Law – Banking and Lending

The curse of the modern economy is the monthly minimum EMI and easy access to credit not for long term real needs, but for speculation and unnecessary, superfluous and wasteful wants and desires.

This just encourages debt, inflation and immediate gratification instead of stability, saving and working and saving for ones long term needs.

Fractional Reserve Lending should be abolished.

People should only spend the money that they have in their savings or limit their desires and spending till they save enough to buy it.

All central banks must not have any powers to increase the balance sheet of the nation.

Central banks should not be allowed to set interest rates, print money, take on debt or purchase debt or increase the balance sheet of the state.

Even the Elected Representatives should not have powers to increase the balance sheet of the nation, especially take on liabilities and unwarranted debt and encourage deficit spending.

The only authorised method to increase the balance sheet of the nation and take on additional debt and finance deficits, is a general referendum with at least a 65% majority in approval.

All the majority residents of the region who vote to increase the balance sheet and take on debt, must contribute an equal amount of their lives savings in proportion to the percentage amount by which they want the State to borrow and increase its balance sheet.

This general referendum can be held at a local, state or national level depending on the region of interest under consideration.

All central banks must not have any laws that control the transfer of foreign exchange or the interest rates in the country.

The central banks should only regulate legality, sector and area of investment, and ultimate source and beneficiary of foreign investments, domestic repatriations and money laundering.

There should only be a central banking regulatory authority to make sure that all banks are following the tax and source of funding rules, areas and sectors of investment, and to track money laundering.

The ultimate source and beneficiary cannot be a trust or company.

The final source/beneficiary will be the end individuals, not just companies and trusts that hide the identity of the final individual beneficiary or source.

The ultimate source must be declared to an individual with verified proof of birth, life, Tax ID, photo identification and address.

In the case of charitable trusts, the trustees and ultimate beneficiaries should submit the above information.

The central bank should ensure that the applicable taxes have been paid on these currency flows into and out of the country.

The central bank will also regulate the end purpose of the funding the can be allowed through foreign funding.

No foreign funds or foreigners should be allowed in any type of real estate and religious organisations

No foreign funds or foreigners should be allowed in any type of businesses which will threaten the livelihood and **net loss** of more than 40 local businesses.

Note this **net loss** means that if more local businesses will benefit than those lost, then foreign direct investment should be allowed.

Foreigners includes PIOs, Bharatiya permanent residents of foreign countries and NRIs who will not return to the country within 15 years, and live in Bharat for at least another 20 years after they return.

Gold is actually a worthless asset.

Its utility is just based on the assumption of the stored value by its owner.

It does not generate any capital. It only keeps up with inflation.

All central banks should issue paper money backed by a hard asset like non-perishable agricultural produce, real estate, stock in long established financially stable companies dealing in tangible businesses and paying regular dividends.

Tangible businesses do not include businesses that depend mainly on exports.

At least 70% of these business revenues must occur from sales in Bharat.

Banking and Lending

The future banks must be on the **vision** outlined by Ela Bhatt, the founder of the **SEWA Bank**.

Banks are just middle men.

The money is ours.

We have a right to ensure our money is safe.

Banks have an obligation to ensure our money is safe and provide stable and consistent returns even if the returns are average and only keep up with inflation.

Self help groups and community banks must be widely established.

The banks should be more on the lines of credit unions, local community banks, cooperative banks and banks and participatory and community guarantee banks like the Grameen Bank and SEWA Bank.

That is the only just and fair banking system – the banks must be owned by the people that are their clients and borrowers and lenders.

The people whose money and livelihoods are at risk if the bank fails, must be the owners of the bank.

All banking professionals must first get approvals from the owners of the bank before their raise their balance sheets or give loans more than Rs 1,00,00,000 to a single corporate business entity and their subsidiaries.

Some people say that micro-finance is also a good thing, but not all micro-finance groups have the interest of their clients as their primary interest.

At least 65% of financing in the country should diverted to community banks and self-help groups.

In the event that micro-finance groups and small finance banks are required, these micro-finance groups and small finance banks must be owned by a majority of the public.

