

**Impact of Vaidyanathan
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Housing Co-operatives in Kerala— An Exploratory Study

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ABSTRACT

Co-operatives in Kerala are well developed and highly democratic in nature. In addition to traditional Credit sector, Co-operatives are also performing better in the fields of Healthcare, Education, Housing, Labour Contract, Fisheries and Milk, Coir and Consumer. As on 31st March 2013, 14205 Co-operative societies of varied nature were in operation, of which 382 were housing Co-operatives. The paper intend to highlight the status of housing Co-operatives in Kerala and to bring out the sustainable issues related to housing Co-operatives in Kerala. Kerala Co-operative Societies Act, 1969 and Rules 1969 have provisions to register four types of housing Co-operatives Viz., Co-operative Building Society, Co-operative House Building Society, Co-operative House Construction Society and Tenancy Housing Society. The findings based on the analysis and a case study given in the paper clearly indicates the changing paradigm of housing Co-operatives in Kerala. Most of the Co-operative credit institutions lends to house construction, purchase and expansion. Privileges extended in the form of Gehan registration helps a lot to bring down the cost of documentation. Compared to the competitive strength of real estate tycoons, Co-operatives failed to capture and stand in the market. If the Co-operatives want to thrive, it should extend value added services such as telephone, electricity, water, wastage management, repair and maintenance, security, healthcare on a sustainable basis. If Co-operatives are not in a position to construct flats, at least they can intrude in the common services that could be rendered.

Keywords: Housing Co-operatives, Gehan, Value Added Services, Real Estate

BACKGROUND AND JUSTIFICATION

The state of Kerala is entirely different from other states. The unique 'Kerala Model of Development' resulted in highest 'Human Development Index' in the country. Kerala has

achieved highest literacy rate, universal health care, and effective public distribution system to ensure availability of food grains to the downtrodden, cent percent financial inclusion, and above all decent dwelling units. Kerala is known for its significant level of labour migration and depends mainly on repatriation. The state has successfully implemented decentralized democratic governance at all levels. Though the government encourages all types of business entities, cooperative form of business contributes significantly to the state economy.

Before the formation of State of Kerala, co-operatives under the area were regulated by the Travancore Co-operative Societies Act V of 1112(M.E), Cochin Co-operative Societies Act XXVI of 1113(M.E) and Madras Co-operative Societies Act 1932. After the integration of Travancore and Cochin, Travancore-Cochin co-operative Societies Act 1951 came into force with effect from 1.9.1952.

After the formation of Kerala State, the Kerala Co-operative Societies Act of 1969 came into force with effect from 15.5.1969 in order to enact a uniform law on co-operation applicable throughout the State. Consequent on the introduction of Kerala Co-operative Societies Act 1969, Societies with unlimited liability ceased to exist and societies with limited liability came into existence. Thereafter Government of Kerala passed the Kerala Co-operative (Amendment) Act 1999 which came into force with effect from 1.1.2000. Providing membership to local body institutions, Deposit guarantee scheme in Primary Agricultural Credit Societies, Consortium Lending Scheme, Co-operative Development and Welfare Fund, Independent Election Commission, Separate Audit Wing and Vigilance Wing, and Co-operative Examination Board are the new provisions made in the Amended Act.

Cooperatives in Kerala are well developed and highly democratic in nature. In addition to traditional Credit Cooperatives, Cooperatives are also performing better in the fields of Healthcare, Education, Housing, Labour Contract, Fisheries and Milk, Coir and Consumer. As on 31st March 2013, 14205 cooperative societies of varied nature were in operation, of which 382 were housing cooperatives. The paper intends to highlight the regulatory framework of housing cooperatives in Kerala. The paper also tries to bring out the sustainable issues related to housing cooperatives in Kerala. The authors used Kerala Cooperative Societies Act and Rules 1969, amendments 2013, directives and circulars issued then and there. Moreover, discussion with the officials of Apex Cooperative Society namely Kerala Cooperative Housing Federation and four selected Primary Housing Cooperatives societies were conducted to clarify the operational constraints. A case study was also carried out to substantiate the findings.

