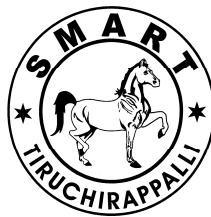


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REPAYMENT PERFORMANCE AND THE ATTITUDE OF BORROWERS TOWARDS COOPERATIVE SECTOR

V. Darling Selvi

Assistant Professor of Commerce, Rani Anna Government College for Women
Tirunelveli, Tamil Nadu, India, E- Mail ID: darlingselvi@rediff.com

Abstract

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. The co-operatives in Kanyakumari District play a vital role in the credit scene, particularly, in rural areas. The present paper is an attempt to bring out the borrowings and repayment performance of beneficiaries of co-operative banks in the District and to study the inherent factors behind the causes which lead to default through the attitude of the 100 sample beneficiaries. The study revealed that though the sample respondents displayed attitude regarding the formalities laid down by the co-operatives, they often found it positive difficult to repay the amount due to the farm and non-farm sector failures. It is suggested from the study that through effective recovery measures, marketing strategy and professionalism, the co-operatives can get rid of the default and to proceed towards success by competing with other commercial banks.

Key Words: Repayment, Attitude, Borrowings, Cooperative.

1. Introduction

A co-operative bank is a financial entity which belongs to its members, who are at the same time, owners and customers of their bank. Co-operative banks generally provide their members with a wide range of banking and financial services like loans, deposits, banking accounts and so on. Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body. Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative banking institutions take deposits and lend money in most parts of the world. Co-operative banking includes retail banking, as carried out by credit unions, mutual savings and loan associations, building societies

and co-operatives, as well as commercial banking services provided by manual organizations such as co-operative federations to co-operative businesses. In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the first aim of a co-operative bank is not to maximize profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services. Cooperative banks are owned by their customers and follow the cooperative principle of one person, one vote. They provide services such as savings and loans to non-members as well as to members and some participate in the wholesale markets for bonds, money and even equities. The Credit Institutions in the State belong to two distinct structures known as Short Term Cooperative Credit Structure and Long-term Cooperative Credit Structure. The Short term Cooperative Credit Structure consists of Primary Agricultural

Cooperative Credit Societies at the village level, District Central Cooperative Banks at the district level and the State Cooperative Bank at the apex level. The Long Term Cooperative Credit Structure consists of State Cooperative Agricultural and Rural Development Banks at the State Level and Primary Cooperative Agriculture and Rural Development Banks at the Block Level.

2. Statement of the Problem

The wide network of co-operatives, both urban and rural, supplements the commercial bank network in its efforts to deepen financial intermediation by bringing large number of small depositors/ borrowers under the formal financial network. The co-operatives in Kanyakumari District play a vital role in the credit scene, particularly in rural areas. The cooperative department has to oversee the functioning of these micro-level bodies and ensure that they are following the lending norms uniformly. In Kanyakumari District, there are 114 Primary Agriculture Credit Banks, along with 169 Students Cooperative Stores, 41 Employees Cooperatives, 15 Primary Cooperative Stores, 10 Special Type of Societies, 5 Cooperative Primary Agricultural Rural Development Banks, 5 Non Agriculture Credit Societies, 3 Cooperative Marketing Societies and others totaling 368 Cooperative Societies. They have a total membership of 4, 86,766 with 1,353 employees. Non Performing Assets, which is caused by the defaulting members, is a mountainous problem in all banking sectors and Co-operatives are no exception. The Co-operative Banks in Kanyakumari District had undergone radical changes in its profitability position which was mainly due to the increasing trend of Non - Performing Assets. As the attitude of the borrowers play a vital role, both in borrowing and repayment of the loan, the Researcher thought of analyzing the attitude of the 100 sample borrowers towards the Co-operative Sector. This paper highlights the

attitude of borrowers who borrowed from the co-operatives of Kanyakumari District.

3. Objectives of the Study

1. To highlight the borrowings and repayment performance of Primary Cooperative Agriculture and Rural Development Banks in Kanyakumari District and to analyse the attitude of borrowers with regards to the borrowing in Co-operative Sector.

