Management of Non-Performing Assets in banking system

REASONS FOR HUGE LEVEL OF NPAs

1. Willful Default:

If the borrower doesn't pay though he has the capacity to pay. He is termed as willful defaulter. The features of willful default are wrong use of funds and siphoning of funds.

2. Improper functioning of Debt Recovery Tribunals

Although the setting up of Debt Recovery Tribunals had raised much hope about speeding up of the recovery proceedings initiated by banks these hopes have largely remained unfulfilled. At quite a few places, the DRTs are still to be set up and, even where these have been set up, they are not yet fully equipped to handle very large number of cases already before them or those that can be placed before them. In some of the DRTs, the number of pending cases is quite large. While the government has been reviewing the operations of DRTs, as yet a Stage has not come when it can be said that these are helping recoveries of banks' dues substantially. In fact it has failed to achieve the declared objective of disposal of' cases within six months in speedy recovery of advances.

3. Project appraisal Deficiencies: -

It includes deficiencies regarding technical feasibility" economic viability and project management deficiencies in regard to implementation, production, and labor " marketing" financial and administrative.

4. Ineffective Credit Monitoring: -

Ineffective credit monitoring al1d follow-up mechanism of' the banks have also contributed to slippage of' standard loans into bad loans.

5. Diversion of Funds: -

Diversion of' funds mostly for expansion/diversification/modernization and taking up new projects and for promoting associated concerns is a prominent reason for high level of NPAs.

6. External factors: -

The RBI study noted that non-availability of raw materials, power shortage, transport bottlenecks, financial bottlenecks, change in Govt. policy, natural calamities, industrial sickness, increase in import cost, increase in overhead cost, market saturation, product obsolescence, fill in demand and others were responsible for weak performance in 48% of units assisted by the banks resulting into advances given to them turning bad.

7. Ineffective legal system: -

It is one of the most important factors contributing to enormously high *level* of NPAs in Banks. Antiquated legal system, extremely slow judicial system and dismal record of enforcement machineries have contributed significantly to high level of NPAs.

8. Failure of suppliers: -

The failure of suppliers to adhere to promised/committed delivery schedules due to various reasons is also one of the causes for an increase in the level of NPA.

9. International development: -

Sudden international development adversely affects viability of production units e.g. OIL Crisis, fertilizer plants based on petro chemical feedstock became suddenly enviable.

10. Promoter-banker nexus: -

In many instances, loans have been sanctioned because of vested interests. Promoter-banker nexus have been exploited to siphon off funds from the banking system.

11. Operational factors: -

It is regarding the current and prospective risk to earnings arising from fraud, error and the inability to deliver products or services and maintain a competitive position.

12. Strategic Factors: -

It includes adverse business decisions, improper implementation of of decisions or lack of responsiveness to industry changes.

INTRODUCTION TO THE PROJECT

It's a known fact that the banks and financial institutions in India face the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable. In order to bring the situation under control, some steps have been taken recently. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was passed by Parliament, which is an important step towards elimination or reduction of NPAs.

NPAs : AN ISSUE FOR BANKS AND FIs IN INDIA

To start with, performance in terms of profitability is a benchmark for any business enterprise including the banking industry. However, increasing NPAs have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the some time are forced to make provision on such assets as per the Reserve Bank of India (RBI) guidelines.

Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford defaults by borrower s since NPAs affects the repayment capacity of banks.

Further, Reserve Bank of India (RBI) successfully creates excess liquidity in the system through various rate cuts and banks fail to utilize this benefit to its advantage due to the tear of burgeoning non-performing assets.

INDIAN ECONOMY AND NPAs

Undoubtedly the world economy has slowed down, recession is at its peak, globally stock markets have tumbled and business itself is getting hard to do. The Indian economy has been much affected due to high fiscal deficit, poor infrastructure facilities, sticky legal system, cutting of exposures to emerging markets by FIs, etc.

Further, international rating agencies like, Standard & Poor have lowered lndia's credit rating to sub-investment grade. Such negative aspects have often outweighed positives such as increasing forex reserves and a manageable inflation rate.

Under such a situation, it goes without saying that banks are no exception and are bound to face the heat of a global downturn. One would be surprised to know that the banks and financial institution in India hold non performing assets worth Rs. 110000 crores Bankers have realized that unless the level of NPAs is reduced drastically, they will find it difficult to survive.

GLOBAL DEVELOPMENTS AND NPAs

The core banking business is of mobilizing the deposits and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results into economic growth.

However lending also carries credit risk, which arises from the failure of borrower to fulfill its contractual obligations either during the course of a transaction or on a future obligation.

A question that arises is how much risk can a bank afford to take? Recent happenings in the business world -Enron, WorldCom, Xerox, Global Crossing do not give much confidence to banks. In case after case, these giant corporate becan1e bankrupt and failed to provide investors with clearer and more complete information thereby introducing a degree of risk that many investors could neither anticipate nor welcome. The history of financial institutions also reveals the fact that the biggest banking failures were due to credit risk. Due to this, banks are restricting their lending operations to secured avenues only with adequate collateral on which to fall back upon in a situation of default.

MEANING OF NPAs

An asset which ceases to generate income for the bank is called. a Non-Performing Asset. An asset is classified as non-performing asset (NPAs) if dues in the form of principal and interest are not paid by the borrower for a period of 180 days. With a view to moving

towards international best practices and to ensure greater transparency, it has been
decided to adopt the '90 days overdue' norm for identification of NPAs, from the year ending March 31, 2005. Accordingly, with effect form March 31, 2005, a non-performing asset (NPA) shell be a loan or an advance where;

i. Interest and/*or* installment of principal remain overdue for a period of more than 90 days in respect of a **Term Loan**,

ii. The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (ODICC),

iii. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

iv. For a period not exceeding two half years in the case of an advance granted for agricultural purpose, and

v. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

ADVERSE EFFECTS OF NPAs

An NPA on the balance sheet of an institution deteriorates its health in several ways:

1. **Problem of moral hazard**: Interest income cannot be booked on the loan declared as an NPA, and so profits get affected. In addition, provisioning against assets creates further losses. Thus, financial institutions have a tendency to rollover non- performing loans. The borrower is given more loans to pay interest on past loans and repay whatever amount is possible.

2. **Adverse Incentive**: A bank with say 25% NPA, will have to earn on 75% of its assets to meet its expenses and make a profit. It will have a tendency to go for more risky ventures promising higher rates of return, since 750/(; of the loan portfolio will have to pay for 100% of the liabilities and risky venture always have a greater probability of becoming 'non- performing', thus completing the self- fulfilling cycle.

3. **Huge Opportunity Cost**: Assuming Rs. 1,00,000 crore locked up due to NPAs started earning interest, say at 10%, it would immediately boost the interest yield of the nationalized banks by anything between 1.6 and 1.8%. This increased yield could then translate into reduced interest rates for the banks' clients.

REASONS BEHIND HUGE LEVEL OF NPAs IN THE INDIAN BANKING SYSTEM (IBS)

The origin of the problem of burgeoning NP As lies in the quality of managing credit risk by the banks concerned. Any lending activity involves the following three stages where discretion needs to be exercised: evaluation and assessment of the proposal; continuing support during the loan period by additional loan or by non-fund based activities; and exit decision and modality. Studies have shown that Indian financial institutions have shown extremes of behavior at each of the above stages. In many instances, loans have been sanctioned because of vested interests. Promoter banker nexus or promoter-politician linkage have been exploited to siphon off-funds from the banking system, Post loan disbursal, bankers are supposed to keep track of the key signals that indicate the health of the loan recipient and monitor project progress. Banks concerned should continuously monitor loans to identify accounts that have potential to become non-performing.

RBI GUIDELINES ON INCOME RECOGNITION (interest income on NPAs)

Banks recognize income including interest income on advances on accrual basis. That is, income is accounted for as and when it is earned.

The prima-facie condition for accrual of income is that it should not be unreasonable to expect its ultimate collection. However, NPAs involves significant uncertainty with respect to its ultimate collection.

Considering this fact, in accordance with the guidelines for income recognition issued by the Reserve Bank of India (RBI), banks should not recognize interest income on such NPAs until it is actually realized.

ACCOUNTING STANDARD 9 (AS 9) ON REVENUE RECOGNITION

The Accounting Standard 9 (AS 9) on 'Revenue Recognition' issued by the Institute Of Chartered Accountants of India (ICAI) requires that the revenue that arises from the use by others of enterprise resources yielding interest should be recognized only when there is no significant uncertainty as to its measurability or collect ability.

Also, interest income should be recognized on a time proportion basis after taking into consideration rate applicable and the total amount outstanding.

