



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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September 17, 2013

**RBI cancels Licence of Mahatma Fule Urban Co-operative Bank Ltd.,
Patoda, Dist. Beed (Maharashtra)**

The Reserve Bank of India has, effective August 24, 2013, cancelled the licence of Mahatma Fule Urban Co-operative Bank Ltd, Patoda, Dist. Beed (Maharashtra) as it had ceased to be solvent and the depositors were being inconvenienced by the continued uncertainty. Consequent to the cancellation of its licence, Mahatma Fule Urban Co-operative Bank Ltd., Patoda Dist. Beed (Maharashtra) is prohibited from carrying on business of 'banking' as defined in Section 5(b) of the Banking Regulation Act, 1949 (AACs). The Registrar of Co-operative Societies, Maharashtra State has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank.

With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Mahatma Fule Urban Co-operative Bank Ltd., Patoda Dist. Beed (Maharashtra), the amount insured as per the Depositor Insurance and Credit Guarantee Corporation Act, 1961 will be set in motion subject to terms and conditions of the Deposit Insurance Scheme.

Upon liquidation, every depositor is entitled to repayment of his/her deposits up to a monetary ceiling of ₹ 1,00,000/- (Rupees one lakh only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC) under usual terms and conditions.

For any clarifications, depositors may approach Shri Abhijit Majumdar, General Manager, Urban Banks Department, Reserve Bank of India, Nagpur. His contact details are:

Postal Address: Urban Banks Department, Additional Office Building, East High Court Road, Nagpur-440 001; Telephone Number: (0172) 2806838; Fax Number: (0172) 2552896; Email address: amajumdar@rbi.org.in

Background

The bank was granted a licence by the Reserve Bank of India on July 23, 1998 to commence banking business. The statutory inspection of the bank carried out under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) [the Act] with reference to its financial position as on March 31, 2010 revealed that it had not maintained statutory liquidity reserves. The bank had also exceeded single group exposure limit in respect of a bank guarantee amounting to ₹ five crore. The bank had sanctioned unsecured advances in excess of prescribed limits.

The statutory inspection of the bank carried out under Section 35 of the Act with reference to its financial position as on March 31, 2011 revealed that some irregularities, which were pointed out in previous statutory inspection, were persistent. Its credit deposit ratio had increased to 148.53 per cent, much beyond the prudential upper limit of 70 per cent. The files and relevant records of the cases, where exposure limit had been exceeded, were not made available to the Inspecting Officer during the inspection. The bank did not make any provision against the bank guarantee amounting to ₹ five crore invoked by Mahamedha Urban Co-operative Bank Ltd., Ghaziabad. Based on the finding of the inspection, the bank was issued operational instructions dated June 29, 2012 under Section 36 (1) of the Act.

The statutory inspection conducted by the Reserve Bank of India under Section 35 of the Act with reference to the bank's financial position as on March 31, 2012 revealed that many irregularities and violations which were pointed out in the previous inspections were persisting. The bank's assessed networth was (-) ₹ 1424.74 lakh, Capital to Risk Assets Ratio was (-) 187.01% and gross NPAs were 61.70% of the gross advances. The bank's owned funds were totally wiped out, its deposit eroded to the extent of 100% and it incurred losses of ₹ 1727.50 lakh. Overdraft was allowed in a current account related to the former Chairman of the bank, which was regularised by opening dummy loan accounts and transferring the funds to the current account. These dummy loan accounts were closed later by allowing overdrawals in the current accounts. By periodically resorting to such kite – flying, an amount of ₹ 1010.00 lakh had been siphoned off from the bank without any security thereagainst.

A bank guarantee of ₹ 500.00 lakh, issued against the security of Fixed Deposit Receipts (FDRs) of ₹ 300.00 lakh and ₹ 200.00 lakh, in favour of M/s Ashutosh Impex, New Delhi on behalf of M/s Vijay Cotton Trading Co., Patoda continued to be outstanding in the books of the bank. The bank allowed premature withdrawal of other three FDRs of ₹ 100.00 lakh each held as security against the above mentioned bank guarantee. An FDR of ₹ 200 lakh in the name of M/s Vijay Cotton Trading Co. Patoda was issued by allowing overdraft in Current Account of Vijay Cotton Trading Co. on April 20, 2009. The FDR was closed prematurely on November 26, 2009. The proceeds along with interest for ₹ 203,57,643 were transferred to the current account of M/s Vijay Cotton Trading Co. to settle the overdraft. The bank did not have any record of the sanction letter as well as other relevant papers in this case.

With a view to preventing preferential payment and protecting the interest of the depositors, the bank was placed under all inclusive directions for a period of six months from the close of business as on March 1, 2013 vide RBI directive dated February 28, 2013.

A Show Cause Notice for cancellation of licence under Section 22 of the Act was issued to the bank on April 9, 2013. The bank's reply dated May 6, 2013 was examined, considered and not found to be satisfactory. In view of the bank's precarious financial position, chances of its revival were remote and continuation of the bank would be against public interest. The Reserve Bank of India, therefore, cancelled the licence of the bank in the interest of bank's depositors.