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Report  
of the  
Land Mortgage Committee

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From

K. L. PANJABI, Esquire, I.C.S.,  
Registrar, Co-operative Societies,  
Bombay Presidency, Poona (*Chairman*) :

and

Members of the Land Mortgage Committee ;

To

THE SECRETARY TO THE GOVERNMENT OF BOMBAY,  
Revenue Department, Secretariat, Bombay.

*Subject.*—Land Mortgage Committee Report.

Sir.

In pursuance to Government memorandum, Revenue Department. No. 6576-A/24, dated 4th October 1933. we herewith submit our report.

2. As a result of the discussions at the Co-operative Round Table Conference in the first week of June 1933 at Poona, Government decided to convene a conference to examine the question of development of land mortgage banking with a view to relieve agricultural indebtedness. Government later on decided to entrust the enquiry to a Committee composed of the following :—

1. K. L. Panjabi, Esq., I.C.S.,  
Registrar, Co-operative Societies,  
Bombay Presidency, Poona .. *Chairman.*
2. V. L. Mehta, Esq., B.A., Bombay ..
3. Professor V. G. Kale, M.A., Poona ..
4. G. P. Murdeshwar, Esq., B.A., LL.B.,  
Bombay ..
5. Dewan Bahadur A. U. Malji,  
Broach ..
6. Khan Bahadur A. A. Deshmukh,  
Pachora ..
7. Fakirappa B. Laxmeshwar, Esq.,  
Kurtkoti (Dharwar) ..
8. S. N. Pochkhanawala, Esq., J.P.,  
Central Bank of India, Bombay .. *Co-opted member.*

3. The question of Land Mortgage Banks in this Presidency was originally considered at the Gujarat Divisional Co-operative Conference in April 1923, when a Committee was appointed to consider the question in detail. In 1926, Mr. J. A. Madan, C.I.E., I.C.S., the then Registrar of Co-operative Societies, submitted to Government a scheme for institution of Land Mortgage Banks and this was considered at the Conference called by the Honourable Minister in charge of Co-operation. A Committee was appointed to draft a detailed scheme which was approved by Government in Government Resolution, Revenue Department, No. 6576/24, dated 26th September 1926. Government approved of the registration of two Land Mortgage Banks at Dharwar and at Broach as an experimental measure to be financed provisionally by the Bombay Provincial Co-operative Bank and agreed to buy its debentures worth 5 lacs of rupees carrying 4 per cent. interest at such discount as would not involve Government any loss. In order to provide the Land Mortgage Banks with sufficient capital, the services of a Land Valuation Officer for one year, free of cost, for each Bank were also provided. An additional bank for Pachora was also approved later and it was registered in 1928, while those at Broach and Dharwar were registered in January 1929. Debentures to the value of 2 lacs of rupees issued by the Bombay Provincial Co-operative Bank at 88 per cent. of their face value were also purchased by Government.

4. The Broach and Dharwar Banks finance members throughout the district, while Pachora Bank's operations are limited to the taluka itself. Every loan has to be finally sanctioned by the Bombay Provincial Co-operative Bank and the Registrar. The limit of individual finance has been fixed at Rs. 10,000. The bulk of the loans given by these three Banks has been chiefly for redemption of prior debts and in a few cases only the loans have been advanced for installing of costly machinery and for the improvement of land. Membership has been restricted to borrowers only but intending borrowers can also join. The Board of Directors of the primary Banks include a nominee of the Registrar and of the Provincial Bank and one elected by the debenture holders residing within the area of operation of these Banks. The

position of these three Banks as on 31st March 1933 was as follows :—

Land Mortgage Bank.	Number of members.	Number of loans.	Amount of loans advanced.	Average loan per member.
1	2	3	4	5
			Rs.	Rs.
Dharwar ..	74	68	1,36,825	2,012
Pachora ..	197	55	1,16,702	2,121
Broach ..	291	67	1,19,020	1,776
	562	190	3,72,547	1,961

Land Mortgage Bank.	Loans out-standing.	Loans over-due.	Loans from Bombay Provincial Co-operative Bank.	Deposits.	Share capital.	Reserve Fund.	
						Profit	Loss.
1	6	7	8	9	10	11	12
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Dharwar ..	1,25,489	1,812	1,25,490	<i>Nil.</i>	7,505	3,489	-2,784
Pachora ..	1,08,475	7,578	1,08,475	5,621	6,215	1,965	317
Broach ..	88,694	<i>Nil.</i>	89,694	1,670	6,325	40	741
	3,22,658	9,390	3,23,659	7,291	20,045	5,494	-3,842

Out of Rs. 3,72,547 advanced by these Banks about Rs. 8,000 have been advanced for a period up to five years, Rs. 44,000 for a period from 5 to 10 years and the rest, with the exception of two cases, for a period of 20 years. In these two cases, the period has been fixed at 25 and 30 years. The overdues are 40 per cent. of the demand and out of 181 borrowers, 49 have defaulted. The Broach Bank has no overdues at all. The overdues in Pachora and Dharwar Banks are due mainly to the phenomenal fall in prices which could not be foreseen at the time the estimate of repaying capacity was made. The cotton and groundnut crops in Dharwar and Pachora during the last two years have also suffered heavily due to excessive rain. The estimate of the repaying capacity of the borrower has proved defective, in that sufficient allowance for variations in prices or for unfavourable seasons had not been made. Consequently, in bad years, no extension for the period of repayment of the loan could be given. In addition to the above factors some constitutional defects have also been

responsible for this state of affairs. Only borrowers or intending borrowers are eligible for membership and consequently, in unfavourable years there is not sufficient pressure exercised by the Board to secure repayment of the instalment. The powers of the Boards of the primary Banks have been too meagre to stimulate interest in the working of these Banks.

5. However, as far as the ultimate security for these loans is concerned, it is adequate, as against the outstandings of Rs. 3,22,658 the lands mortgaged have been valued at the present time at Rs. 10,58,782. The experience of these Banks has clearly shown that in case of these long term loans, the basis for calculation should be the prices averaging through an equally long term and that the possibility of unfavourable seasons should also be provided for. The experiment in Broach District has proved very encouraging due, no doubt, to efficient handling and comparatively favourable crops: and as the working of the Banks at Dharwar and Pachora has not revealed any insuperable objections militating against the success of these Banks, we are definitely of opinion that the extension of the system of Land Mortgage Banks on the lines laid down in our recommendations is not only feasible but eminently desirable.

6. At present, the Provincial Bank has been functioning as a Central Land Mortgage Bank through a separate Department. A margin of 2 per cent. was kept between the borrowing and lending rate and the primary Banks kept no margin at all, as it was thought that they would not have any substantial expenses to incur and that in case of a deficit budget the Provincial Bank would give a suitable grant. The sources of income for the primary Banks have been the following :—

- (1) Entrance fees ;
- (2) Valuation charges ; and
- (3) Interest on investment of their share capital subscribed by the members.