Usage of financial statements in assessing the risk of default for lenders

For banks and financial institutions, both the balance sheet and income statement have a key role to play by providing valuable information on a borrower's viability. However, the approach of scrutinizing financial statements is a backward looking approach. This is because; the focus of accounting is on past performance and current positions.

The key accounting ratios generally used for the purpose of ascertaining the creditworthiness of a business entity are that of debt-equity ratio and interest coverage ratio. Highly rated companies generally have low leverage. This is because; high leverage is followed by high fixed interest charges, non-payment of which results into a default

High cost of funds due to NPAs

Quite often genuine borrowers face the difficulties ill raising funds from banks due to mounting NPAs. Either the bank is reluctant in providing the requisite funds to the genuine. Borrowers or if the funds are provided, they come at a very high cost to compensate the lender's losses caused due to high level of NPAs.

Therefore, quite often corporate prefer to raise funds through commercial papers (CPs) where the interest rate on working capital charged by banks is higher.

With the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, banks can issue notices to the defaulters to pay up the dues and the borrowers will have to clear their dues within 60 days. Once the borrower receives a notice from the concerned bank and the financial institution, the secured assets mentioned in the notice cannot be sold or transferred without the consent of the lenders.

The main purpose of this notice is to inform the borrower that either the sum due to the bank or financial institution is paid by the borrower or else the former will take action by way of taking over the possession of assets. Besides assets, banks can also takeover the management of the company. Thus the bankers under the aforementioned Act will have the much-needed authority to either sell the assets of the defaulting companies or change their management.

But the protection under the said Act only provides a partial solution. What banks should ensure is that they should move with speed and charged with momentum in disposing off the assets. This is because as uncertainty increases with the passage of time, there is all possibility that the recoverable value of asset also reduces and it cannot fetch good price. If faced with such a situation than the very purpose of getting protection under the Securitisation Act, 2002 would be defeated and the hope of seeing a must *ha\re* growing banking sector can easily vanish.

RBI GUIDELINES ON CLASSIFICATION OF BANK ADVANCES

Reserve Bank of India (RBI) has issued guidelines on provisioning requirement with respect to bank advances. In terms of these guidelines, bank advances are mainly classified into:

Standard Assets: Such an asset is not a non-performing asset. In other words, it carries not more than normal risk attached to the business.

Sub-standard Assets: It is classified as non-performing asset for a period not exceeding 18 months.

Doubtful Assets: Asset that has remained NP A for a period exceeding 18 months is a doubtful asset.

Loss Assets: Here loss is identified by the banks concerned or by internal auditors or by external auditors or by Reserve Bank India (RBI) inspection.

In terms of RBI guidelines, as and when an asset becomes a NPA, such advances, would be first classified as a sub-standard one for a period that should not exceed 18 months and subsequently as doubtful assets.

It should be noted that the above classification is only for the purpose of computing the amount of provision that should be made with respect to bank advances and certainly not for the purpose of presentation of advances in the banks balance sheet.

The Third Schedule to the Banking Regulation Act, 1949, solely governs presentation of advances in the balance sheet.

Banks have started issuing notices under the Securitisation Act, 2002 directing the defaulter to either pay back the dues to the bank or else give the possession of the secured assets mentioned in the notice. However, there is a potential threat to recovery if there is substantial erosion in the value of security given by the borrower or if borrower has committed fraud. Under such a situation it will be prudent to directly classify the advance as a doubtful or loss asset, as appropriate.

RBI GUIDELINES ON PROVISIONING REQUIREMENT OF BANK ADVANCES

As and when an asset is classified as an NPA, the bank has to further sub-classify it into sub-standard, loss and doubtful assets. Based on this classification, bank makes the necessary provision against these assets.

Reserve Bank of India (RBI) has issued guidelines on provisioning requirements of bank advances where the recovery is doubtful. Banks are also required to comply with such guidelines in making adequate provision to the satisfaction of its auditors before declaring any dividends on its shares.

In case of loss assets, guidelines specifically require that full provision for the amount outstanding should be made by the concerned bank. This is justified on the grounds that such an asset is considered uncollectible and cannot be classified as bankable asset.

Also in case of doubtful assets, guidelines requires the bank concerned to provide entirely the unsecured portion and in case of secured portion an additional provision of 20%-50% of the secured portion should be made depending upon the period for which the advance has been considered as doubtful.

For instance, for NPAs which are up to 1-year old, provision should be made of 20% of secured portion, in case of 1-3 year old NPAs up to 30% of the secured portion and finally in case of more than 3 year old NP As up to 50% of secured portion should be made by the concerned bank.

In case of a sub-standard asset, a general provision of 10% of total out standings should be made.

Reserve Bank Of India (RBI) has merely laid down the minimum provisioning requirement that should be complied with by the concerned bank on a mandatory basis. However, where there is a substantial uncertainty to recovery, higher provisioning should be made by the bank concerned.

CREDIT RISK AND NPAs

Quite often credit risk management (CRM) is confused with managing non-performing assets (NPAs). However there is an appreciable difference between the two. NPAs are a result of past action whose effects are realized in the present i.e. they represent credit risk that has already materialized and default has already taken place.

On the other hand managing credit risk is a much more forward-looking approach and is mainly concerned with managing the quality of credit portfolio before default takes place. In other words, an attempt is made to avoid possible default by properly managing credit risk.

Considering the current global recession and unreliable inforn1ation in finaI1cial statements, there is high credit risk in the banking and lending business.

To create a defense against such uncertainty, bankers are expected to develop an effective internal credit risk models for the purpose of credit risk management.

IMPORTANCE OF CREDIT RATING

Fundamentally Credit Rating implies evaluating the creditworthiness of a borrower by an independent rating agency. Here objective is to evaluate the probability of default. As such, credit rating does not predict loss but it predicts the likelihood of payment problems.

Credit rating has been explained by Moody's a credit rating agency as forming an opinion of the future ability, legal obligation and willingness of a bond -issuer or obligor to make full and timely payments on principal and interest due to the investors.

Banks do rely on credit rating agencies to measure credit risk aIld a.'\sign a probability of default.

A credit rating agency generally slot companies into risk buckets that indicate company's credit risk and is also reviewed periodically. Associated with each risk bucket is the probability of default that is derived from historical observations of default behavior in each risk bucket.

However, credit rating is not foolproof. In fact, Enron was rated investment grad~ till as late as a month prior to it's filing for Chapter 11 bankruptcy when it was assigned an in default status by the rating agencies. It depends on the information available to the credit rating agency. Besides, there may be conflict of interest, which a credit rating agency may not be able to resolve in the interest of investors and lenders.

Stock prices are an important (but not the sole) indicator of the credit risk involved. Stock prices are much more forward looking in assessing the creditworthiness of a business enterprise. Historical data proves that stock prices of companies such as Enron and WorldCom had started showing a falling trend many months prior to it being downgraded by credit rating agencies.

REVIEW OF NPAs (Asset-wise):

The operational guidelines for monitoring and follow-up of non-peri~rn1ing assets in respect of various categories of assets are detailed here below:

Sub-standard assets:

In respect of industrial units showing signs of sickness, prompt steps shall be taken to conduct viability study/nursing progran1me for deciding the future course of action to be taken.

ln respect of advances backed by securities like vehicle, machinery , gold. Crops, steps shall be taken to enforce the securities. In case of hypothetical securities like vehicles, machinery, goods, etc., the same shall be sold through public auction and proceeds shall be adjusted towards reduction of dues. In case of pledged securities like goods/shares and debentures/bonds etc., steps hall be taken to sell the same as per the prescribed procedure. In case of jewel loans, the securities shall be disposed off through public auction following the procedure lad down and he loans shall not be allowed to remain in NPA. category. If the dues are not adequately covered by securities. The possibilities of an out of court settlement shall be examined soon so as to avoid incurring of further expenditure and also considering the delay involved in realization of dues.

Any slippage from this category will render the account doubtful, thus increasing the provision requirement. This is the most important and crucial area where regular monitoring is required to improve the status of the account.

Doubtful/loss assets:

Under these categories, there would be both suit filed and non-suit filed accounts. In case of non-suit filed accounts, the recovery is to be pursued more vigorously and after adjustment of securities, exhausting all the remedies and persuasive methods, steps shall be taken to resort to legal action expeditiously within the validity period of the documents.

NARSIMHAN COMMITTEE'S RECOMMENDATIONS

Committee on financial system (CFS) Narsimhan committee which reported in 1991, meanwhile major changes have taken place in the domestic, economic and institutional science, indicating the movement towards global integration of financial services. Committee has presented second-generation reforms.