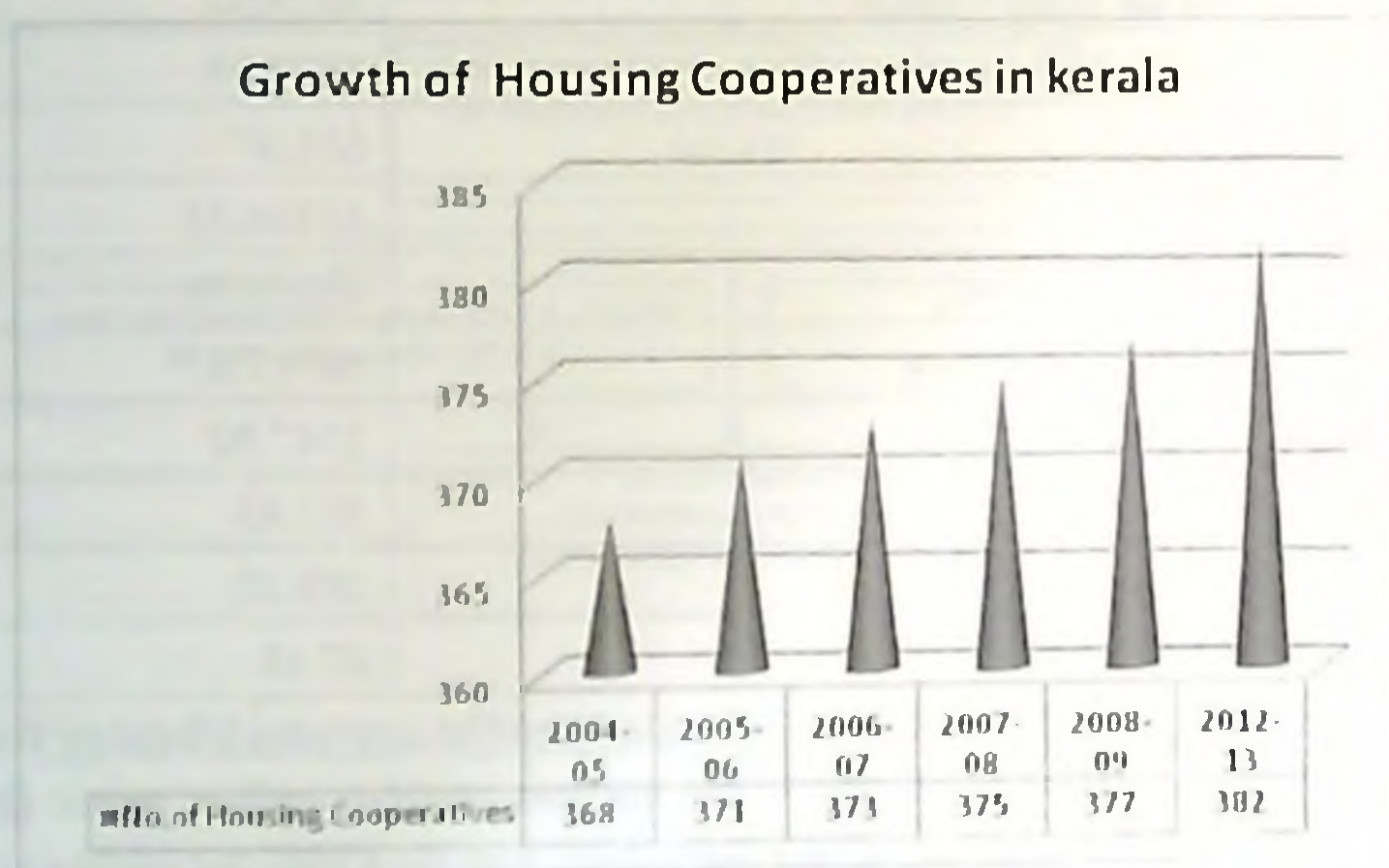
ORGANIZATION OF HOUSING COOPERATIVES

Like all other Cooperative Societies, Housing Cooperative Societies are also registered under the Kerala Cooperative Societies Act 1969 and Rules 1969. As per the provisions of the Kerala Cooperative Societies Act 1969 and Rules 1969, only the following types of housing cooperatives can be registered.