The Provincial Bank during these three years of working has suffered a paper loss of Rs. 15,496. Out of this, Rs. 9,120 constitute the sinking fund for debentures created by setting apart 1 per cent. of the face value of the debentures issued from the gross profits of the Land Mortgage Department of the Bank. A sum of Rs. 3,445 is recoverable from two primary Land Mortgage Banks for grants given to them. However, as the primary Banks have not got sufficient assets, about Rs. 1,000 out of this sum will have to be written off. The

net loss of about Rs. 7.375 is due to the inadequacy of the margin of 2 per cent. to cover the expenses of both the Banks, the interest charges which had to be paid on the loan advanced by Government but ultimately returned owing to the prohibitive rate of interest, and to the curtailment of operations necessitated by the uncertainty as regards availability of finance, while the staff had to be continued. The money raised by the Provincial Bank has been as follows :—

(1) Debentures to Government at 88 per cent. . . . .	Rs. 2,00,000
(2) Debentures to the Broach Bank at 88 per cent. . . . .	62,000
(3) Debentures to the Surat People's Bank at 94 per cent. . . . .	25,000
(4) Debentures to the Bombay Life Insurance Company at 96 per cent. . . . .	2,13,000

7. The agricultural depression, unprecedented for its range, extent and severity, has shown the urgency for provision of long term credit for agriculturists. Owing to the phenomenal fall in prices, the burden of indebtedness has more than doubled, while the margin of profit, owing to absence of corresponding fall in the expenses of cultivation, has greatly dwindled. The normal process of transfer of land from improvident agriculturists to money-lenders or good agriculturists had been greatly accelerated, with the result that even good and thrifty agriculturists who contribute to the stability of the rural areas are faced with the necessity of either selling out their land or repudiating their debts. The latter step is necessarily distasteful to them for both from policy as well as sentiment, repudiation is considered disastrous. The past records show that during the great famine of 1901, the agriculturists disposed of all the resources in order to meet their liabilities even at the risk of facing starvation and death. Such repudiation, they also know, will affect their future credit very adversely. The transfer of land from the improvident or the negligent cultivator to the industrious and thrifty agriculturist either directly or through the channel of the money-lender has been going on for ages and no one can prevent it, but the thrifty and stable agriculturist who forms a fairly large proportion of the population can be saved from the present crisis by provision of long term capital on a reasonable basis.

8. While the depression has not so far appreciably affected the production of crops, it is bound to do so in the near future.

The money-lenders, partly owing to panic and partly to the absence of liquid resources, are not in a position to supply finance for current cultivation. Even the Co-operative Societies have considerably restricted their operations owing to lack of repaying capacity on the part of the borrowers. Under the circumstances, particularly in case of the larger holdings, either part of the land will be left uncultivated or sown with crops which require little capital outlay either in the shape of manure, irrigation or labour charges. The smaller holders are reserving their resources rather than discharging their liabilities so as to be able to carry on under the present circumstances.

9. Past indebtedness which involves control over the debtor as regards the disposal of the produce necessarily restricts the market for the crops, so that the prices obtained by agriculturists cease to have any reasonable relation to the cost of production. Also owing to the lack of liquid resources in the rural areas there is very often difficulty in the sale of produce which has not got a foreign market. We wish to point out that if the agriculturists are forced into repudiation of liability, the re-establishment of their credit later on will be an extremely difficult process and considerable chaos will be the natural corollary.

10. There is already a simmering discontent in the rural areas with regard to the cash liabilities of the agriculturists. Political parties, anxious to take advantage of the situation, have the provision of Land Mortgage Credit with State assistance as the main plank of their programme. During the past few years the harvests have been normal, but we cannot fully envisage the danger of the situation in case of a partial failure of crops. The chief reason for the institution of Land Mortgage Credit is the necessity of stabilising good and deserving agriculturists who are credit-worthy.

11. In addition to the above, there are certain favourable circumstances for an extension of the Land Mortgage system at present. The rural money-lenders at present are in a mood to compound their dues by accepting smaller cash payments and this opportunity should not be lost. We have been told that the Pachora Land Mortgage Bank has in some cases been able to secure reduction of as much as 40 per cent. of the paper liabilities and that similar discount will at present be obtainable in most of the districts. This programme of debt conciliation can be carried out by the Land Mortgage Banks and we are recommending elsewhere that this should form an important

duty of the Land Mortgage Bank and that cases where considerable reduction can be secured and which are otherwise eligible should be given preference for finance by the Land Mortgage Banks.

12. The other factor favourable for the institution of Land Mortgage Banks is the abundant supply of funds in the money market and the easy terms on which money against sound security can be raised. We are of opinion that this opportunity should not be lost.

13. In view of the fall in prices of agricultural produce, the adoption of means for increasing the income of the agriculturists has become imperative. Although illiteracy, lack of initiative and indifference have militated against the adoption of improved means of cultivation by agriculturists, yet lack of adequate finance on easy terms must have also been a cause. Consolidation of holdings, improvement of minor irrigation sources and of live stock, bunding operations in order to conserve moisture and the introduction of costly implements must consequently have been held up. Our scheme of land mortgage finance also provides for capital for the introduction of improved methods of agriculture for raising the income of the producer which has become so necessary at present.

14. The Co-operative Credit Societies have been unable to cope with this situation, for with the short term resources at their command they have not been able to confer appreciable benefits or to release the grip of the money-lender over the agriculturist. Until the short term credit is buttressed by long term credit, it cannot effectively tackle the problem of rural indebtedness.

15. The necessity of long term finance to the agriculturists having been established we must now consider the various agencies which can provide it. A Government Bank for this purpose would be only an extension of the Takavi system on an organised basis. No State can successfully tackle a Banking enterprise of this sort and, for this very reason, it has been rarely attempted in any country. The interests of the borrowers would be also limited to obtaining loans and there would be no scope for developing self-help and the capacity to organise among the agriculturists. The management also is likely to be very expensive and this would react on the cost of the credit supplied by the Banks if they are to run on a self-supporting basis. The joint stock Banks

established for this purpose are equally unsuitable for the same reasons, particularly as their aim will be chiefly to get as much profit as possible for themselves. In addition, it would not be possible for such banks to raise the necessary long term capital without Government assistance at least in the shape of guarantee of interest, and as such guarantee presumes effective control over the institutions, Co-operative Banks for this purpose are more suitable, as the control exercised under the Co-operative Societies Act is sufficiently effective for safeguarding the interests of Government. It is also our experience that the management of Co-operative Banks is cheaper as honorary services are available and particularly in this case the agency of Co-operative Societies for securing information about the assets and repaying capacity of the borrowers can be utilised. Land Mortgage credit can only be effective if it is given at the cheapest rates possible, and in the case of co-operative banks there are already severe restrictions on profiteering. The safeguards against the grant of inadequately secured finance can also be provided by the control of the Registrar over the Banks in respect of the grant of loans, and above all, the borrowers will participate in the management and in the profits earned after defraying the necessary expenses. This participation in management will bring to the Co-operative Banks an intimate touch with the rural areas, which would be sadly lacking in the case of any other type of institution. Further in case of Co-operative Land Mortgage Banks, the short term credit required by the borrower could be supplied by the credit societies in the same area, so that the requirements of the borrower, both in respect of short term and long term needs, will be supplied adequately by co-operative organisations.

16. The success of the Land Mortgage Bank would depend, besides the suitability of the area in respect of economic conditions, on two main factors, viz. the availability of good workers, both official and non-official, and the supply of capital at as low a rate of interest as possible. We cannot sufficiently emphasise the necessity of efficient staff to be maintained by these Banks. Initial valuation of assets and income together with periodical revaluation of the assets is of prime importance and for the efficient performance of this duty, it is necessary that the Valuation Officers should be men of integrity and should possess sufficient knowledge of this type of work. Nor can the enthusiasm, zeal and efforts of the non-official workers be overlooked, as experience in other Provinces has shown

that the success of the institution mainly depends on them. They supply local knowledge, local influence and local guidance. Only to the extent to which devoted workers of this type are available, can we entertain any hope that the institution would run well. Under the present scheme in Bombay the control has been over-centralised in the Provincial Bank. Experience has shown that the success of the local institutions is in direct proportion to the interest and enthusiasm of the local Directors.

