar, Cooperative Societies in H.P. for Similar action.
4. All the Branch Officers of the Directorate.
5. The Managing Director of the H.P State Cooperative Bank Ltd. Shimla, Kangra Central Cooperative Bank Ltd. Dharamsala and the Jogindra Central Cooperative Bank Ltd. Solan H.P.
6. All the Resident Commissioners of the Tribal Area in H.P. for similar action.
7. The Secretary, the H.P. State Cooperative Union ltd. Shimla for publication in the Sehkar Darpan.

Registrar, Cooperative Societies
Himachal Pradesh.