- (a) *Cooperative Building Society*: These are based on individual ownership. Members themselves will construct the houses.
- (b) *Cooperative House Building Society*: The assistance for construction of houses in accordance with the approved type designs is provided by the society. The society constructs houses on behalf of members.
- (c) *Cooperative House Construction Society*: These societies acquire land, construct houses and allot them to members on hire purchase system.
- (d) *Tenancy Housing Society*: The society owns site, construct houses according to the type and design and rents out them to the members. The relationship between the society and the member is that of a house owner and tenant.

However, in practice, significant numbers of housing cooperatives are Cooperative Building Societies. Of late, in the metropolitan cities like Thiruvananthapuram, Cochin and Kozhikode there is a demand for Flat Owners' Cooperative Societies to protect themselves and solve their common problems related to water, power and security. Kerala is a unique state where decentralized panchayat raj system is fulfilling the housing needs of scheduled castes and scheduled tribes without organizing housing cooperatives specifically for the purpose. The following table reveals the Status of Housing Cooperative Societies in Kerala.

Fig. 1: Growth of Housing Cooperative Societies in Kerala



MULTIAGENCY APPROACH TO HOUSING FINANCE BY THE COOPERATIVE SECTOR

Interestingly, in the state of Kerala there is high competition between different types of cooperative societies in lending to the housing loan borrowers. Since, Primary Agricultural Credit Cooperatives Societies are strong in terms of deposit mobilization and lending, they are also lending for house construction and expansion. District Cooperative Banks and the State Cooperative Banks are directly lending to the individual borrowers for house construction and expansion, repair and renovation. Kerala State Cooperative

Agricultural & Rural Development Bank is the State level apex body of 44 affiliated Primary Cooperative Agricultural and Rural Development Banks (PCARDBs) functioning under Federal structure. When this structure failed to attract more long term agricultural loan borrowers, they too turned to housing finance.

With the permission from the Reserve bank of India, they also started mobilizing deposits from the individuals, hitherto a neglected area for them. With the additional resources they mobilise from general public, they planned to aggressively penetrate in to the housing finance market.