17. Another factor necessary is a low rate of interest and this intimately depends on the measure of assistance from Government, the rigidity of the valuation of the properties mortgaged and the general credit and the resources of the institution issuing the debentures. We have already indicated the reasons why these Banks should receive full support of Government and why the existing co-operative credit societies working on the basis of short term deposits cannot give long term loans for this purpose, for it would be both unsound and risky. Long term capital, however, cannot be raised in the market without special Government assistance, and we recommend that Government should guarantee both the principal and the interest of the debentures issued by a Central Bank for a specified sum. Without such guarantee money could not be raised to such a large extent and, if it can be raised at all, it will be only at a prohibitive rate of interest. The Madras Government have guaranteed debentures issued by the Central Land Mortgage Bank to the extent of 50 lacs at a rate of interest not exceeding  $6\frac{1}{2}$  per cent. The earlier issues of debentures at this rate of interest are, however, now being redeemed and substituted by debentures carrying a lower rate of interest. A Bill (No. V of 1933) is now being introduced by the Madras Government for guaranteeing the principal of the debentures also, so that these debentures could be classed as "Trust Securities" made more attractive and consequently floated at a lower rate of interest. With all the safeguards that we propose in respect of the appointment of the appraisers and nomination on the Board of Directors of these Banks, we can only repeat what has been stated in the Royal Agricultural Commission Report that "It is extremely unlikely that the guarantee of interest will ever involve Government in loss, while the sinking funds are increasing at a rate which should prevent the debentures from falling much below par for any considerable period. It is improbable that such issues will in any degree restrict the

market for Government loans, so that the State is able to inspire confidence in an important movement without any loss or embarrassment to itself."

18. In order to safeguard Government interests as well as to subsidise these Banks which would otherwise work at a loss in the initial stages, Government should lend the services of Valuation Officers free of cost at least for a period of three years, as has been done in Madras where the services of 14 appraisers called "Sub-Deputy Registrars", each being in charge of three or four Banks, are lent free of cost to these Banks. As the work develops it will not be possible for the Registrar to look to it properly. In Madras they have already appointed two Deputy Registrars, each in charge of about 20 Banks. In addition, the Government of Madras have given a grant of Rs. 29,000 during the last three years to defray the expenses of the Central Land Mortgage Bank. This assistance from Government may look rather extravagant, but in addition to what has been done in Madras, we have still a better precedent in the munificent assistance given by Government in Great Britain in 1928. The Agriculturists' Credit Act of 1928 provides a subsidy of £10,000 per annum for a period of ten years, to defray the cost of administration of the "Mortgage Corporation" established by that Act. A sum of £750,000 to be paid during three years has been sanctioned as a Guarantee Fund for this Corporation free of interest for 60 years and the Treasury has been authorised to under-write the debentures to be issued by the Corporation up to a sum of £5,000,000 and even to subscribe to the debentures up to an amount not exceeding one-fourth of each issue of debentures and not exceeding in the aggregate £1,250,000. Such Government subsidies could not have been given unless it was felt that the scheme of Land Mortgage credit could not work without such help. As a matter of fact Land Mortgage Banks have received active and generous support from Government in all countries. Our specific suggestions for Government assistance are that the Provincial Government should guarantee the debentures issued by the Co-operative Central Land Mortgage Bank both as regards principal and interest up to a sum of 50 lacs of rupees in the first instance at a rate of interest not exceeding 5 per cent. per annum. Debentures should be issued only to the extent of loans advanced and against definite security. The liability to Government would be limited to the extent of the actual issue. In return, Government should nominate the Trustee or

Trustees for these debentures. Government should lend the services of trained men for the purposes of valuation of assets for a period of three years in the case of each Bank, free of charge, and they should also give a grant to the Central Land Mortgage Bank to the extent of the actual deficit in its budget limited to Rs. 10,000 a year. We might point out that as we have provided for a margin of 3 per cent. between the rate at which the Central Bank would borrow and the rate at which the primary Bank would lend, the deficit, except in the initial stages, is not likely to occur at all, but as a trained staff particularly for the superior posts will be necessary and as any economy in this respect would be fatal to the success of these institutions, Government may have to incur some expenditure in this respect in the earlier stages. These debentures should also be classed as "Trust Securities" so as to add to their attractiveness and reduce the rate at which they can be floated. Besides the appointment of the Trustee by Government, Government should also have a right to nominate two Directors on the Board of the Central Land Mortgage Bank out of the total maximum strength of nine, and one representative on the Board of each primary Bank; and the Registrar of Co-operative Societies should have the power of appointment, transfer and dismissal of the appraisers of these banks when they are maintained at the cost of the banks. The Trustee or Trustees appointed by Government should hold all the mortgage deeds assigned by the primary Banks to the Central Land Mortgage Bank and the Central Land Mortgage Bank should issue the debentures only with the approval of the Trustee. In addition, we recommend that the Land Mortgage Bank, notwithstanding anything contained in the Transfer of Property Act, 1882, should have the power, in default of payment of the mortgage money or any part thereof, to bring the mortgage property to sale without the intervention of the Court, provided a notice in writing is served on the persons who have any interests in, or charge upon, the property mortgaged and their objections have been heard by the Bank. The sales shall be conducted by an Officer appointed for the purpose and by the Registrar and by public auction. In case an amount in excess of the liabilities of the bank is realised, the surplus should be returned to the owner or owners in proportion to their interests in the property. These provisions are the same as are sought to be conferred by Government by Section 12 of the Bill (No. V of 1933) to be introduced in

Madras Province. In addition to the above, we recommend that Government should authorise the supply of Certificates from Registry Offices, showing the transactions in respect of the properties offered for mortgage to the Land Mortgage Banks during the last 20 years. This facility has also been given to the Land Mortgage Banks in Madras by Government, as it is necessary that a complete history of the property forming the security of the debentures should be available to the Land Mortgage Banks free of cost.

19. In order to widen the scope of operation of these Land Mortgage Banks and to spread the benefits to as large a number of persons as possible, we recommend that wherever possible, the Land Mortgage Bank, instead of paying out the entire sum for redemption of prior debt, after effecting a moderation of the debts by amicable settlement, should agree to pay to the creditor in such instalments as would be recovered from the borrower. This may be done either directly or by asking his creditor to keep the sum as a deposit in the bank, repayable in instalments for a period fixed for the payment of the debt by the borrower. This would simply mean that the Land Mortgage Bank acts as the intermediary for effecting a conciliation as far as the paper debt is concerned and for guaranteeing the repayment of the instalments as fixed. If the debentures issued by the Land Mortgage Bank are guaranteed by Government as regards the principal and interest, we anticipate that several creditors would agree to the above proposal and the money raised from the debentures will, in that event, be necessary only when, owing to unfavourable seasons, the instalments are not paid regularly.

20. Such a scheme offers all the advantages of voluntary conciliation of debts at the lowest cost possible and without either restricting the benefits to a narrow section of the public or involving Government in undue risk. The information supplied by the local Directors of Co-operative Banks as regards the valuation of the assets and the repaying capacity of the borrower will be very valuable as they would be intimately in touch with the area. Also the conciliation effected by the influence of these Directors who have intimate knowledge of the surcharges by the different money-lenders will be related to the actual circumstances of each case and the pressure for repayment of the instalment due by men of local influence and knowledge will go a long way towards securing punctual repayments.

21. With regard to the machinery of supplying this finance, we consider that the present arrangement whereby the Bombay Provincial Co-operative Bank performs the functions of a Central Land Mortgage Bank is entirely unsuitable. The Provincial Bank works mainly on short term deposits and the utilisation of part of its funds for long term investments in this manner is likely to react on its credit. Besides, this is a special type of business which requires distinctive handling and expert staff. We envisage a considerable extension of Land Mortgage Banking under our scheme and for this purpose the resources in men and money of the Provincial Bank would not prove adequate and hence the Provincial Bank is reluctant to continue this line of activity. We are of opinion that for the successful consummation of our scheme the registration of a Central Land Mortgage Bank is imperative.

22. The object of such a Bank would be to finance the primary Land Mortgage Banks by issuing debentures, to inspect their working and to give them general advice and help in their operations.

23. The constitution of such a bank is suggested in the draft bye-laws in appendix 'A'. The distinctive features are the introduction of individual members, the provisions with regard to the issue of debentures, the constitution of the Board of Directors, the rules governing the grant of loans, the utilisation of the recovery from the borrowers and the circumstances under which the period of repayment of the instalment can be extended.