1. To strengthen the foundation of financial system
2. Related to this, streamlining procedures, upgrading technology and human resource development.
3. Structural changes in the system

It is recommended that an asset can be classified as doubtful if it is in the sub standard category for 18 months in the first instance and eventually for 12 months as loss if it has been so identified but not written off. These norms, which should be regarded as the minimum, may be brought into force in a phased manner.

Corporation and FI should avoid the practice of 'ever greening' by making fresh advances to their troubled constituents only with a view to settling interest dues and avoiding classification of the loans in question as NPAs. The committee notes that the regulatory and supervisory' authorities are paying particular attention and such breaches in tile adherence to he spirit of the NPA definition and are taking appropriate connective action.

There is no denying the fact that any effort at financial restructuring in the form of having off NP As portfolio from the books of the corporation or measures to initiate the impact of high level of NPAs must go hand with operational structuring. Cleaning up the balance sheets of banks thus make sense only if simultaneous steps are taken to prevent of limit the re-emergence of new NPAs.

Direct credit has a proportionately higher share in NPAs portfolio of corporations and has been one of the factors in erosion in the quality of asset portfolio. There is a continuing need of Financial Corporations to extend Credit to SS 1 sector, which is important segment of national economy but on commercial considerations and on basis of credit worthiness. Government feels reluctant to accept the recommendation for reducing the scope of directed credit under priority sector because tiny sector of industry and small businesses have problem with regard to obtaining credit and some remaining may be necessary for this sector. Poverty alleviation and employment generation schemes. Given the special needs of these sectors, the current practice may continue.

As an incentive to bank is to make specific provision, the consideration be given to making such provisions tax deductible.

Banks should pay greater attention to asset liability management to avoid such mismatch and to cover, among others, liquidity and interest rate risks.

There is a need for greater use of computerized system. Computerization has to be recognized as an indispensable tool for improvement in customer service. The institution and operation of better control systems, greater efficiency in information technology.

The main issue with regard to operations of banks is to ensure operational flexibility and measure of competition and adequate internal autonomy in matters of loan sanctioning and internal administration.

The committee believes that the balance sheets of banks and f7Is should be made more transparent and full disclosure made in balance sheet. "This is to be done in phased manner.

NORMS FOR TREATING VARIOUS ADVANCES AS NPAs

An asset which ceases to generate income for the bank is called a non-performing asset (NPA). The basic factor to determine whether an account is NPA or not is the record of recovery and not the availability of security. RBI has advised following norms for identifying the kind of advances as non -performing.

LOANS (loans repayable in installments):

A loan shall be treated as NPA if interest and/or installment of principal remain overdue/or a period of more than 90 days.

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank. Hence a loan account shall be treated as NPA as on 31.03.2004, if interest and/or installment of principal remain overdue for a period of more than 90 days.

Illustrations:

- If interest due for the month-ended 31.12.2004 is not paid, it becomes NPA on 30.03.2005 (i.e. overdue for more than 90 days). Hence the amount shall be classified as NP A as on 31.03.2005
- If installment towards principal due on 01.01.2005 is not paid, it becomes NPA as on 31.03.2005 (i.e. overdue for more than 90 days).

Special case:

Equated monthly installments: In case of loans repayable in equated monthly installments where a part of the interest is including in the installment, NPA status shall be determined on the basis of non-payment of equated monthly installments and not with reference to the date of debit of monthly interest.

Loans with moratorium for payment of interest: In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes due only after the moratorium or gestation period is over. Therefore such amounts of interest becomes overdue and hence

NPA, with reference to date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

Staff housing loans: In case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first month onwards Such loans/advances should be classified as NP A only when there is a default in repayment of installment of principal or payment of interest on the respective due dates.

Advance payments: Where the borrower has made advance payment of installments fixed towards the loan as on 31.03.2004 the loan account is regular, such loan account need not be treated as NPA even if technically interest is due for more than 90 days.

CASH CREDIT/OVERDRAFT:

A cash credit/overdraft account shall be treated as NPA if it remains 'out of order' for 90 days.

An account shall be treated as out of order if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power, whichever is less but there are no credits simultaneously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as' out *of'* order’.

Illustration:

If a cash credit/overdraft if within limit but there are no credits continuously during the period from 02.01.2005 to 31.03.2005, the account becomes NPA on 31.03.2005(i.e. no credits continuously for 90 days).

BILLS PURCHASED/DISCOUNTED:

A Bill purchased/discounted shall be treated as NPA if it remains overdue for a period of more than 90 days.

Hence a cheque/draft/bill purchased/discounted shall be treated as NPA as on 31.03.2005 if it remains overdue for more than 90 days as on 31.03.2005.

AGRICULTURAL LOANS:

An agricultural advance shall be treated as NPA if interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years.

Hence in respect of advances granted for agricultural purpose where interest and/or installment of principal remains unpaid for two harvest seasons but for a period not exceeding two half years after it has become due, such advance should be treated as NPA. In respect of agricultural advances such as dairy, poultry, sericulture, animal husbandry, fishery etc, income recognition, Asset classification and provisioning should be done on the same basis as non-agricultural advances as per 90 days noun.

OTHER ACCOUNTS:

Any other credit facility shall be treated as NPA if any amount to be received remains overdue for a period of more than 90 days.

Hence any other credit facility shall be classified as NPA as on 31.0 3.2005 if interest/principal remains overdue for more than 90 days.

ACCOUNTS, WHICH NEED NOT BE CLASSIFIED AS NPA:

Loans on deposits and loans against Govt. securities:

Advances fully secured against term deposit (inclusive of accrued interest, if any), NSC, Indira Vikas Patra (IVP), Kisan Vikas Patra (KVP) and LIC Policies should not be treated as NP A. Such securities are exempt from provision requirement and hence, they shall be classified as Perforn1ing assets only.

Advances guaranteed by State/Central Government:

Govt. guaranteed advances mean the advances repayment of which is guaranteed by State or Central Government, by executing guarantee bond/guarantee letter by the concerned Government department. Borrower accounts of Public Sector Undertakings should not be treated as Government Guaranteed Accounts unless specific Guarantee bond/guarantee letter is executed by the concerned Govt. Department.

The credit facilities backed by guarantee of the Central Govt. though overdue may be treated as NP A only when the Government repudiates its guarantee when invoked. This exemption from classification of Govt. guaranteed advances, as NP A is not for the purpose of recognition of income.

Advances sanctioned against State Government guarantees should be classified as NP A in the normal course, if the guarantee is invoked and remains in default for more than 90 days.

If State /Central Govt. guarantee is not adequate to cover the full liability, asset classification and provisioning norms shall be applied on uncovered portion.

Further, in case of Government guaranteed accounts. When suit is filed against the borrower as well as against the concerned Government, it should be classified as sub-standard, doubtful or loss asset applying the norms as applicable to other advances.

MEASURES IN CASE OF NON-PAYMENT

If the borrower pays within 60 days no further action is required. However if he fails to pay full amount within specified period the secured creditor can take one or more of the following measures to recover his dues.

Take possession of the secured assets of the borrower including the right to transfer by way of lease, assignment or sale f*or* realizing the secured asset.

Takeover the management of secured asset of the borrower including the right to transfer by way of lease, assignment or sale and realize the secured asset.

Securitisation
A Tool for Management of NPA

Securitisation is the buzzword in today's world of finance. It's not a new subject to the developed economies. It is certainly a new concept for the emerging markets like India.

The technique of securitisation definitely holds a great promise for a developing country like India.

One of the major issues in the Development of banking sector in India is the reducing of non-performing assets in their balance sheets. One such financial innovation to reduce non-performing assets is "Securitisation". Securitisation is the financial instrument of the new Millennium.

The process of securitisation creates the strata of risk-return and different maturity securities and is marketable into the capital markets as per the needs of the investors. It has become one of the most important financing vehicles in the developed countries like USA. Its use is rapidly expanding worldwide. Securitisation enables many companies to raise funds at a lower cost than through traditional financing.

Definition

"Securitisation is the process of pooling and re-packaging of homogeneous illiquid financial assets into marketable securities that can be sold to investors".

"Every such process which converts a financial relation into a transaction'" In simple words: -

"Selling the cash flow generated from the assets (either existing or future) against the charge of the assets, by converting them into homogeneous market negotiable instruments is known as Securitisation".

Nature of the SPV:

Selection of a proper financial vehicle through which non-performing loans can be transferred out of the banks' books is a key issue. It may take three forms

- **Government Owned Government Managed:** Considering the size of the capital that will be needed for this exercise, the problems relating to pricing of the assets to be transferred, the desirability of making these transfers unchallengeable by the borrower or anyone else and the urgent need for changes in the available legal framework so that early enforcement of the lender's rights becomes possible, it would be best if the ownership of the transferred assets lies with the government. The government shall also appoint a management team to handle the agency.