4. Hypotheses of the Study

1. H_0 : There is no significant difference between the attitude of respondents regarding procedures of the Cooperative Banks and the farm related overdues
2. H_0 : There is no significant difference between the procedures of the Cooperative Banks and the Non Farm related overdues

5. Sample Selection of the Study

All the five PCARDBs in the district were taken for study and from among them, the Repayment Performance was low for Thuckalay PCARDB and Agasteeswaram PCARDB. The NPA was high in Thuckalay PCARDB to the tune of 29 percent, with a maximum of defaulting members, constituting 28 percent. Hence the Researcher took up Thuckalay PCARDB as the sample for study. The interview was conducted among 100 sample members from among the defaulting members of Thuckalay PCARDB through random sampling and the framed questionnaire was administered among them to know the causes and consequences of NPA in Cooperatives. The research design is given in *Table-1*.

6. Period of Study

The study covered a period of 11 years from 1999 to 2010 and it is based on secondary sources from the audited records of the PCARDBs. The primary data were collected during the period from June to December 2011 by Interview Technique.

7. Tools Used

Trend Analysis and Correlation Analysis were used for testing the growth of borrowing and repayment performance of the PCARDBs. Percentage Analysis was used, wherever necessary, to highlight the magnitude of the collected data. Five point scale and weighted ranks were used to rank the attitude of sample borrowers. Factor Analysis was applied to project and to reduce the attitude into a few components for easy understanding. Man Whitney Test was used to test the hypotheses.

8. Limitations of the Study

1. The study covered only the defaulters of loan. But there are many more members in the District, without availing the credit from Cooperatives.
2. For want of time and resources, some inherent problems like other financial burdens, family burden leading to low income generation and over debt burdens which is the major cause for default, were deliberately omitted.

9. Recovery Performance and Attitude of Borrowers in Cooperatives

Borrowings in PCARDBs

The amount of money a lender will lend to a person is based on the value of the collateral pledged. A person can use various things for collateral, including inventory, company equipment, or even accounts receivables. The lender determines a discount factor, a certain percentage which is multiplied against the value of the collateral and the resulting value is the amount of money that will be available as loan to the company. **Table-2** gives a picture of the borrowings of the Primary Cooperative Agricultural and Rural Development Banks during the period 1999-2000 to 2009-10. The banks of Thuckalay, Munchirai and Agasteeswaram recorded more borrowings than others comparatively. Till the year 2003-

04, the borrowings were comparatively high and then borrowings came down. However, the average growth rate shows a declining rate of 14 percent. The average borrowings in Thuckalay PCARDB recorded a maximum of 25.81 percent, which was followed by 21.03 percent for Munchirai, 20.12 percent for Agasteeswaram, 16.20 percent for Thiruvattar and 16.84 percent for Thovalai. The correlation analysis shows a negative result on all the five PCARDBs such as -0.83 for Agasteeswaram, -0.81 for Thovalai, -0.92 for Thuckalay, -0.90 for Munchirai, -0.78 for Thiruvattar. Therefore it is concluded that the borrowings came down heavily in case of Cooperatives in the District.

Recovery Performance of PCARDBs

Recovery of Loans is a good parameter to measure the performance of banks as it reflects the quality of their loaning policy. The recovery position of a bank is a better index, which reveals the financial performance of banks. The very existence of the PCARDBs depends on the recovery percentages because the NABARD has been changing the recovery limits for availing refinance facility from it and therefore the PCARDBs take possible efforts to collect the demand fixed every year. On an overall assessment, it could be seen from **Table-3** that the average collection performance of all the five PCARDB put together stands upto 37.52 percent. As per the trend analysis, it is seen that the collection performance was declining year after year, which was very low in the year 2008-09. However, the average trend over the years under study was calculated as 41 percent reduction. Hence steps should be taken to improve the collection performance of Cooperatives in the District.