24. The membership of the Bank should be open not only to primary land mortgage banks but also to eligible individuals as the introduction of non-borrowing individual share-holders, according to the experience in the Madras Province is likely to conduce to business strictness in the management of the bank. It may be argued that this is a departure from the strict co-operative principle of confining the benefits of the profits primarily to the borrowers. But experience has shown that the profits in land mortgage banking where the rate of interest has to be kept as low as possible are very meagre. Besides we have further curtailed the profits by further providing for a fifty per cent. contribution to the Reserve Fund and checked any tendency towards profiteering by fixing the maximum dividend payable at  $6\frac{1}{2}$  per cent. It is very unlikely that the individual share-holders will ever get more than a fair return on their capital while the bank will be able to enlist the co-operation of public spirited gentlemen

and secure valuable guidance, which would act as a check on any unhealthy tendency on the part of the borrowing members. The bank should be on a limited liability basis, the liability of the share-holder being limited to the unpaid portion of the share capital.

25. The Central Land Mortgage Bank should issue bearer debentures of the denomination of Rs. 100 each at par with interest coupons, and varying in period from 15 to 25 years according to requirements. The rate of interest payable should be fixed by the Board of Directors with the approval of Government and according to the prevailing market conditions in respect of similar loans or issues guaranteed by Provincial Government. While issuing debentures, preference should be given to co-operative banks, if they want to purchase the debentures. The debentures should be issued against the definite security of land mortgaged to primary Land Mortgage Banks and assigned to the Central Land Mortgage Bank as and when required to the extent of the loans actually advanced. The mortgage deeds should be held by the Trustee or the Trustees appointed by Government. Interest on these debentures should be payable every six months for a period ending 31st of December and 30th of June in order to make the debentures more attractive. The instalments payable by the borrowers should be fixed in such a manner as to bring in before the due dates the amount payable as interest. The debentures should be redeemable at six months' notice at the option of the Banks, any time after five years from the date of issue. No debenture holder, however, can demand repayment of the value of the debenture before the expiry of the period for which the debenture was issued. The powers of the Board of Directors in the matter of investment or deposit of surplus fund or redemption of debentures should be subject to the control of the Trustee or the Trustees appointed by Government.

26. The management of this Bank should be vested in the Board of Directors formed annually at the General Meeting and should consist of not more than nine persons of whom two shall be nominated by Government, one shall be representative of the Provincial Co-operative Bank, one shall be representative of the Provincial Co-operative Institute, three should be elected by the primary Land Mortgage Banks grouped into regional constituencies when their number exceeds the number of Directors to be elected and one should be elected by individual members when their number exceeds ten but not fifty

and two Directors when their number exceeds fifty. These should form a separate constituency. The Board should elect a Chairman and a Vice-chairman from among themselves.

27. The funds of the Central Land Mortgage Bank should be utilised for loans to primary Land Mortgage Banks only. All applications for loans to primary Banks should be subject to the sanction of the Central Land Mortgage Bank. The Central Land Mortgage Bank should have the right to demand additional security in case the original security has depreciated or deteriorated and, in case of default, to regulate the loan.

28. The period for which the loans are advanced should not exceed 20 years except with the previous sanction of the Registrar. It should, however, be three-fourths of the period for which the debenture has been issued so as to allow for a margin of time that may be necessitated by extension of the date of repayment of instalment under abnormal condition. The margin of rate of interest between borrowing and lending rates of the Central Land Mortgage Bank should be one per cent. and a half.

29. Recoveries should be strictly enforced unless extraordinary conditions necessitate a renewal. Payments before due dates should be accepted and the Central Land Mortgage Bank may require the primary Land Mortgage Bank to give it sufficient notice in such cases. Subject to the approval of the Trustee or the Trustees, the recoveries may be used :

- (a) for issuing a fresh loan for a period limited to that for the redemption of debentures issued on that security ;
- (b) for purchasing its own debentures ;
- (c) for redemption of debentures ; and
- (d) for investment in securities or in a mode permitted under the Act.

30. Loans should be renewed only in exceptional cases and in any case not more than once in four years and only after the agreed interest is fully recovered. The mode of repayment should be by a system of equated instalments. Forfeited shares, recoveries of fine, entrance fees and 50 per cent. of the net profits every year should be credited to the Reserve Fund. Out of the balance a dividend not exceeding  $6\frac{1}{4}$  per cent. may be paid. The Reserve Fund should be invested in Government Securities or in such manner as the Registrar permits and should not be drawn upon except with his sanction.

## PRIMARY LAND MORTGAGE BANKS.

31. We consider that a careful and detailed enquiry conducted by the Officers of Co-operative Department with the help of those of the Agricultural and Revenue departments should be made before a Land Mortgage Bank is registered. Undue haste in this respect is likely to prove fatal to the scheme. The causes and extent of the indebtedness and how far the Land Mortgage Bank can relieve it should be ascertained first. The ability to organise themselves and the capacity for thrift among the prospective borrowers should be examined. Their sense of loyalty towards their obligations as evinced by the success or otherwise of Co-operative Societies in the area would be a valuable index of the suitability of the tract. Disinterested local workers capable of giving effective lead to the agriculturists should be available for working on the Directorate. In order to ensure punctual repayments the liability of the tract in respect of deficient water supply and partial failure of crops should be ascertained from the figures of annewaris of crops of past years available in the land revenue records. The tract selected should have fairly regular rainfall or suitable irrigational facilities. The extent to which the paper dues of the prospective borrowers can be reduced by amicable settlement with the creditors should form an important consideration for selection of the area.

32. In appendix A we attach a copy of the draft bye-laws suggested by us. We give below our observations on the salient points.

33. The area of operations of a Land Mortgage Bank should be as compact as possible, but it should be selected with a view to secure a suitable economic unit, which we consider to be about 100 borrowers requiring finance to the extent of Rs. 2 to 2½ lacs. If these conditions can be secured in a taluka, there is a promise of good and economic management, but failing that the area of operations may be larger but should never extend beyond a revenue district.

34. Membership should not be restricted to borrowers only, but should be open to non-borrowers also. As in the case of Central Land Mortgage Bank, we are of opinion that the introduction of non-borrowing members is likely to conduce to business strictness in the management of the Bank, and as there are severe restrictions on profiteering, we think that the provision of admission of non-borrowing members will be availed of only by public spirited leaders whose guidance

and local influence is likely to be a definite asset to the Bank. The coparceners of the borrower may also be admitted to a distinct class of membership in order to facilitate dealings with them, but they should have no right of vote or participation in management. Non-borrowing members should hold at least 10 fully paid up shares of Rs. 5 each. The borrowing members should hold fully paid-up shares to the extent of 5 per cent. of their borrowings. The coparceners of borrowers should hold at least one share of the nominal value of one rupee. The share capital so raised should be deposited or invested in the shares of the Central Land Mortgage Bank provided the investment in shares shall not be less than 5 per cent. of its borrowings from the Central Land Mortgage Bank at any time. The liability of a member should be limited to the amount remaining unpaid, if any, on the shares subscribed by him.

35. The loans may be given to persons resident within the area of the Bank who are or would become holders of agricultural land with the help of the loan, provided the coparceners of such members are willing to enrol themselves as distinct class of members and sign the mortgage bond. While granting loans, preference should be given to those persons asking for smaller sums and also to those that can take out endowment policies on their lives. Reduction of the dues with the help of the loan from the Land Mortgage Bank should be an important factor and, if possible the Bank should secure from the creditor an arrangement by which the amount finally decided upon should be paid in such instalments as will be recoverable from the borrower. Except with the special sanction of the Registrar no loan should be given in excess of Rs. 10,000. Loans up to Rs. 5,000 can be sanctioned by the Central Land Mortgage Bank on the recommendation of the primary bank and loans in excess of that amount should be subject to the approval of the Registrar. Ordinarily, period for which loans should be given should be limited to 20 years, but this can be exceeded with the special sanction of the Registrar. The objects for which the loans should be given should be :—

- (1) Redemption of lands and houses of agriculturists ;
- (2) Improvement of land and methods of cultivation ;
- (3) Installation and purchase of costly agricultural plant and machinery ;
- (4) Liquidation of old debts ; and

- (5) Purchase of land for the purposes of land improvement or consolidation of holdings or for bringing under cultivation cultivable waste, forest or fallow land.