- **Government Owned Privately Managed:** The government body owning the assets may not possess the necessary skills and attitude to ensure their recovery and it may suffer from the limitations, which most public sector units suffer. It would therefore be prudent to have a management structure in which the ownership of the assets will lie with the government and the management thereof, with a separate private sector entity having the necessary expertise and organization. Being in the private sector it will have the managerial and operational flexibility, which the public sector units do not normally have and will be able to employ/hire, the needed expertise.

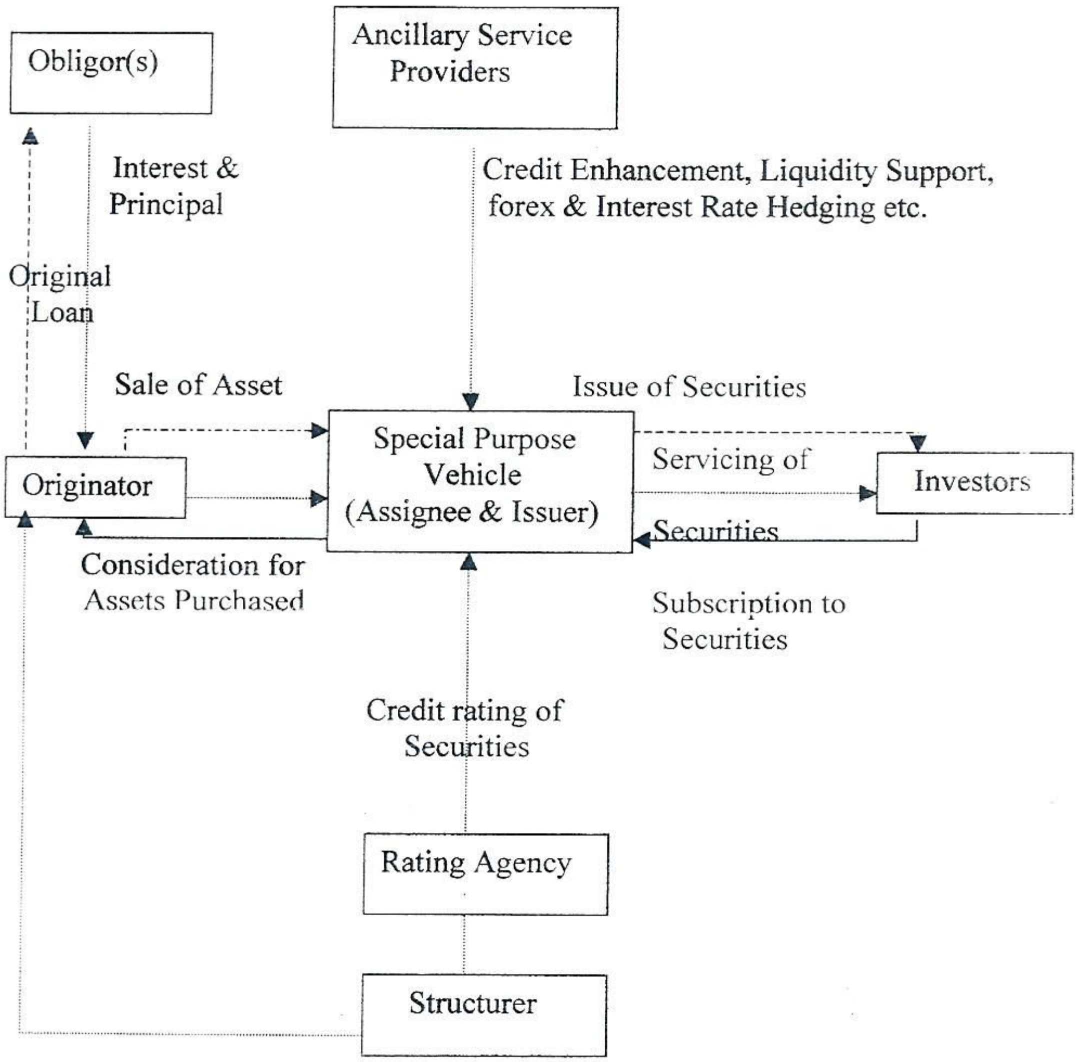
- **Privately Owned and Privately managed**: Here an independent private player may purchase the NP As from the Banks and manage them professionally. However a private player entering such high-risk business is less likely. Though the revenue model would primarily be commission based, the profitability poses a question mark for the entry of the private player. Thus a SPV owned by the government or the issuing bank and professionally managed would be the ideal structure for the Indian condition.

Securitisation is the process of pooling and repackaging of homogeneous illiquid financial assets into marketable securities that can be sold to investors. It has emerged as an important means of financing in recent times. A typical securitisation transaction consists of following steps:

- Creation of special purpose vehicle to hold the financial assets underlying the securities;
- Sale of the financial assets by the originator or holder of the assets to special purpose vehicle, which will hold the assets and realize the assets.

Issuance of securities by the SPV, to investors, against the financial assets held by it. This process leads to the financial asset been taken of the balance sheet of the originator, thereby relieving pressures of capital adequacy, and provides immediate liquidity to the originator.

Securitisation Structure



Importance for Securitisation

The generic need for securitisation is as old as that for organized financial markets from the distinction between a financial relation and a financial transaction earlier, we understand that a relation in variably needs the coming together and remaining together of two entities. These entities might involve a number of financial intermediaries in the process, but a relation involves fixity over a second time.

Financial market develops in response to the need to involve the large number of investors in the market place. As the number of investor increases, the average size per investor come down – This is a simple rule of the market place because growing size means involvement of a wider base of investors. The small investors are not a professional investor: He is not as such in the business of investment. Hence, he needs an instrument which is easier to understand, and is liquid. These two needs said the stage for evolution of financial instrument which would convert financial claims into liquid, easy to understand and homogenous products, at times carrying certified quality labels, which would be available in small denominations to suit everyone's purse. Thus securitisation in a generic sense is basic to the world of Finance, and it is truism to say that it envelops the entire range of financial instruments, and hence, the entire range of financial assets.

Parties involved

Securitisation program usually involved several participant each carrying out a specialist function, such as creating and analyzing the asset pool, administration, credit rating, accounting, legal negotiation etc. These includes;

- The originator – also interchangeably referred to as the seller – is the entity whose receivable portfolio forms the basis for asset backed security (ABS) issuance.
- Special Purpose vehicle (SPV), which as the issuer of ABS ensures distancing of the instrument from the originator.
- The Investors – The Investors may be in the form of individuals or institutional investors like FI's and Mutual Funds etc. They buy a participating interest in the total pool of receivables and receive their payment in the form of interest and principals as per agreed pattern.

Other Parties

- The obligor is the originators debtor (borrower of the original loan).

- The servicer who bears all administrative responsibilities relating to the securitisation transaction.

- The trustee or the investor representative, who act in a fiduciary capacity safe guarding the interest of the investors in the ABS.

- The credit rating agencies, which provide an objective estimate of the credit risk in the transaction by assigning a well, defined credit rating.

- The regulators, whose principal concerns related to the capital adequacy, liquidity and the balance sheet treatment of the transaction.

- Specialist functionaries such as legal and tax councils, accounting firms, pool auditors etc.

Securities issued by special purpose vehicles

- Asset Backed securities

- Mortgage backed securities

Securities issued by SPV in a Securitisation transaction are referred to as asset backed securities (ABS) because investors rely on the performance of assets that collaterise the securities. They do not take an exposure either on the previous owner of the asset (originator) or the entity issuing the securities.

In practice a further category is identified-securities backed by mortgage loans(loans secured by specified real estate property, where in the lender has the right to sell the property, if the borrower defaults). Such securities are called mortgage based Securities. The most common example of MBS is Securities backed by mortgage housing loans.

Example:

- Housing Finance Companies (HFCs) are going to play important role. They will be called mortgage originators and they will be responsible for assessing loans, which are good and worthy of being converted into mortgages. In this case, the HFC's involved are HDFC and LIC housing finance.

- Now these HFCs will pass on the mortgages to a SPV, which is National Housing Bank in this case. This means the loans will move from the books of HFCs to the SPV. The SPV will be responsible for pooling together the loans received from HFCs into Securitized instrument, called mortgage backed securities (MBS).the SPV will in turn, pay upfront cash to the HFC for the loans received. The HFC can use this fund to generate more mortgages. It will be the responsibility of the SPV to see that receivables of similar maturities, rate of interest etc. are pooled together while forming the securitized instrument.

- The third player in this game will be the investor, who will subscribe to the mortgage securities. The MBS will be like an interest bearing bond or debenture and through the sale of the instrument, the SPV will get back the amount spend on the acquisition of the loans.