Attitude regarding Procedures of the Cooperative Banks

As per the attitude of sample respondents, which is given in **Table-4** it is

understood that prompt repayment of loans not only increases the resources of the Cooperative Banks but also helps in recycling of funds, reasonable value of securities for loans and advances, loan waiver being inadequate, beneficiaries informed about credit facilities and schemes, authorities ensure friendly treatment to the borrowers, payment period allowed is sufficient, persuasive measures alone will improve the recovery performance of over dues, rate of interest charged by the bank is reasonable, quantum of loan provided is adequate, loan recovery measure adopted by the bank is very lenient, basic formalities are more and partiality and interest subsidy for the prompt payment is adequate. 79 percent of the respondents expressed positive attitude as strongly agree and agree, 7 percent expressed no attitude and 14 percent recorded negative attitude in the form of disagree and strongly disagree. The factor analysis of the attitude is given in **Table - 5**.

- **Good Customer Service**

The respondents recorded the attitude that time taken for sanction and dispersing the loan was reasonable, quantum of loan provided was adequate, rate of interest charged by the bank was reasonable, payment period allowed was sufficient, loan recovery measure adopted by the bank was very lenient, authorities ensured friendly treatment to the borrowers, persuasive measures were preferred to improve the recovery performance of over dues, beneficiaries were well informed about schemes and there was reasonable value of securities for loans and advances. The percent of variance under this head was 57.60 and this factor recorded 58.75 percent out of the total.

- **Inadequate Loan Waiver**

As the expectation of the borrowers is to get maximum credit waiver from the cooperative banks, they were of the attitude that

loan waiver was inadequate, prompt repayment of loans not only increases the resources of the Cooperative Banks but also helps in recycling of funds, reasonable value of securities for loans and advances, basic formalities are more and the prevalence of partiality was recorded. The percent of variance under this head was 29.63 and this factor recorded 30.22 percent out of the total.

- **Adequate Subsidy**

Interest Subsidy for the prompt payment was adequate and basic formalities were more for the two variables extracted in this factor. Hence adequate subsidy. The percent of variance under this head was 10.82 and this factor recorded 11.04 percent out of the total.

Overall Attitude about Cooperative Banks

Table-6 gives the overall attitude of the sample borrowers towards Cooperative Banks. It is observed from the Study that almost 79 percent of the sample respondents were satisfied with the services rendered by the Cooperative Banks, 14 percent expressed their neutrality over the services and only 7 percent were dissatisfied with the services.

Test of Hypothesis

H_0 : The attitude of respondents regarding procedures of the Cooperative Banks is not affected by the farm related overdues.

The hypothesis was tested through Man Whitney Test in **Table - 7** and the test revealed that the attitude of respondents regarding the procedures of the Cooperative Banks was not affected by the farm related overdues as the calculated value of Z 2.44 was lesser than the Table value of Z 2.56 at 5 percent level of significance. Therefore, it is concluded that the attitude of respondents regarding procedures of the Cooperative Banks was not affected by the farm related overdues.

H_0 : The attitude of the respondents regarding procedures of the Cooperative Banks is not affected by the Non Farm related overdues.

The hypothesis was tested through Man Whitney Test (**Table-8**) and the test revealed that the attitude of respondents regarding procedures of the Cooperative Banks was affected by the non farm related overdues as the calculated value of Z 3.90 was greater than the Table value of Z 2.56 at 5 percent level of significance. Therefore, it is concluded that the attitude of the respondents regarding procedures of the Cooperative Banks was affected by the Non Farm related overdues.

10. Findings of the Study:

Though the individual PCARDBs differ, both in borrowings and repayment performance, the overall borrowings show a negative correlation of -0.87 and an average reduction in the growth rate of 14 percent and the overall repayment performance is 38 percent, with an average reduction of 41 percent in its growth rate. The sample respondents did express good attitude towards the services and facilities of Cooperative Banks in Kanyakumari District. Good Customer Service, Inadequate Loan Waiver and Adequate Subsidy are the factors recorded under the attitude of the people with regards to the procedure of the Cooperative Banks. Almost 79 percent of the sample respondents were satisfied with the services rendered by the Cooperative Banks, 14 percent expressed their neutrality over the services and only 7 percent were dissatisfied with the services. The attitude of respondents regarding procedures of the Cooperative Banks was not affected by the Farm related overdues but affected by the Non- Farm related overdues.