36. The management of new Banks should, in the first instance, be vested in a Board nominated by the Registrar for a period varying from one to three years according to the availability or otherwise of suitable local workers. Thereafter, the Board should be annually constituted at the General Meeting. It should consist of four Directors elected by the members of whom at least one should be a non-borrowing member, one should be nominated by the Central Land Mortgage Bank, one by the District Central Co-operative Bank operating in the area, one by Government and one by the Provincial Institute. The powers of the primary banks should be to examine the loan application, nature of the security offered and the capacity of repayment of the borrower, to effect a settlement of the dues between the applicant and his creditor to recommend the grant of loan or otherwise to the Central Bank to effect recoveries and in case of misapplication of the loan to recall it or to demand further security in case of depreciation of the assets. The valuation of the assets as well as an estimate of the income of the applicant should be made by Land Valuation Officer lent by Government in the initial stages and later on appointed by the Registrar at the cost of the Bank. The rate of interest charged by the primary banks should not exceed one and a half per cent. over the rate at which funds are borrowed from the Central Bank. The Bank should, in addition, recover the valuation charges and the fees for examination of legal title on a scale fixed with the approval of the Registrar. The security demanded for the loan should be the first mortgage with possession of freely transferrable land of the value of at least twice the amount of the loan granted and yielding such income as would, on a reasonable calculation, if leased out, fetch an amount equal to the instalment due on the loan. This security should be revaluated periodically at least once in three years and in case of depreciation below the margin of safety, additional security should be demanded and in case of default the whole loan should be recalled. The two systems of recovery by means of equated instalments or equal instalments of principal have both their advantages and disadvantages. However, as equated instalments appear to be more suitable as being within the means of repayment of the borrower and easily understood by him, we recommend that this system should be introduced. No extension of the date of repayment

should be granted unless the interest is recovered and the conditions really justify it, such as failure of crops, but in any case such facility should not be given more than once in four years, and when such extension is granted, all future instalments of principal should be pushed forward by one year.

37. The land mortgaged to the primary bank should not be subsequently encumbered, transferred or alienated in any manner without the previous sanction of the Bank and it should also be one of the conditions that the produce of the mortgaged land should be sold through the Co-operative Sale Organisation, wherever existing.

38. Out of the net profits of the Bank 50 per cent. should be carried to the Reserve Fund and out of the balance a dividend not exceeding  $6\frac{1}{4}$  per cent. may be declared.

39. In conclusion, we would like to urge the early adoption of our scheme, as the circumstances at present are such as to demand without delay the provision of long term credit on the lines recommended by us. These circumstances have been set forth fully in our Report, but we would emphasise here, particularly the pressing need of the agriculturists to reduce the burden of their cash liabilities, the likelihood of securing facilities from the sowkar for the settlement of their outstanding claims, and the prevalence of abnormally easy condition in the money market. In case this favourable opportunity is missed, the pressure of debt may grow to such an alarming extent that it may lead to agrarian discontent and may shake the foundations of rural economy. We may note that in view of the situation created by the present depression, steps have already been taken in other Provinces and in Indian States to set up some special machinery for land mortgage credit and we hope that the Government of Bombay also will not fail to give their urgent attention to this question.

We have the honour to be,

Sir,

Your most obedient servants,

(Signed) K. L. PANJABI (*Chairman*).

( „ ) V. G. KALE,

( „ ) G. P. MURDESHWAR,

( „ ) VAIKUNTH L. MEHTA,

( „ ) A. U. MALJI,

( „ ) A. A. DESHMUKH,

( „ ) F. B. LAXMESHWAR,

( „ ) S. N. POCHKHANWALA,

} *Members.*



## APPENDIX A.

## BY-LAWS OF THE BOMBAY CENTRAL LAND MORTGAGE BANK LIMITED.

1. The Bank, which is registered under the Bombay Co-operative Societies Act, 1925, shall be called the Bombay Central Co-operative Land Mortgage Bank, Ltd.

2. Its registered address will be . In the event of any change in the address notice of such change shall be given to the Registrar within eight days of the change and published in a local newspaper.

3. In these by-laws "the Bank" means the Bombay Central Co-operative Land Mortgage Bank Ltd., "primary bank" means a district co-operative land mortgage bank registered under the Bombay Act VII of 1925 with the object of granting long-term loans to its individual members, "the Board" means the Board of Directors of the Bank, "Government" means the Government of Bombay, "Act" means the Bombay Co-operative Societies Act, 1925, and "Rules" mean the Rules under the Act for the time being in force.

*Area of Operations.*

4. The area of operations of the Bank may extend to the whole of the Bombay Presidency excluding Sind.

*Object.*

5. The primary object of the Bank shall be to finance the primary banks.

6. In order to fulfil the object, it shall have the power to—

(a) float debentures, on the security (of its assets and) of land mortgages <sup>assigned</sup> <sub>transferred</sub> to it by the primary banks for such period and on such conditions as may be approved by Government ;

(b) receive deposits and borrow loans ;

(c) grant loans to primary banks on such terms consistent with their by-laws as the Board shall decide ;

(d) acquire such immoveable assets and construct such buildings as it may consider necessary for the proper conduct of its business ;

(e) supervise the working of the affiliated primary banks ; and

(f) appoint such staff as it considers necessary for the conduct of its own affairs and for supervision of the affiliated primary banks.

*Membership.*

7. Every primary bank situated within the area of operations of the Bank and any person resident within the area who has not borrowed from any primary bank is of over 18 years of age and is competent to contract is eligible for admission to membership.

8. Every primary bank or person applying for membership shall—

- (a) make a written application for admission ;
- (b) pay up in full the (face) value of at least one share ;
- (c) pay an entrance fee of Rs. \_\_\_\_\_ ; and
- (d) satisfy the conditions prescribed in by-law 7.

*Note.*—The signatories to the original application for registration are exempt from the condition in by-law 8 (a).

9. Any application for admission may be rejected and any application for subscription to share capital may be rejected or a smaller number of shares, than applied for, may be allotted by the Board without assigning any reason.

10. With one month's notice by the Board the General Body may expel—

- (a) any affiliated primary bank or suspend its managing committee or any elected member thereof, for persistent mismanagement of its affairs or wilful disobedience of its own by-laws or deliberate omission or commission of any act likely to damage the credit of the Bank ;
- (b) any person if he wilfully deceives the Bank by false statements, or is criminally convicted, or is bankrupt or legally disabled or intentionally does any act likely to injure the credit of the Bank.

*Note.*—Expulsion may involve the forfeiture of any or all shares held by the member.

11. One year after the date of admission and on discharge of all liabilities owing to the Bank, a member may resign by an application in writing ; but the resignation shall take effect only after it is approved by the Board.

12. Any person who is a member may, by writing under his hand, attested by at least two witnesses and deposited with the Bank, nominate any person, other than a servant or officer of the Bank, to whom the whole or a part of his share or interest in the Bank shall be transferred in the event of his death, provided the nominee is a member or is admitted as a member or to whom shall be given the sum representing the value of his share or interest in the Bank as at the time of his death and as ascertained in accordance with the rules or by-laws of the Banks.

13. (a) A primary bank shall cease to be a member if it is expelled under by-law 10 (a) or is dissolved or if with the approval of the Board it resigns its membership or transfers all shares held by it.

(b) A person shall cease to be a member on death or on expulsion under by-law 10 (b) or if with the approval of the Board, he resigns or transfers all shares held by him or borrows from any primary bank.