- Investors will get paid through the money received in the form of loan repayments by those borrowing home loans through HFCs. HFCs are in turn paid certain service charges by the SPV for the servicing of the loan.

Securitisation Act

The Securitisation and reconstruction of financial assets and enforcement of Security Interest Act, 2002 (SARFAESI Act) is a mix of three different things.

- Securitisation
- Asset Management Companies
- Enforcement of Security Interest on Loan Defaults to Banks

The Basic Intention behind this Act is to strengthen the creditor rights through foreclosure and enforcement of the securities by banks and FIs. By conferring on lenders the right to seize and sell assets held as collateral in respect of overdue loans, it allows banks and financial institutions to recover their dues promptly without going through a costly and time consuming process.

The Act contains following chapters and 42 sections;

Chapter I-Preliminary

1. This act may be called the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

2. It extends to the whole of India

3. It may come into force on the 21st day of June 2002.

Chapter II- Regulation of Securitisation & Reconstruction of Financial Assets of Banks and FIs.

- The Securitisation will be done through a new/existing company, which must have minimum paid up capital of Rs. 2 Crores.

- Securitisation companies who are registered with RBI cannot make substantial change in the management or location etc. without prior approval of RBI.

- They are not allowed to carry on any other business activities except that of Securitisation and Reconstruction of Assets.

- The RBI may cancel a certificate of registration granted to a Securitisation company or if such a company –

    - Ceases to carry on the business Securitisation or asset reconstruction; or

    - Ceases to receive or hold any investment from a qualified institutional buyer.

- Has fail to comply with any conditions subject to which the certificate of registration has been granted to it or
- At any time face to fulfill any of the conditions refer to in clauses (a) to (g) of subsection (3) of section (3).

Chapter III - Enforcement of Security Interest

- The new Act allows secured lenders to sell assets, which are charged with them by defaulting borrower without protracted legal tussle.
- Non performing assets mean an asset which has been classified by bank or FIs as substandard, doubtful or loss asset, in accordance with the direction relating to the asset clarification issued by RBI.
- This act required 60 days notice to be given to the defaulter. The notice has to be very specific.
- On receiving the notice, no borrower can sell, lease or transfer the secured assets mentioned in the notice, without the lenders notice.
- No injunction shall be granted by any civil court or other authority in respect of action taken under this act.

Chapter IV-central registry

- The central; government may by notification, set up the central registry with its own seal for the purposes of registration of transaction of securitisation and reconstruction of financial assets .
- The central government may also notify the territorial limits within which an office of a central registry may perform.
- The central registrar is to be informed within 30days of any securitisation transaction, asset reconstruction

Chapter V-offences and penalties

- If a default is made:

1. In filing under sec23, the particulars of every transaction of any securitisation created by a securitisation company; or
2. In sending under sec24, the particulars of the modification referred to that section;
3. In giving intimation under section 25,

- Every company and every officer of the company or the secured creditor and every officer of the secured creditor who is in default shall be punishable with fine that may extend to Rs.5000 for everyday during which the default continues.
- If any person contravenes or attempts to contravene, he shall be punishable with imprisonment for a term, which may extend to one year or with fine, or with both.

Benefits of Securitisation

- Liquidity – Selling a portfolio results in availability in ready cash.
- Raise cheaper funds – Securitisation is a cheaper form raising finance for the originator than the traditional forms of debt financing.
- Convert of marketable Securities – Assets such as personal loans, residential mortgages, which are not marketable into their original forms, are converted into marketable securities.
- Transfer of Risk – Transfer of Assets to SPV results in transfer to all associated risk such as risk of default, currency risk etc.

Problem in Securitising Loans : There are several problems that must be addressed in order to Securitized loans the main problem is the risk of loss this can be tackled through evaluation of credit rating of the project per financing.

Cases of Securitisation

- Securitised deals have been taking place in India during last few years. Some of them are listed below

- First deal in India between Citibank and GIC Mutual Fund, in 1990 for Rs. 160 million.

- Securitisation of cash flow of high value *customers* of Rajasthan State Industrial and Development Corporation in 1994-95, structured by SBI cap.

- NHB-HDFC Securitisation deal of Rs. 597 million based on the receivables of 8330 housing loans in August 2001.

- Securitisation of overdue payments of UP government to HUDCO by Issue of tax-free bonds worth Rs.500 million.

- NHB entered into a securitisation deal with HDFC, LIC Housing Finance, Canfin Homes and Dewan Housing.

- Securitisation of Sales Tax deferrals by Government of Maharashtra in August 2001 for Rs. 1500 million with a green shoe option of Rs.75 million.

- First. Deal in power sector by Karnatka Electricity Board for receivables worth Rs. 1940 million and placed them with HUDCO.

- The second MBS transaction through HUDCO.

- Mega securitisation deal of Jet Airways for Rs. 16000 million through offshore SPVs.

- ILFC sponsored securitisation of receivables by Varun Shipping.

- Data indicate that ICICI had securitised assets to the tune of Rs. 27500 million in its books at end March 1999.
- Securitisation of lease receivables on power project by L&T.

THE OTHER METHODS FOR REDUCING NPAs

- **Recovery**

At the organization level, all accounts where interest has not been collected should be reviewed at periodical intervals to appropriate authorities. Lest the time and energy is frittered away in following up and recovering small amounts, monitoring should be focused at critical branches having concentration of high value NP As. In order to recover the amount, one can adopt any way like persuasion, pressurization, frequent interaction as a appropriate level, showing syn1pathy, treating the borrower as a friend etc. recovery is not a one-man job. The-branch head should secure total involvement and commitment of the staff working with him to bring about the desired results. Irregular accounts need to be more actively followed up with a view to containing the damage before the irregularity blows out of proportion. If is the irregular portion in any account is fully recovered, such account will be eligible for immediate reclassification as a standard asset-

- **Rephasement of loan**

Repayment of a term loan depends on income generating capacity)' of- the borrowing unit. It may be difficult to get repayn1ent of the term loan if the borrowing unit does not generate profit. A unit, which does not generate profit, may repay few installments by borrowing from other sources or diverting short-term funds for repayn1ent. But ultimately a loss-making unit may not be able to repay the term loan. Therefore, it is necessary to fix repayment programme for a term loan according to the income generating capacity of the unit. If repayment programme is not fixed or a unit is able to generate the expected profit, possibly ma)- be installments. Sometimes the borrowers e.g. agricultural borrowers may not be able to deposit the stipulated installments due to the natural calamities. In that case also the credit granted to the agricultural borrowers for sowing their crops should be converted into short term loans. Such rephasement should be done on the basis of estimated funds flow in consultation with the borrowers so that the rephrased repayment progran1me is meticulously adhered to and the asset is upgraded in due course.

Rehabilitation of potentially viable units

After the classification of unit as Sick, Bank can make a decision to offer a rehabilitation package. In that case, Bank has to have a sympathetic and positive approach and provide the relief package in time. Such a package has to aim at helping the unit in easing its debt burden, its liquidity position, improving its activity level and its profitability so that the unit would be in a position to continue to serve its repayment obligations as agreed upon including those forming a part of the package. Rehabilitation is a long drawn process. One should not look for the results in the short run. The bank should however ensure to have the Right of Recompense incorporated in the agreement while giving the package to the borrowers, so that it can claim reimbursement of the sacrifices made, relief given, once the unit is successfully rehabilitated as a result of the package.

- **Merger/ Acquisition/ Amalgamation**

This is another strategy to reduce NPAs of a bank. It is the process U1lder which a sick unit is merged with a healthy unit, or sometimes, a healthy *unit* acquires a sick unit. A part of the consideration paid to the sick unit by the healthy unit is used to liquidate the NPA, wholly or partly. Very often, banks have to make sacrifices to clinch the deal.

Some of the other objectives of amalgamation are: -

a. Horizontal growth to achieve size, to enlarge market share, to curb competition or to use unutilized capacity.

b. Vertical integration with a view of economizing cost and eliminating avoidable sales tax and/or excise duty.

c. Diversification of business.

So, in other words, we can say that amalgamation *is* done to achieve long term economic and financial benefits for both the amalgamating and amalgamated companies and their shareholders, tax benefits to the amalgamated company and their shareholders and for sound financial position of both companies concerned.

In case of a merger the NP A will get immediately converted into a perfoffi1ing asset because it will acquire the status of the healthy unit. In fact, the sick unit will be wiped out from the books of the bank and the healthy unit will show increased outstanding under different account heads.