Once the group has a turnover of more than Rs 100,00,00,000 or a net profit of Rs 25,00,00,000, each individual promoter of that micro-finance group should not have more than 5% share in the micro-finance group and bank.

This 5% share also includes their immediate family related to them either by blood or marriage.

So if there are many related individual promoters, they as a family as a whole cannot own more than 5% of the group.

Since these micro-finance groups may not have the resources to professionally manage it, a supervisory panel of at least 10 central bank employees must monitor the self help groups for every five districts or 100,000 customers, which ever is less.

Banks should never be allowed to be based on any group : race, religion, gender, caste, ethnic groups.

There should only be banks for all with equal and non-discriminatory lending practices.

There should be no private banks run for profit for gambling Pimps of Wall/Dalal Street.

All banks should be run by the people and must be more than 70% publicly owned for listed banks or in case of unlisted banks more than 50% with non blood or non marriage related shareholders.

People who work for the bank, must have shares in the bank bought at the current book value.

These bank employees must have it in higher quantities according to their financial powers at each level of seniority.

All bank employees who grant a loan must also be made responsible to recover that loan.

They should put an amount of 50% of their pension fund into a security deposit fund that will be confiscated in proportion to their bad loan sanctions, for any loans that are defaulted on because of their judgement.

These only apply to loans more than Rs 25,00,000 for a business and Rs 30,00,000 for a home loan and Rs 10,00,000 for any other asset movable or immovable (does not include Autos and consumer goods).

The bank employees must also be given a commission of 0.005% of the loan upto a maximum of Rs 10,00,000 per loan for every successful loan that they gave and was paid back to the bank.

Any bank employee who is pressured to give a loan by any person, even an elected representative should immediately report the matter in writing to the Lok Pal and be given protection under the Whistleblowers protection act.

These whistleblowers should be given complete anonymity, job protection and must continue to get the same benefits and promotions that would normally be due to them.

We must actively encourage community banking and microfinance.

Farmers and small businesses and small entrepreneurs should get unsecured lines of credit especially women small farmers and women small entrepreneurs.

A small business is a maximum of Rs 2,00,00,000 in revenue or Rs 20,00,000 in profits which ever is less.

Unsecured lines of credit should be extended after screening to small businesses, auto and taxi drivers, street cart and street vendors, small farmers, small chicken (less than 1000 chicken), sheep (less than 100 sheep) and dairy (less than 10 cows) farmers and other small entrepreneurs especially to the women among these groups.

Unsecured access to credit must only be given for productive purposes

Easy access to credit, especially unsecured credit, **should**

never be given for non productive purposes like marriage, birth, death and other ceremonies, purchase of gold and jewelry, and consumer goods which do not have a life of at least 8 years.

For proven business purposes, banks should be willing to give a person unsecured lines of credit of upto Rs 50,00,000, but screening should be done especially for the purpose of use and potential for repayment.

Easy access to credit of upto Rs 2,00,00,000 can be given to small businessmen especially those who are women, but proper screening should be done that funds will be properly utilised for the purpose it was borrowed and not be misused.

Easy access to credit must be given on very low terms (<2%/year) and even interest free for family emergencies like major illness and also for family necessities like education.

Of course there should be limits on the amount that can be borrowed for family emergencies.

Education and healthcare loans must be limited to the level of the median 60% fee of local educational and healthcare institutions in the area the borrower is going to study or go for healthcare.

Sometimes the people may not have the collateral to provide a guarantee for a loan.

The bank should not refuse people loans just for the sake of collateral.

After a rigorous screening and approval, a bank can take an equity stake in the business that these people intend to start.

In fact if anybody who is an honest entrepreneur in a small business has debt, then he should pay no taxes for the interest he repays on that debt.

Following should be the rule for bank loans to big businesses of more than revenues more than Rs 25,00,00,000 or net profit greater than Rs 2,00,00,000 (whichever is more) and also for any loan more than Rs 3,00,00,000:

The promoter must put up 50% of the equity and only 50% should be given as loan.