#### *Funds.*

14. The funds of the Bank may be raised by—

- (a) Shares ;
- (b) Debentures ;
- (c) Entrance fees and miscellaneous fees ;
- (d) Deposits ; and
- (e) Other borrowings,

provided the funds raised in accordance with by-law 14 (b, d and e) shall not exceed 20 times the paid-up share capital and the reserve fund and those raised in accordance with by-law 14 (d) and (e) shall not exceed two times the paid-up share capital and the reserve fund.

*Share Capital.*

15. The authorised share capital of the Bank shall be Rs. \_\_\_\_\_ made up of \_\_\_\_\_ shares of the face value of Rs. \_\_\_\_\_ each.

16. The full face value of each share shall be paid in a lump sum on allotment.

17. One year after holding a share or shares, any member may transfer them with the approval of the Board to any other member or to any person or primary bank that is to be admitted as a member. The transfer shall not be complete until the name of the transferee has been entered in the Share Transfer Register and such fee as the Board may prescribe has been paid.

18. The paid-up share capital held by an affiliated primary bank shall at no time be less than 5 per cent. of its borrowings from the Bank.

19. The liability of a member shall not exceed the amount unpaid, if any, on the share or shares for which he or his estate is liable.

*Debentures.*

20. (a) The Board may issue debentures with a floating charge on the mortgages transferred to the Bank by the affiliated primary banks for such periods as the Board may determine from time to time. The period of debentures so determined shall not be less than 15 and not more than 25 years.

(b) The debentures shall be issued at par as bearer debentures of the denomination of Rs. 100 each, with half yearly interest coupons attached. The debentures (guaranteed by Government) shall bear interest at such rate as may be determined by the Board with the approval of Government (and as is warranted by the conditions of the money market and the rate of interest allowed on similar issues guaranteed by Government).

(c) The debentures actually in circulation shall not at any time exceed the total value of mortgage-deeds  $\frac{\text{assigned}}{\text{transferred}}$  to the Bank by the primary banks.

(d) The Board shall be competent to redeem any debentures after five years from the date of their issue ; but in such cases at least 6 months' previous public notice shall be given.

21. The Government shall appoint a Trustee or Trustees whose duty shall be to see that the Bank fulfils its obligations to the debenture-holders. They may require the Bank to transfer its interest in the mortgages  $\frac{\text{assigned}}{\text{transferred}}$  to it by the primary banks. The investment or deposit or the surplus funds of the Bank, the disposal of recoveries paid in by the primary banks and the redemption of debentures shall be subject to the control of the Trustees.

22. (a) Any debenture, which by reason of damage or defacement sustained, has become unfit for circulation, will be replaced at the request of the holder on giving up the damaged or defaced debenture, provided the essential marks of its genuineness and identity are recognisable.

(b) The reissue shall always be made under the same number with the addition of the word "renewed" and shall be made at the cost of the owner of the debenture concerned.

23. The debenture shall be signed and executed by at least two members of the Board and shall be countersigned by the Manager. The Bank shall have power to provide a common seal to be used for debentures and other deeds and documents of the Bank and the same shall not be used except by the authority of the Board and in the presence of at least one member of the Board.

24. No debenture holder can claim the repayment of the value of his debenture before the expiry of the period for which it was issued.

25. Every debenture-holder whose debenture is redeemed on notice under by-law 20 (d) shall be paid the sum for which the debenture was issued together with all interest due thereon up to the date of redemption. Debentures in respect of which notice of redemption has been given must be given up on the expiry of the term mentioned in the notice. Failure to hand in the debenture within the period mentioned in the notice shall result in extinction of the claim of the debenture-holder upon the Bank for interest accruing after the expiry of the said period.

26. Notwithstanding anything contained in by-law 20, the previous sanction of the Trustee or Trustees shall be necessary for—

(a) the issue of debentures or

(b) the conversion of one class of debentures into another class bearing a different rate of interest.

#### *Management.*

27. (a) The executive management of the Bank shall vest in a Board of Directors consisting of a maximum of nine persons of whom—

(i) two shall be nominees of Government (of whom the Registrar shall be one);

(ii) one shall be a representative of the Bombay Provincial Co-operative Bank;

(iii) one shall be a representative of the Bombay Provincial Co-operative Institute;

(iv) three shall be elected by the primary banks, grouped into regional constituencies when the number of such banks exceeds the number of Directors to be elected; and

(v) one shall be elected by a constituency of only individual members when their number exceeds 10 but not 50 or two shall be elected when their number exceeds 50.

(b) For purposes of election of Directors under by-law 27 (a) (iv and v), the delegates of primary banks and the individual members shall meet separately at the appointed place and time after the commencement

of the proceedings of the annual general meeting under the chairmanship of the President or in his absence of any delegate or member, as the case may be, who may be elected to preside over the meeting.

28. (a) The Board shall be elected annually at the annual general meeting of the Bank and shall hold office till a new Board is constituted and assumes office, provided it shall be competent to the general body to remove an elected member of the Board at any time and elect a successor for the unexpired period of his tenure of office.

(b) Retiring Directors shall be eligible for re-election.

29. Every Director shall vacate his office (a) if he becomes insolvent or (b) if by reason of mental or bodily infirmity, he becomes incapable of acting or (c) if he absents himself from 4 consecutive meetings of the Board or (d) if after his election on the Board by the constituency of individual members, he ceases to be a member of the Bank or becomes a borrower in any primary bank or (e) if, after his election on the Board by a constituency of primary banks, he ceases to be a member of any of the primary banks forming the constituency by which he was elected or becomes a defaulter for any debts owing by him to any primary bank.

30. Any vacancy occurring in the elective seats on the Board shall be filled by co-option by the remaining members of the Board for the unexpired term of its office. Vacancies occurring in the nominated seats shall be filled by fresh nominations by the agency that has made the original nomination.

31. As soon as a new Board is constituted, it shall proceed to elect a President from among its Directors. The President or in his absence the person chosen by the meeting shall preside over all meetings of the Bank and the Board.

32. The meetings of the Board may be held for the disposal of business, adjourned and otherwise regulated as the Board thinks fit.

33. Five shall form a quorum for the meeting of the board. All questions shall be decided by a majority. Should there be equality of votes, the person presiding over the meeting shall have a casting vote. No Director shall be present at the meeting when any matter in which he is personally interested is (being discussed or) voted upon.

#### *The Duties and Powers of the Board.*

34. (a) It shall be the duty of the Board—

(i) to maintain such accounts and register as are prescribed by rule 14 under the Act and by the Registrar from time to time ;

(ii) to convene the annual and special general meetings, to publish the notice and the agenda of such meetings and to place before them all such matters as are to be dealt by them under these byelaws ;

(iii) to carry on correspondence with Government, the Registrar and any institution or person ; and

(iv) to arrange for the supervision of the affiliated primary banks.

(b) The powers of the Board are—

(i) to raise or borrow such sums as may be required from time to time for the purposes of the Bank in accordance with and subject to the provisions of these byelaws ;

(ii) to prescribe from time to time the scale of office establishment and to incur such expenditure as may be necessary for the management of the Bank subject to the limits sanctioned in the budget allotment by the general body.

(iii) To fix the amount and nature of security, if any, to be given by the manager and the staff employed by the Bank under byelaw 34 (b) (ii and iii) ;

(iv) To suspend with the previous approval of the Registrar for a period not exceeding 6 months the managing committee as a whole or any member of the said committee of any affiliated primary bank for gross mismanagement of its affairs or for wilful disobedience of the Bank's orders or deliberate breach of its own byelaws. During the period of such suspension of the Committee as a whole, the Board shall, with the approval of the Registrar, make such arrangements for the necessary conduct of the business of the primary bank concerned as it deems fit.

(v) To delegate to the manager for the time being of the Bank and to authorise him to exercise and perform any of the powers and duties conferred or imposed on the Board, subject to such conditions and restrictions as the Board may think proper to impose. All acts done by the Manager in conformity with such regulations and in fulfilment of the purposes of such appointment, but not otherwise shall have the like force and effect as if done by the Board themselves.