11. Suggestions of the Study

a) Recovery of Debts: The average collection performance of all the five PCARDB put together stands upto 37.52 percent. It is known from the analysis that a lot of amount was kept idle as debts under NPAs. The recovery performance of banks was also not so high to help the development of banking activities. It is advisable to have a speedy recovery of loans by taking concrete measures. Government support can also be sought in this regard in seeking subsidies and the like so that farmers can settle their debts without any burden.

b) Marketing Strategy: Cooperative Banks generally do not support strong advertisements to attract deposits. On the contrary, commercial banks are found to be using professional marketing strategies. Hence it is imperative for the co-operatives to evolve and improve their marketing strategies to cope up with the competitive environment.

c) Absence of professionalism: The management style of Board of Directors is mainly based on political influences, involving the presence of inefficiency in management decisions and lack of effective corporate governance. Recently, the Reserve Bank of India has put a new condition for appointing directors, with suitable banking experience of relevant professional background. If this condition is properly implemented, one can witness massive structural changes in the Cooperatives.

12. Conclusion

Cooperative Banks are owned by their customers and follow the cooperative principle of one person, one vote. Unlike credit unions, cooperative banks are often regulated under both banking and cooperative legislation. They provide services such as savings and loans

to non-members as well as to members and some participate in the wholesale markets for bonds, money and even equities. The demographic profile of sample respondents reveals that majority of sample respondents were from the age group of 41 and above, consisting of 79 percent male, 99 percent married, having low level of literacy rate, 25 percent farmers, 80 percent live in nuclear family setup, living in houses with tiled and thatched houses, 92 percent in their own houses with relatively small family size. It is understood that 84 percent of sample respondents were in the habit of repaying their debts monthly and the remaining 16 percent on half yearly basis and among them, 75 percent repaid the amount directly to the bank and the rest 25 percent through bank employees and other reliable sources. Almost 77 percent of respondents were able to settle their payment on time. The major reason for the default was the expectation of loan waiver. Government Support, Lack of Guidance, Diversification of Loan Amount, and the Repayment Period are the factors identified under Non Farm related overdues. Therefore, it is concluded that sample respondents did exhibit good attitude towards the services and facilities of Cooperative Banks in Kanyakumari District. Good Customer Service, Inadequate Loan Waiver and Adequate Subsidy are the factors recorded under the attitude of the people with regards to the procedure of the Cooperative Banks. Almost 79 percent of sample respondents were satisfied with the services rendered by the Cooperative Banks, 14 percent expressed their neutrality over the services and only 7 percent were dissatisfied with the services. The hypotheses recorded significant difference between Non Farm related overdues and farm related overdues among the beneficiaries. Therefore, it is concluded that sample respondents did manifest good attitude towards the services and facilities of Cooperative Banks in Kanyakumari District while many incurred

overdues in expectation of loan waiver schemes and not due to either farm related or non farm related activities.

13. Scope for Future Study

1. A comparative analysis of the Non Performing Assets of various banks in Kanyakumari District can be conducted.
2. The causes and consequences of Non Performing Assets from the viewpoint of banks and the beneficiaries can be studied.
3. Attitude Survey can be conducted among the beneficiaries of Co-operatives and other banks in the District.

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Table -1
Research Design

PCARDB s	Members	%	Repayment Performance (%)	%	NPA %	Default members	%
Agasteeswaram	6175	24	54	17	24	80	14
Thovalai	4214	17	65	21	8	119	21
Thuckalay	6746	27	54	17	29	156	28
Munchirai	4150	16	74	23	25	136	24
Thiruvattar	4064	16	70	22	14	67	12
Total	25349	100	317	100	100	558	100

