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**A STUDY ON THE STATUS OF LOAN DISBURSEMENT IN
URBAN CO-OPERATIVE BANKS IN NAGAPATTINAM DISTRICT**



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ABSTRACT:

Co-operative occupies an important position in the Indian financial system. Co-operatives were the first formal institutions to be conceived and developed to purvey credit to rural India. Urban co-operative banks are registered under Co-operatives Societies Act of the respective State Governments. Prior to 1966, UCBs were exclusively under the purview of State Governments. Urban co-operative banking sector essentially caters the credit needs of persons of small means. UCBs are purveyor of credit to small borrowers and weaker section of the society. The lending performance of UCBs is unsatisfactory and characterized by low profitability. The biggest challenges facing the UCBs are the availability of quality assets. In this backdrop, the present study is undertaken to analyse the status of loan disbursement in urban co-operative banks.

KEYWORDS: UCBs, Advances, Total Assets and Assets Ratio

INTRODUCTION:

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative 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 centred on communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

LOAN OPERATIONS:

Loan operations of UCBs consist of granting fixed loans or cash credit loans to their members against mortgage of un-encumbered immovable property, or as the surety of one or more persons who are also members or as the pledge of agricultural produce, industrial goods, gold and silver ornaments, government securities or as the security of the fixed deposit and insurance policies. UCBs are required to channelize 60 per cent of total loans and advances towards priority sector. Furthermore, within the priority sector lending, lending to weaker sections should constitute 15 per cent of the total loans and advances of UCBs. Fulfilment of priority sector lending targets by individual UCBs are taken into consideration by the RBI while granting permission for branch expansion, expansion of areas of operation, scheduled status, etc.

MATERIALS AND METHOD

Objectives of the Study: The primary objective of the study is to identify and analyze the status of advances (loans) issued by sample UCBs in study area to throw light on the problems of mounting over dues and to offer some meaningful suggestions for efficient loan assets management.

Methodology: The research paper is descriptive and analytical in nature. The study is mainly based on secondary data. The data were collected from the published annual reports of the MCUB. The data relevant to study have been collected for the period of ten years from 2002-03 to 2011-12. The data is also collected from other sources like books, journals etc. This data have been analysed with the help of sophisticated statistical tools like Mean, SD, CV, CAGR and LGR. In Nagapattinam District, there are two UCBs are functioning viz., Sirkali Urban Co-operative Bank (SUCB) and Mayuram Urban Co-operative Bank (MCUB). Both the banks are taken in to consideration for the present study.

Limitations of the Study: The study is fully based on secondary data only. The views of bank employees and customers are not taken into consideration for the study.

RESULTS AND DISCUSSION

The loans to assets ratio measure the total loans outstanding as a percentage of total assets. The higher this ratio indicates a bank is loaned up and its liquidity is low. The higher the ratio, the more risky a bank may be to higher defaults. The ratio is calculated through dividing loans issued by total assets. The status of advances (loans) issued to the customers by SUCB and MUCB is evaluated by advances to total asset ratio. Table 1 reports the status of advances issued to the customers and proportion of advances issued to total assets in SUCB.

As per the table 1, SUCB issued advances worth Rs.1343.74 lakhs in 2002-03 and it was somewhat in the same range up to 2005-06. Though advances had increased in 2006-07, it failed to maintain such up trend in next two consecutive years. However, it again moved up to Rs.2242.68 lakhs

and kept increasing since then until reaching to Rs.2811.67 lakhs in 2011-12. On the average, the advances stood at Rs.1788.63 in SUCB during the period.

Despite showing a crisscross trend, the growth in advances was significant at 9.02 per cent (CAGR = 9.02, $t = 6.19$, $p < 0.01$) when compounded annually. When measured in absolute term also, there was a significant uptrend in issued advances at the rate of Rs.164.86 lakhs (LGR = 164.86, $t = 5.48$, $p < 0.01$) on an average every year during the period. Further, rate of growth in advances issued by SUCB when compounded annually was higher compared to that of total assets. This led to a significant increase in proportion of advances to total assets. The ratio of advances to total assets, 52.25 per cent on the average and 47.50 in 2002-03, increased significantly at CAGR of 2.75 per cent (t value = 2.15, $p < 0.05$) and LGR of 1.47 per cent (t value = 2.26, $p < 0.01$) to reach at 61.35 per cent in 2011-12 despite exhibiting a zigzag movement during the periods. Overall, it is found that there was a significant increase in actual advances disbursed as well as proportion of advances disbursed by SUCB relative to its total assets during the period under study.

