

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:592

ANSWERED ON:03.12.2004

A FAILURE OF MODHAVPURA MERCANTILE BANK

Adsul Shri Anandrao Vithoba

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has made any investigation to find out the causes for the failure of Modhavpura Mercantile Bank;
- (b) if so, the details thereof; (
- (c) the names of the persons found involved for failure of bank;
- (d) the action taken by the Government against each of such persons and public money recovered from them; and
- (e) the steps taken by the Government to check such incidents in the future ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) and (b): During 1999-2000, Madhavpura Mercantile Co-operative Bank Ltd. (MMCB) had resorted to indiscriminate lending, particularly to stock broking firms in gross violation of lending norms. In March, 2001, there was a sudden `run` on the bank, following rumors of its large exposure to a leading stock broker at Mumbai, who suffered huge losses in his share dealings. There was large scale withdrawal of deposits in March, 2001, resulting in severe liquidity problem for the Bank. With a view to protect the interest of the depositors, RBI issued directions to the Bank under Banking Regulation Act 1949 restricting certain operations and requisitioned the Central Registrar of Co-operative Societies (CRCS) to supersede the Board of Directors and appoint an Administrator. CRCS had superseded the Board and appointed an Administrator on 14th March, 2001 to oversee the affairs of the Bank. A Joint Parliamentary Committee was also constituted to enquire into the stock scam, through a Motion in Lok Sabha on 26 April, 2001. The Committee has since submitted its report and Government of India has placed before the Parliament, the action taken report on the observations/findings of the Committee.

(c) and (d): The Board of Management of the Bank was found primarily responsible for the failure of MNCB. RBI has filed criminal complaints against Shri Ramesh Bhai Nandlal Parekh, Chairman and Shri Devendra Prasad Pandya, Chief Executive and Managing Director, in the Court of Metropolitan Magistrate under Banking Regulation Act 1949 and Reserve Bank of India Act 1934 for having made false statements to RBI with respect to their call money borrowing and also failing to meet its assurance for submitting the required information. MNCB has also filed suits in 437 accounts involving an amount of Rs. 220.51 crores and issued legal notices in 930 accounts involving Rs. 1456.64 crores.

(e) Since April, 2001, RBI has taken a series of measures to correct the systematic deficiencies and to strengthen the system of supervision of Urban Co-operative Banks, which include, inter-alia, guidelines on capital adequacy norms, investment in Government and other approved securities. Bank finance against shares and debentures, operation in call/notice money market, introduction of 90 days norms for NPA classification, etc.