Source: Compiled from the Audited Reports of PCARDBs

Table- 2
Borrowings of PCARDB

Year	Agasteeswaram	Thovalai	Thuckalay	Munchirai	Thiruvattar	Total	Trend
1999-00	680.72	519.78	841.08	729.1	472.83	3243.51	100
2000-01	638.1	568.91	963.84	726.91	568.07	3465.83	107
2001-02	659.86	547.37	952.66	708.04	594.22	3462.15	107
2002-03	730.13	569.17	895.12	790	669.27	3653.69	113
2003-04	812.23	672.23	907.38	788.58	691.69	3872.11	119
2004-05	641.29	555.29	731.87	632.95	533.19	3094.59	95
2005-06	508.83	430.77	612.79	525.08	407.73	2485.2	77
2006-07	459.54	400.58	580.89	458.6	367.49	2267.1	70
2007-08	357.53	326.53	485.38	391.66	217.31	1778.41	55
2008-09	325.94	285.13	469.63	351.91	187.7	1620.31	50
2009-10	365.27	296.36	484.62	353.67	264.22	1764.14	54
Average	561.77	470.19	720.48	586.95	452.16	2791.55	86
%	20.12	16.84	25.81	21.03	16.20	100.00	
r	-0.83	-0.81	-0.92	-0.90	-0.78	-0.87	

Source: Audited Reports of PCARDBs

Table- 3
Overall Recovery Position of PCARDB

Year	Demand	Collection	Balance	% of collection	Trend %
1999-2000	185.21	117.18	75.6	63.27	100
2000-2001	242.49	126.01	109.25	51.97	82
2001-2002	257.01	158.01	128.76	61.48	97
2002-2003	324.45	178.65	146	55.06	87
2003-2004	333.64	135.5	197.99	40.61	64
2004-2005	391.63	129.98	261.65	33.19	52
2005-2006	383.23	102.39	280.83	26.72	42
2006-2007	380.36	71.15	309.81	18.71	30
2007-2008	385.27	114.55	270.74	29.73	47
2008-2009	307.02	40.05	266.96	13.04	21
2009-2010	295	55.96	239.04	18.97	30
Average	316.85	111.77	207.88	37.52	59

Source: Audited Reports of PCARDBs

Table -4
Attitude regarding the procedures of the Cooperative Banks

Statement	Strongly Agree	Agree	No attitude	Disagree	Strongly disagree	Total
Prompt repayment helps in recycling of funds	310	152	0	0	0	462
Reasonable value of securities for loans & advances	155	276	0	0	0	431
Loan waiver is inadequate	245	152	0	0	13	410
Credit facilities & Schemes are well informed to beneficiaries	95	284	0	20	0	399
The authorities ensure friendly treatment to the borrowers	70	268	0	26	6	370
The payment period allowed is sufficient	85	216	0	58	0	359
Persuasive measures will improve the recovery performance of over dues	85	176	36	54	0	351
The rate of interest charged by the bank is reasonable	55	196	42	52	0	345
The time taken for sanction & Dispersing the loan is reasonable	45	212	33	54	0	344
The quantum of loan provided is adequate	0	288	0	52	2	342
The loan recovery measure adopted by the bank is very lenient	0	204	78	46	0	328
Basic formalities are more	0	104	42	64	28	238
Partiality	0	44	81	76	24	225
Interest subsidy for the prompt payment is adequate	0	48	27	46	56	177
Total	1145	2620	339	548	129	4781
%	24	55	7	11	3	100

Source: Primary Survey

Table- 5
Factor Analysis on the Attitude of the respondents regarding
procedures of the Cooperative banks

Variables	Factor 1	Factor 2	Factor 3
The time taken for sanction & Dispersing the loan is reasonable	* .996	.034	-.074
The quantum of loan provided is adequate	*.984	.084	.156
The rate of interest charged by the bank is reasonable	*.987	.028	-.155
The payment period allowed is sufficient	*.940	.232	-.006
The loan recovery measure adopted by the bank is very lenient	*.916	-.216	-.179
The authorities ensure friendly treatment to the borrowers	*.909	.381	.142
Prompt repayment of loans not only increases the resources of the Cooperative banks but also helps in recycling of funds	.181	*.922	-.302
Interest subsidy for the prompt payment is adequate	-.278	-.314	*.907
Persuasive measures alone will improve the recovery performance of over dues	*.951	.124	-.228
Loan waiver is inadequate	.204	*.975	-.058
Credit facilities & Schemes are well informed to beneficiaries	*.887	.452	.031
Reasonable value of securities for loans & advances	*.744	*.653	-.038
Basic formalities are more	.430	*-.628	*.640
Partiality	-.036	*-.976	.166
% of Variance	57.60	29.63	10.82
Cumulative %	57.60	87.23	98.05
% of total	58.75	30.22	11.04