- **Compromise/Negotiable Settlement**

Recovery of advances through compromise settlement is accepted as an effective non-legal remedy in case where it is appropriated to adopt this option. Under this borrower agrees to pay certain amount of the bank after getting certain concessions. In this regard it is recognized that each of the compromise offers received from the borrower is unique as the circumstances that necessitate consideration of these, as a *recovery* option will vary from case to case. Every Bank has framed its own policy .on compromise/negotiated settlement of loans and advances-

- **Calling up the advance-filing of civil suits**

If all attempts of converting an NP A into a performing asset fail, the bank is left with no other option but to recall the advance and resort to legal action by filing of recovery suits in the civil court or Debt *Recovery* Tribunals. The cases for recovery of debt due to banks or financial institutions involving an amount of Rs. 10 lacs and above are to be filed in the Debt Recovery Tribunal of Jurisdiction. The branches and controlling authorities should make proper follow up of these cases tiled at various levels should be made by the branches and controlling authorities.

- **Establishment of Asset Recovery Branches**

  Some banks have opened asset recovery branches at critical center for undertaking recovery .Bad and doubtful assets of various existing branches have been transferred to the recovery Branch, which may have trained staff with necessary background for recovery .The Specialized Recovery Branches may give undivided attention to recovery of dues. Establishment of such specialized branches may help in reducing NP As.

- **Recovery through Lok Adalats:**

Lok Adalat is an arrangement wherein suit filed as well as non-suit filled accounts are referred by the banks for speedy settlement of t4e dispute through conciliation. On a mutual agreement, the settlements are arrived at the Iok Adalat and the concessions are extended as under.

BANK PROFILE

UNION BANK OF INDIA

MISSION STATEMENT

- Bank is committed to maintain its identity as a leading innovative commercial bank alive to the changing needs of the society.

- The Bank aims to provide all retail banking service and selective wholesale banking service above benchmarked quality if standards of the best in the Industry.
- The Bank will strengthen its role function as a development bank in furthering socio-economic objectives of the Govt. of India.
- The Bank will continue to enhance its reputation as Good People to Bank With" being proactive to customers needs, expectations and the challenges at the Industry level.
- The Bank is committed to a continuous process of upgrading its operational efficiency and productivity.
- In essence, the Mission is to fulfill its obligations to the society at large, its shareholders, present and future and contribute to GDP at all times.
- "TO GAIN MARKET RECOGNITION IN THE CHOSEN AREAS. To attain a business mix of Rs. 100000 crores and operating profit of Rs. 1700 crores within 2005."

Highlights of Bank's performance for the year ended March 2005

- Total Deposit Rs. 50559 Cr.
- Total Advance Rs. 30928 Cr.
- Total Business Rs. 81487 Cr.
- Net Profit 712 Cr.
- Net NPA 2.87%

- CAR 12.32% against the bench mark of 9%
- Productivity 2.86 crore
- EPSR Rs. 15.48
- Dividend 35%
- Credit deposit ratio improved to 61.17% from 59.55% achieved during 2004-05.
- The priority sector now constitutes 49.05 of NBC.
- Return on assets improved from 1.08%T to 1.22%.
- The share of SB deposits increased from 24.97% to 25.88%.
- Average cost of deposit has declined from 6.46% to 5.64%.
- Low cost portfolio deposit accounts for nearly 40% of the total deposits.
- 449 branches under CBS branches (25.11.04)
- Telebanking in all the CBS branches
- Host of new initiatives including Cash Management Services, Gold Trading. Corporate Agency for Life and Non Life Policies and Distribution of Mutual fund products.
- 228 branches/offices at various locations across the country certified under ISO 9001-2000 norms.
- Amongst the seven entrants to Forbes-2000 list of World's biggest and most powerful companies.
- Bagged the award from the Gem arid Jewellary Export Council for highest growth in total limits sanctioned to the Diamonds industry.

- Moody Investors Service upgraded the banks rating to D from E+.
- Internet Banking Services to be launched soon.

ORIENTAL BANK OF COMMERCE

BANK'S PHILOSPHY

The Bank's philosophy is to grow without making compromise on the quality of assets. This is reflected in the 19.7% growth of deposits and 25.5% growth in advances. The Bank Is also conscious on the costing side and has reduced the cost of deposit by 140 basis points to 5.6% and improved the net interest margin to 3.9%, which is one of the finest in the banking industry. Moreover, better recoveries and low non-performing Assets and improvement in deposit-mix have contributed towards shoring up the bottom line. The productivity per employee has reached the level of Rs. 4.16 crore and per branch business of Rs. 55.5 crore is one of the highest amongst the public sector banks. The book value of share has touched Rs. 139 on 31.3.2005 representing an increase of 26.9%. The Bank proposes to declare a higher dividend of 50% (inclusive of an interim dividend of 20%) as against 45% last year. With this the EPS will stand at Rs. 35.63.

Recovery

The Bank is having a well-codified recovery policy. Reserve Bank of India has introduced the One Time Settlement Scheme for non-performing assets with outstanding of Rs. 10.00 crore and below on 29.3.2005 which was later on extended upto 31.10.2003. Thereafter, RBI further extended the said scheme upto 31.7.2005. Bank is utilizing the maximum benefit under the scheme and a sum of Rs. 23.17 crore has been recovered upto 31.3.2005. Bank is hopeful to recover the maximum amount in the coming months under the scheme.

On 21.6.2002, Govt. of India introduced an important Legislation empowering the Banks to enforce the security interest in respect of secured assets without the intervention)f the Court, which was later on challenged by one company on the grounds of Natural justice in the Supreme court. The Apex Court on 8.4.2005 has upheld the validity if the Act and it is expected that recovery under the said Act in the coming period shall get a boost to the maximum extent. Bank has recovered a sum of Rs. 117.49 crore since inception under the said Act upto 31.3.2005.

The Bank has also effectively utilized the mechanism of Lok Adalat, Recovery Camps as well as settlement policy if the Bank. As a result of these concerted efforts, the Bank was able to effect recovery of Rs. 557.58 crore in NPA accounts in the year, out of which Rs. 459.63 crore and amount to reduction in NPA and balance amount of Rs. 97.95 crore towards revenue of the Bank.

BANK OF INDIA

Economic Backdrop and Banking Environment

India firmly established itself amongst the fastest growing economies in the world during 2004-05. Good corporate results, increase in outward foreign investment by Indian companies as well as increase in foreign investment inflows reflects increasing business confidence.

FINANCIAL PERFORMANCE

Profit

The Operating Profit of the Bank for 2004-05 stood at Rs.9,553.46 crore as compared to Rs.7,775.40 crore in 2004-05, recording a growth of 22.87%. The Bank has posted a Net Profit of Rs.3,681.00 crore for 2004-05 as compared to Rs.3,105.00 crore in 2004-05, registering a growth of 18.55%.

The growth in profit in 2004-05 has been achieved through increases, both in Net Interest Income as well as Profit on sale of Investments. Profit on sale of investments in 2004-05 was Rs.3,073.45 crore as against Rs.1,694.60 crore in 2004-05, and thus the increase under this head contributed to the growth in profit of 2004-05 to the extent of Rs.1,378.85 crore.

Net Interest Income

The Net Interest Income of the Bank registered a growth of 12.11 %, from Rs.9,977.56 crore in 2002- 03 to Rs.11,186.32 crore in 2004-05. This was driven by volume growth and decline in cost of deposits. The Net Interest Margin went VP from 2.95% in 2004-05 to 3.04% in 2004-05.

The gross interest income from the global operations declined from Rs.31,087.02 crore in 2004-05 to Rs.30,460.49 crore in 2004-05. This was mainly due to declining interest rates.

Prime Lending Rate was reduced during the year. State Bank Advance Rate (the Prime Lending Rate of the Bank), which was reduced from 10.75% to 10.50% in May 2003, was further reduced to 10.25% w.e.f. 1st January 2004. The Medium Term Lending Rate (SBMTLR) was reduced from 11.25% to 11.00% in May 2003. As per RBI directive the Bank adopted Bench Mark Prime Lending Rate with effect from 1st January 2004, which was fixed at 10.25%.

Average yield on advances in India, as a result, came down from 8.97% in 2005-05 to 8.17% in 2003- 04. However, volume increase of Rs.12,277 crore (i.e., by 10.14%) in the average level of advances in India contributed to the increase in interest income from advances.

Provisions and Contingencies

Major amounts of provisions made in 2004-05 were as under:

- Rs.3,702.75 crore for non-performing assets (as against Rs.2,592.43 crore in 2004-05) which include floating provision of Rs.990.00 crore (Previous year Rs.550.00.crore) over & above the RBI norms for NPAs.

- Rs.49.12 crore towards standard Assets (as against Rs.69.22 crore in 2004-05). Including this amount, the total provision held on Standard Assets amounts to Rs. 37.03 crore.