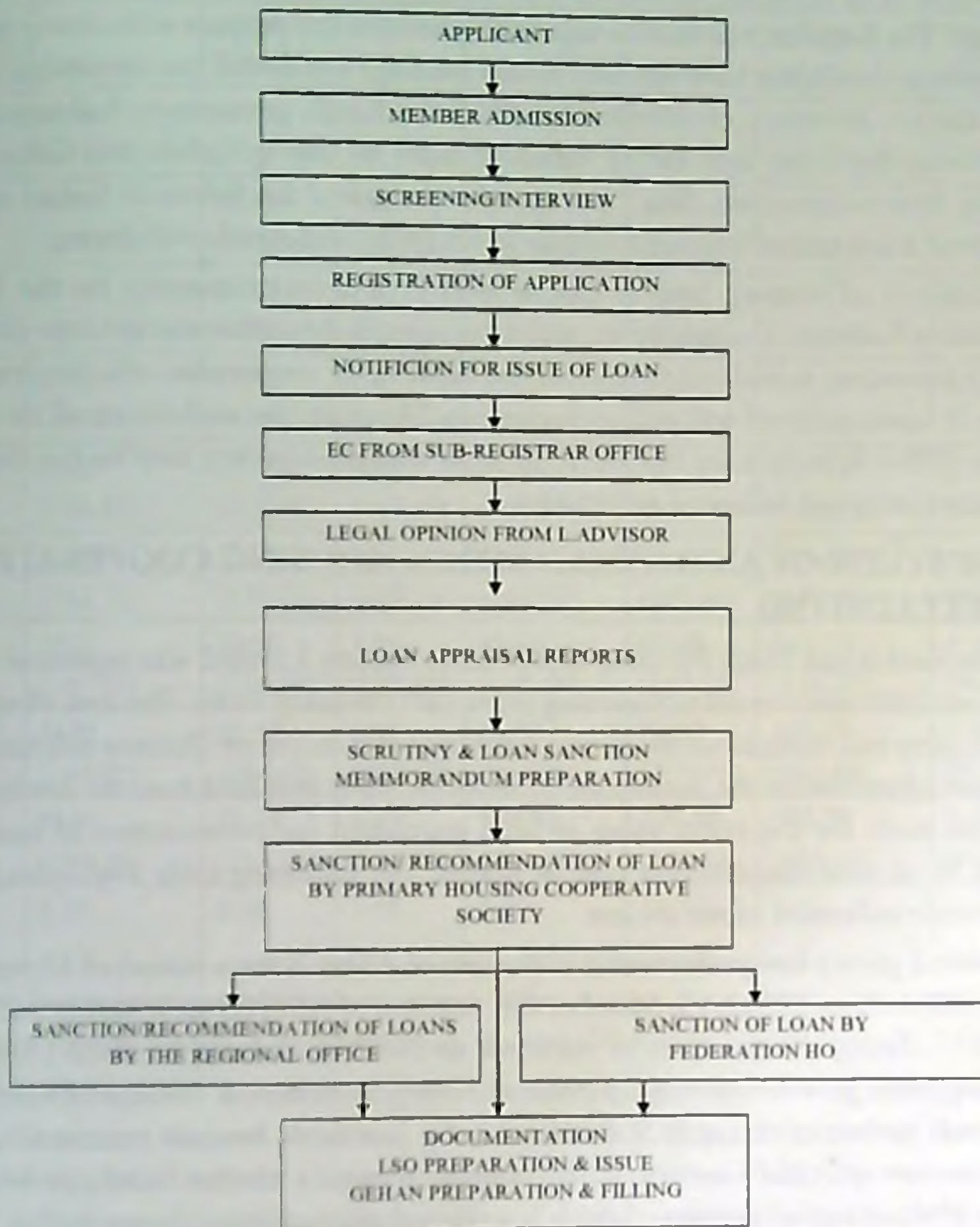
In co-operative housing sector, the Kerala State Co-operative Housing Federation is the State level Apex Institution and Primary Housing Co-operative Societies are the institutions at base level. The Federation provides loans to Primary Housing Co-operatives by availing loans from the National level financial institutions like Life Insurance Corporation of India, Housing and Urban Development Corporation (HUDCO), etc. The main function of Primary Housing Co-operatives is to issue loans to members for construction or purchase of residential Houses.

Table 1: Status of Kerala State Co-operative Housing Federation Ltd. (Housefed) as on 31st March 2010

Sl. No	Particulars	Amount in Lakhs (Rs.)
1	Paid up Share Capital	3819.32
	Of which Government Contribution	1477.08
2	Reserves	631.37
3	Borrowings	41530.33
4	Working Capital	45375.76
5	Loans Outstanding	38917.63
6	Loans Overdue	2347.82
7	Cost of Management	391.03
	of which salaries	288.22
8	Profit	87.18

Table 1 clearly indicates the status of Kerala State Co-operative Housing Federation Ltd. (Housefed) as on 31st March 2010. The authors couldn't collect recent data from the Housefed. Total fund position of the federation was Rs.45981.02 lakhs constituted by share capital (3819.32), reserves(631.37) and borrowings(41530.33), with a working capital position of Rs.45375.76/- lakh rupees. However loan outstanding does not show a very prospective picture, as only 85.77% of the working capital was used for lending purpose particularly when major share of fund base is through borrowings. Moreover, the loan overdue was 6.03 % which again deteriorates the financial viability of the federation. Further, the cost of management was Rs. 391.03 lakhs and out of which 73.71 % goes in terms of salaries. The profit generated out of working capital was only 0.19 % which is very low when compared to any lending agencies norms. Therefore, one can very easily conclude that the Housefed needs to go for financial reengineering.