Source: Primary Survey

Table- 6
Overall Attitude about Cooperative Banks

Attitude	Number	Percentage	Cumulative Percentage
Very good	12	12	12
Good	67	67	79
Neutral	14	14	93
Bad	7	7	100
Total	100	100	

Source: Primary Survey

Table- 7
Attitude of the Respondents Regarding Procedures of the
Cooperative Banks and Farm Related Overdues

Attitude on the procedures of the Cooperative banks	Weighted Scores	R ₁	Farm related Reasons for overdues	Weighted Scores	R ₂
The time taken for sanction & Dispersing the loan is reasonable	344	7	Low non farm income	553	21
The quantum of loan provided is adequate	342	6	Low net farm income	523	20
The rate of interest charged by the bank is reasonable	345	8	More non-farm expenditure	485	19
The payment period allowed is sufficient	359	10	Fall in output price	426	16
Recovery measure adopted by the bank is very lenient	328	5	Increase cost of production	377	12
Authorities ensure friendly treatment to the borrowers	370	11	Crop failure	241	4
Prompt repayment of loans increases the resources of the Cooperative banks and helps in recycling of funds	462	18	Drought, Flood etc.	378	13
Interest subsidy given by the Cooperative banks for the members who repay the loan promptly is adequate	177	1	Low marketing facilities	617	22
Persuasive measures alone will improve the recovery performance of over dues	351	9	Total		127
Loan waiver is inadequate	410	15			
Credit facilities & Schemes are well informed to beneficiaries	399	14			
Reasonable value of securities for loans & advances	431	17			
Basic formalities are more	238	3			
Partiality	225	2			
Total		126			

Source: Primary Survey

$$U = n_1 n_2 + \frac{n_1(n_1 + 1)}{2} - R_1 = 91 \quad Z = \frac{U - n_1 n_2 / 2}{\sqrt{n_1 n_2 (n_1 + n_2) / 12}} = 2.44$$

Table- 8
Attitude of the Respondents Regarding Procedures of the
Cooperative Banks and Non Farm Related Overdues

Attitude on the procedures of the Cooperative banks	Weighted Scores	R₁	Non Farm related Reasons for overdues	Weighted Scores	R₂
Time taken for sanction & Dispersing the loan is reasonable	344	6	Repayment of old debts	813	24
The quantum of loan provided is adequate	342	5	Repayment other loans	818	25
The rate of interest charged by the bank is reasonable	345	7.5	Repayment of interest	700	21
The payment period allowed is sufficient	359	10	Short repayment period	654	20
Recovery measure adopted by the bank is very lenient	328	4	Repairs and maintenance	601	19
Authorities ensure friendly treatment to the borrowers	370	11	Consumption	764	22.5
Prompt repayment of loans helps in recycling of funds	462	17	Investment	447	16
Interest subsidy for the prompt repayment is adequate	177	1	Lack of technical guidance	529	18
Persuasive measures will improve the recovery performance of over dues	351	9	Lack of insurance coverage	432	15
Loan waiver is inadequate	410	13	Lack of Government support	345	7.5
Credit facilities & Schemes are well informed to the beneficiaries	399	12	Diversion of loan	764	22.5
Reasonable value of securities for loans & advances	431	14	Expectation of loan waiver	933	26
Basic formalities are more	238	3			236.5
Partiality	225	2			
Total		114.5			

Source: Primary Survey

$$U = n_1 n_2 + \frac{n_1(n_1 + 1)}{2} - R_1 = 158.5 \quad Z = \frac{U - n_1 n_2 / 2}{\sqrt{n_1 n_2 (n_1 + n_2) / 12}} = 3.90$$