(vi) To deal with applications for loans and extensions received from primary banks, to obtain such information as is relevant to their disposal, to determine the security, period of repayment, rate of interest and such other terms relating to the loans sanctioned to the affiliated primary banks and to determine the terms on which extensions are granted.

(vii) Subject to the control of the Trustee or Trustees as the case may be, (a) to invest the money at its credit in any investment or deposit authorised by clauses (a), (b) and (d) of sub-section 1 of Section 37 of the Act or in other securities approved by the Registrar. and (b) to proceed against the primary banks or the mortgagors or against both in case of default of payment of moneys due to the Bank.

(viii) Subject to the control of the Trustee or Trustees as the case may be, and also the provisions of byelaw 20, (a) to redeem the debentures in advance of their period and (b) to determine from time to time the value of debentures to be redeemed in advance of their period.

(ix) Subject to the provisions of the Act, Rules, these byelaws and resolutions of the general body to exercise all such powers, enter into all such agreements, make all such arrangements, take all such proceedings, do all such acts and things as may be necessary and proper

for the due management of the affairs of the Bank and for carrying out the objects of the Bank and for securing and furthering its interests.

(x) It shall be competent for the Board to frame subsidiary byelaws for the conduct of the business of the Bank consistent with the Act, the Rules and these byelaws, which shall come into effect only after they are approved by the Registrar.

35. (a) The Board shall cause minutes to be made in books to be provided for the purpose of the following matters :—

(i) of the names of members of the Board present at each meeting of the Board.

(ii) of the proceedings of all general meetings ;

(iii) of the proceedings of all meetings of the Board.

(b) All such minutes shall be signed by the person presiding at the General or Board meeting or by the person who shall preside at the next General or Board meeting respectively, at which the business minuted shall have been transacted and all minutes purporting to have been signed by any person presiding over the General or Board meeting respectively shall for all purposes whatever be *prima facie* evidence of the actual and regular passing of the resolutions and transaction or occurrence of the proceedings, purporting to be so recorded and of the regularity of the meeting at which the same shall appear to have taken place and of the chairmanship and signature of the person appearing to have signed as Chairman.

36. All acts done in good faith by the Board shall, notwithstanding that it is afterwards discovered that there is some defect in the appointment of such Board or person on the Board, be as valid as if the Board or every such person has been duly appointed.

#### *Powers of Officers.*

37. Subject to such resolutions, as the Board may from time to time pass, the several officers of the Bank shall have the powers mentioned below :—

(a) The President shall have a general control over all the affairs of the Bank. He shall also have powers to appoint the members of the establishment, except the Manager, as well as to punish, suspend or dismiss them subject in the last two cases to the approval of the Board.

(b) The Manager shall be responsible for the executive administration of the Bank subject to the control of the President. He shall be the officer to sue and be sued on behalf of the Bank and all bonds in favour of the Bank shall be in the name of the Manager. All bonds by the Bank except those of moneys borrowed shall be executed by the Manager and those of moneys borrowed shall be countersigned by him. He shall sign the cash book in token of its correctness and shall be competent to incur contingent expenditure subject to a maximum of Rs. 100 for any item. He shall, in consultation with the President or in his absence, any Director authorised by the President, convene

meetings of the Board. He shall attend all meetings of the Bank and the Board and record the minutes of their proceedings and do such other work as may be entrusted to him. In the absence of the Manager, the President of the meeting may require any member of the establishment to record the said minutes.

(c) The Manager, and to meet any temporary emergency, any other officer of the Bank, with the authorisation of the President, shall have power for and on behalf of the Bank to operate on the accounts, to endorse and transfer any promissory notes, Government and other securities standing in the name of or held by the Bank, and to sign, endorse and negotiate cheques and other negotiable instruments, and to sign all receipts and all accounts and other documents (except the debentures which shall be countersigned by him) connected with the business of the Bank. The cash balance at the close of each day shall be taken charge of by the person appointed by the President for the purpose.

(d) The Manager shall have custody of all the properties of the Bank. He or in his absence, any other person authorised by the President, shall make disbursements in accordance with the directions of the Board.

38. The services of the Directors of the Board shall be gratuitous. They may, however, be granted a reasonable allowance within the scale prescribed by the General Body to meet their out-of-pocket expenses while engaged on travelling or otherwise in the execution of their duties as Directors.

#### *General Body.*

39. The general body of the Bank shall consist of the following members :-

- (i) The Directors of the Board ;
- (ii) Individual members ; and
- (iii) Delegates representing the affiliated primary banks.

*Note.*—Every primary bank which is a member of the Bank shall each year at its annual general meeting appoint a delegate who shall represent the said primary bank at all general meetings of the Bank. The said delegate shall hold office so long as the said primary bank continues to be a member of the Bank or till a fresh delegate is appointed by the said primary bank at its general meetings.

40. The first General Meeting shall have the same powers and functions as any other General Meeting. It shall do the following before proceeding to transact any other business :—

- (i) Elect a person from among the original signatories present to preside over the meeting ;
- (ii) Formally adopt the byelaws approved and registered by the Registrar ;
- (iii) Consider and dispose of applications for admission to membership.

41. (a) The Annual General Meeting of the Bank shall be held within three months after the date fixed for making up its accounts for the year under the Rules.

(b) A Special General Meeting of the Bank may be called at any time by a resolution of the Board and shall be called within one month on the requisition in writing from—

- (i) one-fifth of the members of the Bank or 15 whichever is less ;
- (ii) The Registrar, and
- (iii) The Trustee or Trustees.

The requisition shall state the object for which the Special General meeting is to be called.

42. Ten days' clear notice shall be given to members for a meeting of the general body. The notice shall specify the date, place and time of the meeting and the business to be transacted at the meeting. No subject not included on the agenda can be discussed at the meeting unless  $\frac{2}{3}$ rds of the members present are in favour of it. But, even then, no question of expulsion of a member or amendment to a bye-law can be discussed without regular previous notice.

43. The General Meeting shall, among other matters, deal with the following :—

- (i) To elect the Directors of the Board under bye-law 27 (a) (iv) and (v).
- (ii) To receive from the Board the balance sheet and the report on the working of the Bank for the preceding year and to sanction the distribution of profits.
- (iii) To consider the audit and inspection reports received from the Registrar.
- (iv) To consider amendments to bye-laws.
- (v) To consider the expulsion of members under bye-law 10.
- (vi) To consider the complaints which any member may prefer against the Board.
- (vii) To appoint persons to audit the accounts of the Bank during the ensuing year and to fix their remuneration.
- (viii) To sanction the budget of the Bank for the ensuing year, and
- (ix) To do any other business duly brought forward.

44. Fifteen or  $\frac{1}{5}$ th of the total number of members on the list at the time, whichever is less, shall form a quorum at a general meeting. If there is no quorum at any meeting convened in pursuance of a requisition under bye-law 41 (b) (i), it shall be dissolved and in other cases it shall stand adjourned for not less than 5 and not more than 10 days and the business of the meeting can be transacted even if there is no quorum at the adjourned meeting.

45. The President of the meeting or in his absence, any person chosen by the members present shall preside over the general meeting. All questions shall be settled by a majority of votes of the members present and voting. When votes are equal, the Chairman of the meeting shall have a casting vote. The voting shall be by show of hands. If  $\frac{1}{10}$ th of members present demand a poll on any question, it shall be granted by the President and taken either immediately or within 15 days of the demand for a poll.

46. The funds of the Bank shall be primarily used for the purpose of granting loans to affiliated primary banks and the power to sanction such loans shall vest in the Board.

47. Loans due by way of principal from any affiliated primary bank shall not at any time exceed—

(a) the borrowing power of the said primary bank, as fixed from time to time in its bye-laws :

(b) Twenty times the paid up value of the shares of the Bank held by the said primary bank : and

(c) the value of mortgage deeds  $\frac{\text{assigned}}{\text{transferred}}$  to the Bank by the said primary bank.