F.1. Management of Non-Performing Assets has been one of the focus areas of the Bank with the objective being to achieve the global benchmarks. Towards this goal, the Bank has focused on -:

- Identification and monitoring of Special Mention Accounts as per the RBI guidelines in order to check the slippages of standard assets to NPA category by making prompt review and taking quick corrective action.

- Restructuring of impaired standard accounts as well as of viable non-performing assets, both under the CDR scheme evolved by RBI as well as under the Bank's own scheme, for containing NPAs.

- Upgradation of assets at the whole bank level.

DATA ANALYSIS

NPAs of public sector bank

S.No.	BANKS	Total Assets 2003	Total Assets 2004	Total Assets 2005	Gross NPA 2003	Gross NPA 2004	Gross NPA 2005
I	**NATIONALISED BANKS**						
1	Allahabad Bank	24764	28051	34704	2002	1842	1418
2	Andhra Bank	20937	24678	27009	524	581	615
3	Bank of Baroda	70910	76425	85109	4489	4168	3980
4	Bank of India	69806	76627	84860	3722	3804	3734
5	Bank of Maharashtra	21470	24905	32213	906	958	954
6	Canara Bank	72135	82055	99539	2112	2475	3127
7	Central Bank of India	52614	57105	63345	3243	3244	3092
8	Corporation Bank	23604	26272	29154	587	657	722
9	Dena Bank	18842	20162	22160	1996	1617	1484
10	Indian Bank	30263	35375	39154	2175	1630	1192
11	Indian Overseas Bank	35441	41155	47322	1819	1896	1576
12	Oriental Bank of Commerce	32237	33999	41007	952	1146	1211
13	Punjab & Sind Bank	13754	14491	15011	1092	1247	1204
14	Punjab National Bank	72915	86222	102332	4140	4980	4670
15	Syndicate Bank	31756	34435	47223	1299	1420	1590
16	UCO Bank	31381	34914	43798	1333	1366	1479
17	Union Bank of India	44358	51060	58317	2420	2388	2347
18	United Bank of India	22776	24269	25843	1216	959	764
19	Vijaya Bank	16145	19072	24071	603	506	390
	TOTAL OF 19 NATIONALISED BANKS [I]	**706109**	**791272**	**922171**	**36631**	**36883**	**35549**
II	**State Bank of India (SBI)**	348228	375877	407815	15486	13506	12667
III	**ASSOCIATES OF SBI**						
1	State Bank of Bikaner & Jaipur	15504	18038	20256	585	580	484
2	State Bank of Hyderabad	22121	26132	30646	899	740	691
3	State Bank of Indore	9846	11364	13044	320	295	266
4	State Bank of Mysore	10354	11336	13758	625	562	515
5	State Bank of Patiala	17373	21289	26897	628	531	503
6	State Bank of Saurashtra	9370	11453	12837	443	354	200
7	State Bank of Travancore	16493	19033	24003	728	635	662
	TOTAL OF 7 ASSOCIATES [III]	**101060**	**118645**	**141442**	**4227**	**3698**	**3321**
	TOTAL OF STATE BANK GROUP.[II+III]	**449289**	**494521**	**549257**	**19713**	**17204**	**15988**
	TOTAL OF PUBLIC SECTOR BANKS[I+II+III]	**1155398**	**1285793**	**1471428**	**56344**	**54087**	**51537**

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NPA of New Private Banks

Statement II : Private Sector Banks : Assets/Gross and Net NPAs

As on March 31 (Rs.cror

S.No	BANKS	Assets			Gross NPAs			Net NPAs	
		2002	2003	2004	2002	2003	2004	2002	2003
I		2003	2004	2005	2003	2004	2005		
1	Bharat Overseas Bank Ltd.	2106.94	2440.29	2816.84	82.44	80.53	71.35	39.46	38.05
2	City Union Bank Ltd.	2230.04	2622.18	3191.39	140.63	155.11	167.42	82.91	99.12
3	Development Credit Bank Ltd.	4188.76	4407.19	5392.62	215.45	259.71	211.62	N.A.	N.A.
4	Ing Vysya Bank Ltd.	10718.35	11458.82	13198.32	205.23	202.88	186.60	202.72	199.13
5	The Karnataka Bank Ltd.	7762.93	9264.83	10576.63	373.52	538.01	598.47	201.06	286.08
6	Lord Krishna Bank Ltd.	1724.87	1857.67	2604.56	104.70	84.36	95.29	81.37	57.93
7	Nainital Bank Ltd.	662.16	767.29	854.48	12.00	10.95	9.65	NIL	NIL
8	SBI Commercial & International Bank Ltd	704.95	588.93	489.20	90.69	86.91	69.25	57.38	36.67
9	Tamilnad Mercantile Bank Ltd.	4278.78	4721.65	5089.49	324.73	340.56	319.38	117.47	169.65
10	The Bank of Rajasthan Ltd.	4806.89	6129.52	8455.30	332.84	266.08	237.32	173.32	151.00
11	The Catholic Syrian Bank Ltd.	3478.65	3862.62	4307.31	190.45	202.30	175.24	119.98	116.09
12	The Dhanalakshmi Bank Ltd.	1887.54	2106.26	2444.80	145.86	148.15	136.55	109.55	104.96
13	The Federal Bank Ltd.	10144.61	12201.63	15114.41	638.36	527.99	600.75	445.84	307.81
14	The Ganesh Bank of Kurundwad Ltd.	191.64	202.07	222.14	16.85	19.32	18.21	12.52	12.67
15	The Jammu & Kashmir Bank Ltd.	14698.67	16793.75	21205.76	237.00	253.00	286.00	121.00	127.00
16	The Karur Vysya Bank Ltd.	5110.12	6173.71	7107.43	225.98	255.46	239.23	155.06	139.07

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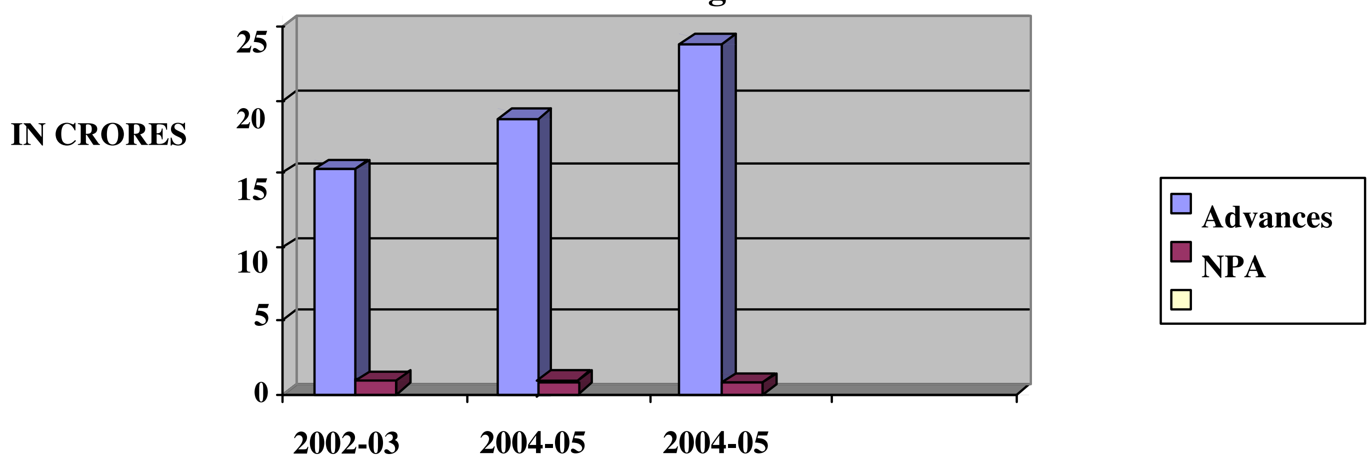
State Bank of India (in crores)

Year	03-04	04-05	05-06
Total advances	**15.32**	**18.82**	**23.75**
NPAs	**1**	**.9389**	**.8177**

NPAs as % of gross advances



NPA as % of Gross Advance

$$\% = \frac{\text{NPA}}{\text{Gross Advances}} \times 100$$

$$2002\text{-}03 = \frac{10000000}{153200000} \times 100$$

$$= 6.527\%$$

$$2004\text{-}05 = \frac{9389000}{188200000} \times 100$$

$$= 4.99\%$$

$$2004\text{-}05 = \frac{8177000}{237500000} \times 100$$

$$= 3.44\%$$

State Bank of India

(In Crores)