The promoter must give his personal guarantee to the bank.

For real estate and infrastructure companies the promoter must put up 50% of the loan and also mortgage not just the property he is borrowing for, but also his entire personal property including that of his family and give his personal guarantee to the bank.

All banks and moneylenders must be regulated by and registered with the Central Bank.

Credit card and gold loan and other NBFC loan companies should be strictly regulated.

Any private individual, company, business or group of unregulated money lenders should be made illegal and abolished and the loans that they have lent be forgiven and assets confiscated that they have recovered for loan defaults from those who had defaulted.

Registered, licensed and authorised private individuals and companies must be allowed to lend at strictly regulated rates of not more than +4% above the average 3 year bank deposit rate and also with regulation with regards to recovery, repayment and default.

They should be allowed to lend to their employees, vendors, business associates and clients.

There should be no credit cards and credit cards should be abolished.

There should only be debit cards or prepaid credit card, but these cards should have the privileges of credit cards like zero liability for theft and refund for bad purchase and also reward points.

There should be no private insurance companies.

There should be no interest charged more than 12% per year for anybody, except for speculators, gamblers, producers of immoral activities, meat and intoxicants producers and dealers and financial market traders.

These people should be charged an interest amount of 60% per year.

Only small meat producers with (less than 1000 chicken), sheep (less than 100 sheep) and cattle (less than 20 cattle) should be charged lesser interest rates upto a maximum of 12% per year.

Only small animal products vendors with income upto Rs 15,00,000 should be charged lesser transaction tax rates upto a maximum of 12% per year.

No loans should be given even for first time home buyers unless the person who takes the loan will live in the home within 3 years after possession is handed over.

No loans should be given for 2nd homes/sites or 2nd automobiles or motorbikes for the entire family of the person that stays with him, not just limited to the individual person alone.

No loans should be given for homes/sites more than Rs 1,50,00,000 and for cars more than Rs 12,00,000.

Interest free loans can be given for bicycles costing upto Rs 20000.

Banks should not be allowed to repossess a persons assets if they defaulted on a loan due to circumstances beyond their control – death, crippling disability, accidents, events of nature, rioting and civil unrest.

That also means farmers and those that depend on nature for their business, will not be affected if their crops fail due to acts of nature like drought, flood, fire or pestilence.

Fire is a very risky act to consider if it genuine or willfully set.

Sometimes fires or floods are set willfully and any person who sets a willful fire or willful damage property must not have their debts forgiven.

For all acts beyond a persons control, the interest on their debts should be forgiven.

They should be given 20 years time to pay their debt principal.

At no time should their annual debt payments on principal be more than 8% of their annual net income after taxes.

If they are still not able to repay the principal in 20 years, even under the above lenient terms, then their debts should be forgiven.

If they die or are critically disabled, their debts should be forgiven. Their assets should not be seized from them.

These terms of interest and debt forgiveness should only apply to debts taken for productive purposes and family emergencies as mentioned earlier.

Debts taken for non productive purposes must not be forgiven.

Their assets should be confiscated only if they fail to pay their debts because of willful negligence or willful fraud, willful default or other willful malpractice, But the biggest criminals in debt default are the Pimps of Wall Street/Dalal Street and Lalas.

Most of these businessmen manipulate their shares to high prices, pledge these high priced shared with foolish and sometimes colluding banks and then invest all fraud loan money for their personal assets and interests outside their debtor companies.

Such people must be dealt with strictly – they must give their personal guarantee and assets from all their companies and personal wealth, and associated close relatives and associates names, should be seized by the creditor in the case the borrowing company or any of their companies defaults.

If they cannot pay, they should be made to do 1 years full time soft or community labour for every Rs 10,00,000 they default on, upto a maximum of 2 years.

If they are willful debt defaulters or fraudulent borrowers, then they should be made to do 1 years hard labour for every Rs 10,00,000 they default on upto a maximum of 4 years.

Willful and fraudulent debt defaulters should also be subject to the law for theft.