Table 2 shows results of the analysis revealing the status of advances issued and proportion of issued advances to total assets in MUCB. From the examination of the table 2, it is understood that disbursed advances, which was Rs.1209.60 lakhs in 2002-03, moved to Rs.2052.41 lakhs in 2008-09 after ups and downs between 2002-03 and 2007-08. Since 2008-09, the issue of advances was kept increasing till 2011-12. The rate of increase was significant at CAGR of 15.55 per cent and LGR of Rs.313.01 lakhs in disbursement of advances by MUCB. The rate of increase in advances was higher compared to that of total assets. However, from the comparison of Coefficient of variation, 49.39 per cent for advances and 16.89 per cent for total assets, it becomes apparent that the trend in disbursement of advances was highly volatile than in total assets. Due to high volatility in advances, the ratio of advances to total assets also was also volatile. Further, there was a significant continuous increase in proportion of advances to total assets from beginning to end of the study period.

The proportion of advances to total assets, 37.78 on the average, had increased to 58.11 per cent in 2011-012 from 24.42 per cent in 2002-03 at significant rate of 10.99 per cent when compounded annually (CAGR = 10.99, $t = 14.68$, $p < 0.01$) and 3.89 per cent on an average every year (LGR = 3.89, $t = 12.12$, $p < 0.01$). Overall, it is found that MUCB had gradually and significantly increased disbursement of loan to the customers during the period of study.

The significance of the difference in proportion of advances to total assets between SUCB and MUCB is analyzed by t-test and the results of the analysis are shown in Table 3. From the table, it can be observed that t-value for difference in mean values, 3.26 is significant at 1 per cent level. Further amount of loan issued (advances) to total assets in SUCB was much higher than that of MUCB. Hence, it is found that the disbursement of loan to the customers by SUCB is significantly higher compared to that of MUCB.

Suggestions: The following general and specific suggestions are offered to improve the loan asset management system in urban co-operative banks. 1. The UCBs should develop more effective credit appraisal system and loan recovery policy 2. The recovery performance can be improved by means of timely and adequate finance for productive purpose 3. The urban co-operative banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc. and 4. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.

CONCLUSION:

It is found that there was a significant increase in actual advances disbursed as well as proportion of advances disbursed by SUCB relative to its total assets during the period under study. The

study reveals that MUCB had gradually and significantly increased disbursement of loan to the customers during the period of study. The disbursement of loan to the customers by SUCB is significantly higher compared to that of MUCB.

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Table 1 Advances to Total Asset Ratio of SUCB from 2002-03 to 2011-12

Year	Advances (Loans Issued) (Rs.in lakhs)	Total Assets (Rs.in lakhs)	Advance to Assets Ratio (%)
2002-03	1343.74	2829.12	47.50
2003-04	1337.71	2914.96	45.89
2004-05	1337.84	2888.10	46.32
2005-06	1392.14	2705.87	51.45
2006-07	1672.40	2751.53	60.78
2007-08	1540.44	3117.81	49.41
2008-09	1578.86	3737.13	42.25
2009-10	2242.68	3944.34	56.86
2010-11	2628.79	4333.51	60.66
2011-12	2811.67	4583.03	61.35
Mean	1788.63	3380.54	52.25
SD	561.69	705.72	7.11
CV	31.40	20.88	13.60
CAGR	9.02**	6.10**	2.75*
t-Value	(6.19)	(5.65)	(2.15)
LGR	164.86**	208.83**	1.47*
t-Value	(5.48)	(5.70)	(2.26)

Figures in brackets are t-values; *Significant at 5% level. **Significant at 1% level.
Table value @5% = 2.31 and @1% = 3.36

Table 2 Advances to Total Asset Ratio of MUCB from 2002-03 to 2011-12

Year	Advances (Loans Issued) (Rs.in lakhs)	Total Assets (Rs.in lakhs)	Advance to Assets Ratio (%)
2002-03	1209.60	4952.59	24.42
2003-04	1150.52	4896.33	23.50
2004-05	1249.30	4855.72	25.73
2005-06	1361.68	4386.01	31.05
2006-07	1673.83	4465.24	37.49
2007-08	1817.36	4673.86	38.88
2008-09	2052.41	5194.24	39.51
2009-10	2664.70	5946.71	44.81
2010-11	3472.52	6394.04	54.31
2011-12	4109.63	7071.87	58.11
Mean	2076.15	5283.66	37.78
SD	1025.38	892.47	12.08
CV	49.39	16.89	31.97
CAGR	15.55**	4.11*	10.99**
t-Value	(10.88)	(3.34)	(14.68)
LGR	313.01**	228.16**	3.89**
t-Value	(6.85)	(3.46)	(12.12)

Figures in brackets are t-values; *Significant at 5% level. **Significant at 1% level.
Table value @5% = 2.31 and @1% = 3.36

**Table 3
Results of t-test Comparing Advances to Working Fund Ratio between
SUCB and MUCB**

Urban Cooperative Bank	Mean Ratio	Standard Deviation	t-Value	p Value
Sirkazhi	52.25	7.11	3.26**	0.0043
Mayavaram	37.78	12.08		

**Significant at 1% level



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