Chart 1: Lending Process by Housing Cooperatives in Kerala



LEGAL COMPLIANCES FOR LENDING AND RECOVERY OF HOUSING LOANS:

The flow chart above clearly explains the flow of credit to the borrower from the federation. The process starts with the admission of individual as a member and goes through the Primary Housing Cooperatives Societies to the Regional office to the Head Office. After sanction of the loan again it travels the same way. Once disbursement is over, it is the responsibility of the Primary Housing Cooperatives Societies to recover the loan in time. There are Societies with their own funds and not depending on federation for lending. Here, the revenue loss to the government is due to the execution of Gehan. "Gehan" is a special charge on movable and immovable property in favour of the cooperative societies by a mere declaration in writing by the borrowers for security for the payment of money

advanced or to be advanced by way of loan which will have all the characteristics of a valid mortgage. The Registrar maintains a separate register for this purpose without any payment. Many private developers have opposed to this privilege and forced the cooperative societies to pay the fee. However, on 6th October 2013 the Kerala government had issued orders withdrawing the 2 per cent fee on value set forth for filling Gehan and Gehan release for loans from cooperatives. The 1 per cent fee prescribed for Gehan or Gehan release of agricultural loans and of housing loans up to Rs.2 lakh also stands withdrawn.

Recovery of housing loan in case of default is a major concern for the Housing Cooperative Societies. Though the act and rules permits the authorities to adopt all revenue recovery measures, in reality it's beyond the capacity of cooperative officials involved in the job. It needs political will and commitment. However, the authors are of the opinion that the willful defaulters are limited in number and delinquency may be due to job loss of bread winners and failure of repatriation.

A CASE STUDY OF ANTHIKKAD BLOCK HOUSING COOPERATIVE SOCIETY LIMITED

The Anthikkad Block Housing Cooperative Society Limited was registered on 22nd December 1979 and started functioning from 18th February 1980. The area of operation of the Society was Anthikkad Block and Arimboor Panchayat of Thrissur district, Kerala. The major objectives of the Society are to mobilise funds and lend it to the needy people. The bank lends for the entire value of land purchased for construction of houses and only 80 % of total construction cost of house. The following table highlights selected performance indicators of the society.

Table 2 gives a few performance indicators of ABHCS for a period of 12 years from the year 2001-02 to 2012-13. Membership position of ABHCS grew slowly but steadily from 1651 during the first year of reference to 2630 by the end of 2012-13, showing only a exponent growth rate of 4.25 percent. Slow growth rate in the case of membership is a normal feature of Housing Societies and also justifiable because membership has to commensurate with the resource at its disposal. Almost a similar trend can be seen in the case of share capital position, which is a normal phenomenon except during the year 2007-08, where a slight fall in the share capital can be observed. Another source of fund of the ABHCS is grants which shows only a meagre growth rate of 1.51 percent during the reference period.

Table 2: Selected Performance Indicators of Anthikkad Block Housing Coop. Soc. Ltd., (Rs. in Lakhs)

Year	Membership	Share Capital	Grants	Borrowings during the year	Lending during the year	Loans Outstanding	Profit or Loss
2001-02	1651 (100)	14.92 (100)	5.57 (100)	40.27 (100)	33.75 (100)	166.87 (100)	2.18 (100)
2002-03	1726 (104.54)	14.69 (98.45)	5.31 (95.33)	40.04 (99.41)	27.26 (80.77)	162.38 (97.31)	4.47 (204.69)