48. The application of a primary bank for a loan from the Bank shall be accompanied by applications for loans from members of the said primary bank, and the Bank shall be competent to make such further enquiries with regard to the security offered by, and the repaying capacity of, the intending borrowers and other matters connected with the said applications. In all cases the Bank is the sanctioning authority in respect of loans to individual members of affiliated primary banks. Other things in respect of the requirements for the sanction of loans to individual members of primary banks being equal, preference shall be given by the Bank to smaller loans as well as to loans in which the loanees agree to take out endowment policies on their lives and to pay the periodical premia and to assign the policies to the primary bank as additional security.

49. The security for loans advanced by the Bank shall be the deed of first mortgage of freely transferable land passed by individual borrowers to the affiliated primary bank and  $\frac{\text{assigned}}{\text{transferred}}$  by the latter to the Bank. In those cases where a life endowment policy is taken out by the ultimate borrower and is assigned by him to the primary bank as additional security, such policies will also be further assigned by the primary bank to the Bank as collateral security.

50. If for any reason the Bank is of opinion that the security originally offered for the loan borrowed from it has become inadequate or has deteriorated or depreciated or is about to become inadequate or deteriorated or depreciated, it shall be competent for the Bank to call upon the debtor primary bank, by a notice in writing, to offer additional security to its satisfaction within the period stipulated in the notice. Failure to comply with the requirements of the notice shall entitle the Bank to recall the loan concerned at once whatever be the original terms on which the loan was advanced. Any sum outstanding against a primary bank which has been expelled or which otherwise ceases to be a member of the Bank shall become immediately repayable irrespective of any conditions on which the loan was granted.

51. The loans sanctioned to a primary bank shall be issued only after the assignment of mortgage deeds or life endowment policies or

both as the case may be, are assigned by the borrowing primary bank in favour of the bank.

52. The period of the loans granted by the Bank shall not ordinarily exceed  $\frac{3}{4}$ th the period for which the debentures issued are to run and shall in no case exceed 20 years except with the previous sanction of the Registrar.

53 (a) The rate of interest on loans shall be determined in each case by the Board of Directors subject to a margin of  $1\frac{1}{2}$  per cent. being maintained between the rate on loans and rate on debentures and also subject to a maximum rate of \_\_\_\_\_ per cent. per annum on loans. It shall be competent to the Bank to charge a higher rate not exceeding \_\_\_\_\_ per cent. on unauthorised arrears of debts due to it, as well as to recall the whole or any part of the loan outstanding with the primary bank in case it defaults payment of any instalment or its part on the date fixed for payment.

(b) Interest shall be calculated on the balance of loan outstanding at each payment for half or full month according as the days elapsed from the due date or a corresponding date of any month previous to the month of payment are less than 16 or more than 16 but not more than a full month respectively.

54. The loans granted by the Bank may be repaid either by a system of equated payments or by a system of equal instalments of principal together with full accrued interest to the date of payment on the loan outstanding before each payment. But the system of equal instalments of principal shall be introduced only with the previous approval of the Registrar.

55. It shall be open to the primary bank to repay a loan borrowed by it from the Bank wholly or partially before the date or dates fixed for repayment according to its convenience. It shall be competent to the Bank to require notice not exceeding \_\_\_\_\_ months from the borrowing primary bank in case of such advance payments.

56. The Board may renew loans only in abnormal cases of distress and only after enquiries and its satisfaction that such renewals are absolutely necessary. Such renewals shall not (on an average) be oftener than once in four years and shall be for a maximum period of one year. Renewal shall not be granted unless and until the interest accrued on the loan outstanding has been recovered in full to the date of recovery. When any instalment of a loan is renewed, all subsequent instalments may be pushed forward by a year.

57. When a member from whom money is due pays any sum, it shall be appropriated in the following order:—

- (1) Firstly to fines, postal registration and other miscellaneous charges due by the member;
- (2) Secondly, to interest; and
- (3) Thirdly, to principal.

#### *Profits.*

58. From the gross receipts of income interest paid and payable on debentures and other borrowings, all sums paid and payable on account

of costs of management and all other sums chargeable to profit and loss account for the year for which the accounts are to be made up under the Rules shall be deducted and the balance remaining shall be treated as net profits. The net profits of the Bank shall be disposed of as shown below :—

- (1) All forfeited shares, fines and entrance fees shall be credited entirely to the Reserve Fund ;
- (2) Of the remainder, 50 per cent. shall be carried to the Reserve Fund ;
- (3) Out of the balance, dividend at a rate not exceeding  $6\frac{1}{4}$  per cent. per annum may be paid to members proportionately to the amount of paid-up share capital held by each and also the period during which the paid-up share capital was so held during the year ; and
- (4) Any balance remaining may be allotted to any or all of the following or may be carried over :—
  - (a) Dividend equalisation fund ;
  - (b) Common good fund ;
  - (c) Propaganda fund ;
  - (d) Building fund ;
  - (e) Bonus to staff.

#### *Reserve Fund.*

59. (1) The Reserve Fund shall belong to the Bank as a whole and is intended to meet unforeseen losses. No member can claim a share in it. It shall be invested in such manner as the Registrar prescribes and shall not be drawn upon except with his sanction.

- (2) On dissolution of the Bank the Reserve Fund shall be applied :—
  - (i) to discharge such liabilities of the bank as may remain undischarged after the enforcement in full of the liability of the members of the Bank ;
  - (ii) to the repayment of share capital actually paid up ; and
  - (iii) to the payment of dividend upon such paid up share capital at a rate not exceeding  $6\frac{1}{4}$  per cent. per annum for any period or periods for which no dividend has been paid prior to the issue of the order for winding up of the Bank.

(3) Such portion of the Reserve Fund as shall remain after payments mentioned in sub-clause (2) shall, with the approval of the Registrar and in the manner approved by him be utilised in any or all of the following ways :—

- (a) Investments till a new co-operative bank with similar objective is established ; or
- (b) distribution among the affiliated primary banks ; or
- (c) application to objects of public utility.

#### *Inspection of Affiliated Primary Banks.*

60 (1). Every affiliated primary bank may be inspected whenever the Board thinks fit.

(2) Inspection shall be conducted by one or more of the Bank's officers or by any person or persons specially authorised by the Board for the purpose.

(3) The officers of the affiliated primary bank shall afford every facility and assistance for such inspection.

61 (1). The inspection and examination of the affiliated primary bank shall be made in accordance with the rules drawn up by the Board and may embrace any or all the points of enquiry stated in the rules ; and

(2) The result of the inspection shall be communicated to the affiliated primary bank concerned in such manner as may be determined by the Board.

62. The Bank (1) may require any affiliated primary bank to convene a general meeting and to take such steps for removal of the defects as it considers necessary ; and (2) may draw up rules of procedure for the guidance of the affiliated primary banks and for the submission of periodical accounts and returns by them.

63. Every affiliated primary bank shall be bound to obey the orders and instructions issued by the Bank and to abide by these bye-laws and any subsidiary bye-laws and rules or any amendments made therein from time to time.

*Amendments.*

63A. Subject to the Rules, bye-laws can be amended, provided that notice of the amendment has been given to the Registrar and to the members at least 10 days before the date of the general meeting. The amendment shall take effect only after they are registered under section 16 (3) of the Act.

*Balance-Sheet.*

64. Within one month after the close of the year for which the accounts are to be made up according to Rules the Board shall draw up the statements showing receipts and disbursements, assets and liabilities and profits and loss for the preceding year and such other statements or returns as the Registrar may prescribe from time to time and submit a copy of each of such statements and returns to the Government Auditor.

*Miscellaneous.*

65. Every member of the Bank shall be supplied with a copy of these bye-laws.

66. The Bank shall be a member of the Bombay Provincial Co-operative Institute and pay its prescribed subscription.







