Means of Finance Part 1

Why Borrow from a Co – Operative Bank?

- Suyash korde

Have the orders waiting on your doorstep. Get a "Advance from the customer" a easy way out, right? This philosophy looks good on a "make to order" product basis. What about one who sells in retail, has a common market? Scenario changes and you cannot ask advances from customer's …chances are he won't pay and will leave to a better producer…or shall I say a better producer…..who knows how to mange his working capital…until the order is executed.

So then we can approach a easy way out….a personal loan from a finance company will do wonders or even better move to a private bank. The faster (capital in your hands) …the better right? They just want you to fill in a small form and will give you finance easy…no need for projected statements, previous balance sheets, chartered accountants signature etc. But think for a moment…..Is Finance That Cheap? Then you have people at your doorstep for recovery…..even if you delay a small payment.
Swami Vivekanand said …try to do a good deed the correct way and a thousand problems will come your way.

The Father of the Nation believed in the "co – operative" moment. Giving finance to small and rural areas and generate self employment was his dream. But with time ...procuring finance from so called Co – operative banks became difficult.

But Co – operatives still hold a upper hand as compared to other banks. Here's why

DUAL CONTROLS

1. a) Private Bank's and finance institutions fall under the control of the RBI Act, banking regulation act or the SEBI. In short only one controller.

   b) Co – operative bank is under two fold restriction from the Registrar of societies as well as the RBI via the Banking regulation act.

NPA'S

2. a) To protect against doubtful advances (Non performing assets) bank often create "secret reserves". Which mean that the provision for doubtful debts on advances given by the bank are not disclosed in the balance sheet of the bank. Making it difficult for investor to find out … how many NPA's does this bank have and whether it can go bankrupt.

   b) A co –operative bank does not have a provision for NPA's as a result it has to disclose full income of interest in profit and loss and must also disclose the Bad debts provision in its balance sheet.

ADVANCES

3. a) Finance companies , Venture capitalist and private banks can give huge amount of loans to a single Company…and undertake huge risks as well on those accounts. They monitor such risks of recovering their investment by appointing a Director on the BOD of the company and purchasing most of the shares of the company….thus resulting into "Loss of Control" of the company and dilution of shareholding.

   b) In contrast Co-operative Banks are discouraged from giving huge advances to customers by various regulations. Advance to a single loanee in excess of Rs.40 lakhs requires approval from the RBI. Hence all these advances have to be secured for a Co –operative bank…..which is why they ask for a security such as a Life insurance policy or a FD or Pledge of gold ornaments. This is a precautious measure at least better than losing control of your company!!!

RECOVERY

4. a) In Private Banks unsecured loans to salary earner' considered unsecured. They proceed to recover in any way they want as per the terms of the agreement

   b) In co –operative banks loans to salary earners are considered secured. They can recover the loans from the customer as a deduction from part of his salary.

INTEREST

5. a) Private banks and Finance companies work for earning profit. As a result they can charge interest according to how they please and amortize over the period of the loan ..even if the interest exceed s the principal amount of the loan…thereby recovering their profit.

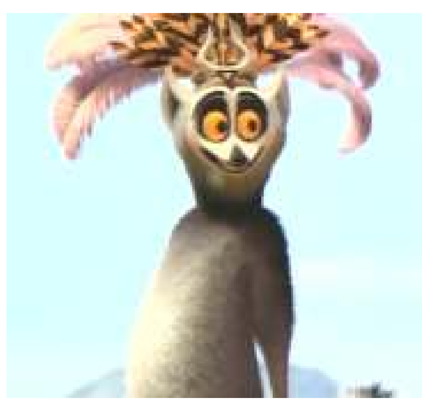
   b) Co –operative banks according to the rule of "dam duppat" shall not charge for any member of the bank who has been given a loan of less than 15 years, charge a interest greater than the principal amount of the loan.

AMORTIZATION OF INSTALLMENTS

6. a) In case of pre payments of loan installments to the bank …..private banks first amortize the same first over the interest and then towards principal. So until the interest recovers (increasing bank profit) …repayments are lost and only a part of the principal amount gets allocated over the prepayment. So at the end…..the principal o/s of the customer remains as it is

   b) For Co –operative and Public sector banks interest is to be allocated periodically both towards principal and interest on pro rata basis. Thus reducing the principal payment obligation and the o/s for the customer.

Hence the next time your co –operative banker takes time processing your loan ..remember he not only does it in his interest….your interest….but in the wider interest of the Nation as well!!!!



THANK YOU FOR READING!!!!