2003-04	1789 (108.35)	14.86 (99.59)	5.71 (102.51)	38.88 (96.55)	31.93 (94.60)	163.28 (97.85)	5.52 (252.50)
2004-05	1908 (115.56)	15.19 (101.76)	5.11 (91.74)	42.86 (106.42)	38.99 (115.53)	170.09 (101.93)	-1.04 (-47.88)
2005-06	2013 (121.92)	15.35 (102.86)	4.68 (84.02)	47.16 (117.09)	44.01 (130.39)	179.97 (107.85)	-1.38 (-603.75)
2006-07	2113 (127.98)	16.13 (108.11)	5.17 (92.90)	48.94 (121.52)	45.11 (133.65)	194.67 (116.65)	0.64 (0.29)
2007-08	2211 (133.91)	14.16 (94.91)	6.67 (119.74)	50.79 (126.11)	57.67 (170.87)	201.33 (120.65)	6.62 (3.03)
2008-09	2282 (138.21)	17.75 (118.94)	6.67 (119.74)	76.66 (190.35)	70.54 (208.99)	227.41 (136.28)	2.37 (1.08)
2009-10	2356 (142.70)	19.21 (128.71)	6.67 (119.74)	59.11 (146.77)	71.42 (211.61)	245.64 (147.20)	1.42 (0.65)
2010-11	2413 (146.15)	20.16 (135.09)	5.99 (107.63)	47.80 (118.69)	62.68 (185.72)	257.77 (154.47)	1.38 (0.63)
2011-12	2472 (149.72)	21.55 (144.42)	5.82 (104.48)	36.60 (90.87)	74.25 (219.98)	269.75 (161.65)	1.18 (0.54)
2012-13	2630 (159.29)	21.70 (145.41)	5.82 (104.48)	108.45 (269.26)	100.90 (298.94)	305.58 (183.12)	2.47 (1.13)
Growth Rate	4.25	3.98	1.51	5.25	11.24	6.12	

Note: Percentage in parenthesis shows growth index

Source: Annual Reports of Anthikkad Block Housing Cooperative Society Limited

It has to be noted here that, though the borrowings which is the major source of fund of the society showed an overall growth rate of 5.25 percent, lending during the same reference period showed a higher growth of 11.24 percent which is positive from the point of utilization of lendable resources. If profit can be taken as a positive indicator of performance or efficiency in operation, ABHCS showed a positive margin during most of the years of reference, even though growth can be observed in very few years. Looking at the overall performance of ABHCS and its resource base, it can be inferred that there is still wide scope for increasing the lending business which is hampered due to the paucity of funds. Low level of profit may be due to the low margin of interest spread and the escalation in the non interest expenditure burden. Only way to come out of this is by increasing the business by enhancing the resource base.

POLICY IMPLICATIONS

1. Multi Agency Approach to Housing Finance: Since there is high demand for housing finance, many lending agencies have come up with innovative housing finance schemes. Competing with such big players is very difficult for Housing Cooperatives. Hence, housing finance by cooperative sector is not restricted to Housing Cooperatives

alone rather, all possible cooperative credit institutions leads to house construction, purchase and expansion. Privileges extended in the form of Gehan Registration helps a lot to bring down the cost of documentation.

2. Growth of Real Estate Business: Money mongers or otherwise called as real-estate promoters ignoring all the norms of nation, continuously converting farm lands and environmentally protected zones in to concrete jungles. The promoters are approaching Non-resident Keralites in the respective countries itself and sell the plots, flats and villas. Compared to their competitive spirit, cooperatives failed to capture and stand in the market.

3. Value added Service and Sustainability of Housing Cooperatives: The people who are purchasing houses in a scheme demands continuous service for payment rather than on cost sharing. The tendency of people is to buy the services such as telephone, electricity, water, wastage management, repair and maintenance, security, healthcare and so on and so forth rather than solving the common problems through collective efforts. Since, the people of Kerala have got more international exposure, the service expectations are also on the higher side. If the cooperatives want to thrive, it should also add more number of services on sustainable basis.

4. Scope for Flat Owners Cooperatives: The land size is very limited in Kerala, but demand for better housing is increasing day by day. Historically, people of Kerala are emotionally attached to their lands and want to conduct their cremation in their backyards. However, changing social structure and rapidly expanding urbanization forced them to accept flat culture. If Cooperatives are not in a position to construct flats, at least they can intrude in the common service that could be rendered.

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