Particulars	03-04	04-05	05-06
NPAs	6.527%	4.99%	3.44%

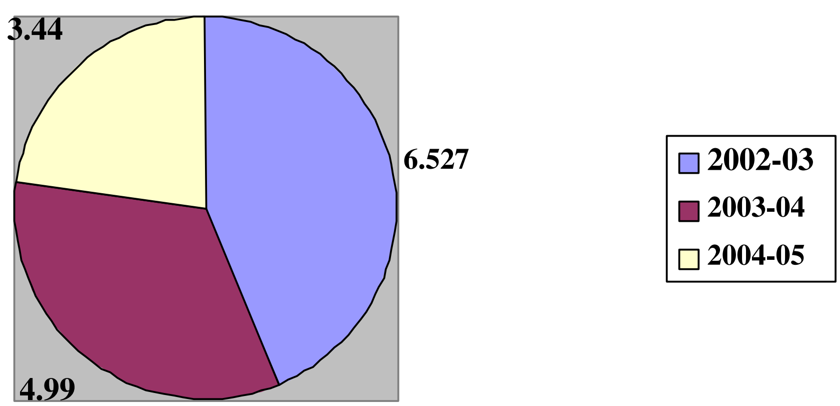
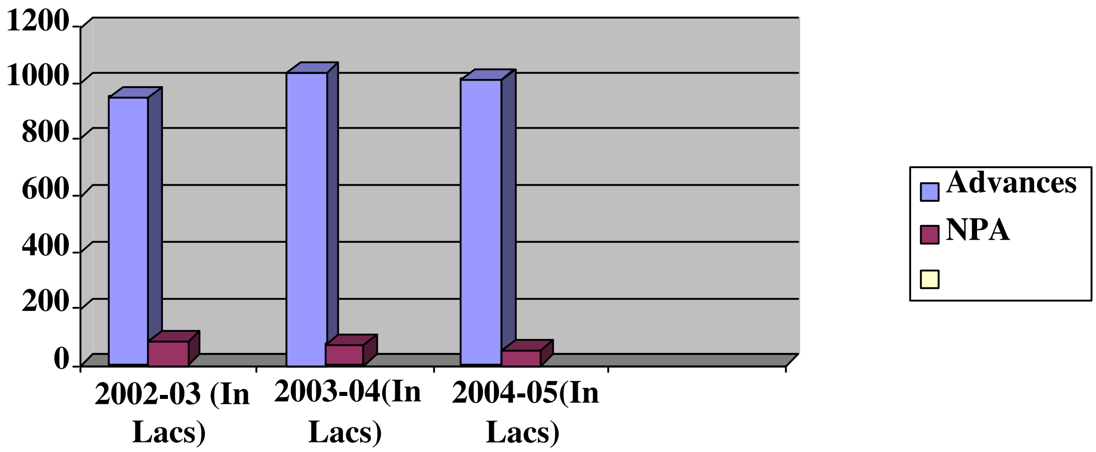


Figure : NPA as percentage of Gross Advances

Union Bank of India

Particulars	**03-04**	**04-05**	**05-06**
Total Advances	9.5	10.34	10.13
NPAs	.91	.71	.54



NPA as % of Gross Advances

Union Bank of India

(In Crores)

Particulars	**03-04**	**04-05**	**05-06**
NPAs	9.5%	6.86%	5.33%

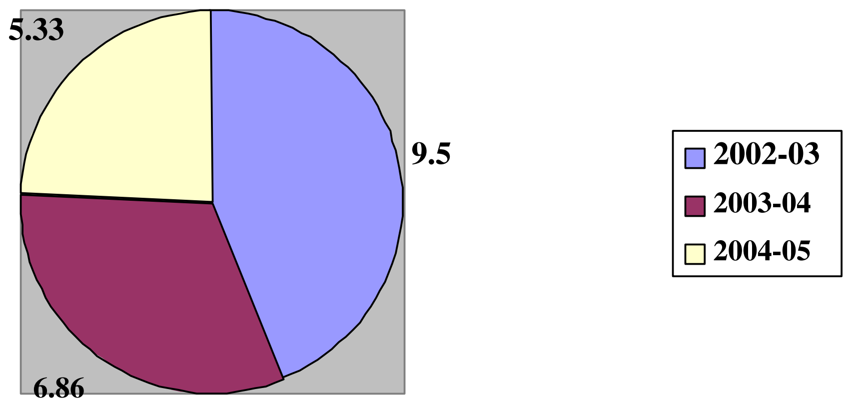
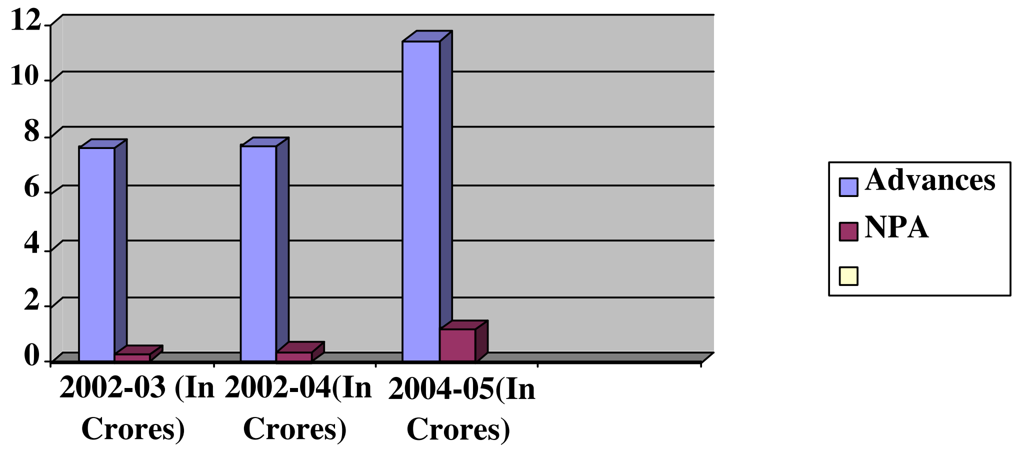


Figure : NPA as percentage of Gross Advances

Oriental Bank of Commerce

Year	03-04	04-05	05-06
Total advances	7.62	7.71	11.41
NPAs	.27	.38	1.17



NPA as % of Gross Advance

Oriental Bank of Commerce

(In Crores)

Particulars	03-04	04-05	05-06
NPAs	3.54%	4.92%	10.25%

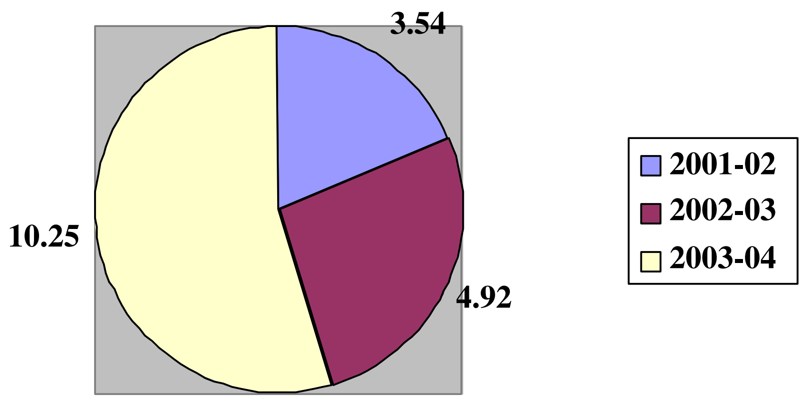


Figure : NPA as percentage of Gross Advances

FINDINGS

1. The reduction in loan installment to 90 days may raise the NPA levels in the short run. But in turn will improve the asset quality of the banks.

2. The lenders cannot take undue advantage of the new act. Provisions for lenders liquidity have been added to protect the borrowers against irresponsible claims by lenders.

3. Private Banks have more efficient management of NPAs as compared to PSBs.

4. Gross NPAs of PSBs are 51537 and whereas private sector Banks are 5771.17.

5. Due to the introduction of securitisation, public sector banks have been able to reduce their NPAs to a considerable event.

6. Securitization Act is remarkable legislation in the Indian Banking history, certain issues are yet to be resolved for effective, implementation of the Act.

7. NPA art can help reset lending rates.

8. The net NPAs of UBI has reduced from 9.5% to 5.33%

9. The net NPAs of SBI has reduced from 6.527% to 3.44%

10. The net NPA of OBC has risen from 3.54 to 10.25%.

CONCLUSION

- There has been a continuous decrease in the time period considered to declare a loan as non-performing. The continuous decrease in the time period is to bring the Indian banking norms at par with international norms. This move will certainly reduce the NPAs and in turn improve the asset quality of the banks.

- Till recent past, corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of banks.

- However with the introduction of **SARFAECI ACT** banks can issue notices to defaulters to repay their loans. Also, the Supreme Court has recently given the banks the freedom to sell mortgage assets of the borrowers, if they do not respond to the legal proceedings initiated by lender. This enables banks to get rid of sticky loans thereby improving their bottom lines.