

### Meaning of Local Area Banks:

In view of the success of co-operative banks in mobilising deposits and creating credit facilities in rural areas it has been established that co-operative banks throughout the country are playing a very important role of rural development and national economy. All the co-operative banks function like co-operative credit society and are managed by their respective members.

Although function of these banks is regulated by the Reserve Bank of India but the operation part of these banks needs much to desire. All these factors combined together prompted an idea of setting up Local Area Banks under the Private sector in order to provide institutional mechanism to the financial resources available in rural areas and arranging for the provision of credit for economic activities in local areas.

### Constitution and Object:

Unlike Co-Operative Banks the Local Area Banks are set up under private sector like a Private Limited Company to cater to the credit and other financial needs of the local people in a competitive form. Like other private and commercial banks the local area banks are registered under Companies Act 1956.

But the banking activities are controlled by the Reserve Bank of India. The Banking Regulation Act 1949 is applicable to these banks. They are also eligible for including in the second schedule of RBI under the Reserve Bank of India Act 1934.

### Functions of Local Area Banks:

These banks are eligible to undertake all type of functions which are done by any other commercial bank in ordinary course of banking activities as per banking laws and practices within their own areas. These banks provide loans to local customers for Agriculture and its allied activities.

Agro based Industries, Small scale Industries, trading including non-farm activities etc. These banks are also required to observe the priority sector lending targets at 40% of their net bank credit, at least 25% of PS lending or 10% of net bank credit should be deployed for weaker sectors.

Local Area Banks are set up in District Towns and are required to function within their own area which in normal case does not exceeds three district towns. These banks can be set up by any individual, Corporate house, Trust Or Society etc. with minimum paid up capital of Rs. 5 Crores.