A

Project Report Entitled

PROJECT REPORT

ON

“TO STUDY OF NPA MANAGEMENT”

AT

-: Submitted By:-

(_____________________)

(MBA-II)

-: The Research Guide:-

Prof. ______.

For The Academic Year

20 -20

(Institute Name)

ACKNOWLEDGMENT

"Success can never be attained without proper guidance"

I am thankful to Director Prof. ___________ , the Director of _________ College and Head of Department of Finance who had given me an opportunity to do this project.

I wish to express my deep sense of gratitude to **Prof. _________** for their excellence guidance's during the period of this project work were invaluable.

I am extremely grateful to **Mr. _____________** (Sr. Branch Manager) of Bank of Baroda, Gangapur road. This has given the inspiration and valuable guidance. Last but not least, I am thankful to library department of our college for making available books and also to those who have directly and indirectly help in preparation of this project report.

Declaration

I am _______________ the student of ___________, Gangapur Road, Nashik- 02. The course of MBA of ________ University consists of four semesters. Every student has to under go a project during his Third semesters and the project report is a part of academic curriculum of university. The project is of 100 marks and is compulsory for every student.

I have by declared that the project is and independent analysis work carried out by me under **Prof. __________**. This report has not been previously submitted for an award of any degree of this of any other university.

Place:

(__________)

Date:

1. <u>Introduction</u>

1.1 Object of the Project

As per University Of Pune rules for management programme student are required to take up a summer training of 60 day .This training is an integral part of the MBA course which helps student understand the vital aspect of the corporate working norms

The project given an overview of the requirement of the chosen as well as the general application of the management and theories

1.2 Selection of the Topic

In the world of competition, fund plays a very important role these fund are not always available in abundance with every individual. This particular problem is solved by borrowers is one of the major activities

These fund when lend have to be recovered profitably and within the stipulated time so as to redirect them toward some other gainful activity. Such recovery process is an essential task of the financial institution as there non-recovery given rise to NPA. NPA Management is a grave issue that has to be addressed with due importance

Thus the topic throw light on the core facets of the banking industry for which the project work has been taken up

1.3 Objectives of the Study

Specialization:

Since my specialization is finances, I wanted to go in for an unconventional topic

Interest

Banking sector has always interested me and it also provides various finance related opportunities.

NPA management –a serious study

- To the banking sector, NPA is a matter of concern as it eats up the profits of the banks.
- To understand the concept of non – performing asset
- To study the process of NPA provision followed by Bank of Baroda thoroughly.
- To study the remedial measures taken by the bank to reduce NPA

1.4 Scope

The project report covers the following point

Product offered by Bank of Baroda

The classification of account as per the installment and amount received for the borrowers

RBI'S recovery procedure

The guideline set by the Reserve Bank of India for the regulation and control of NPA'S

All essential aspect related to non performing asset

1.5 Limitation of the Study

Every study or work which we carried out is full of information but there are certain limitations because of which we are unable to get the information the limitation can be

1) The information system is confidential and hence the bank record were not fully disclose.

2) Some of the record regarding the financial aspect was available only at the Head-Office, so these data were not available.

2. ***Profile of the Organization***

2.1 History of Bank of Baroda

The beginning…..

It has been a long and eventful journey across 100 years and 17 countries. Starting in 1908 from a small building in Baroda to its new hi-rise and hi-tech Baroda Corporate Centre-in Mumbai is a saga of vision, enterprise, financial prudence, mission and corporate governance. It is a story scripted in corporate wisdom and social pride. It is a story crafted in private capital, princely patronage and state ownership. It is a story of ordinary bankers and their extraordinary contribution in the ascent of Bank of Baroda to the formidable heights of corporate glory. It is a story that needs to be shared with all those millions of people- customers, stakeholders, employees and the public at large- who in ample measure, have contributed to the making of an institution.

A star is born….

On 20th July, 1908 Bank of Baroda Ltd. Was registered under the Baroda companies Act of 1897, with a paid-up capital of Rs.10 lacs. Maharaja Sayajirao III, its founder, foresaw, "a bank of this nature will prove a beneficial agency for the lending, transmission and deposit of money and a powerful factor in the development of art, industries and commerce of the state and adjoining territories."

2.2 Baroda & Ethics

Between 1913 and 1917, as many as 87 banks failed in India. Bank of Baroda survived the crisis, mainly due to its honest and prudent leadership. This financial integrity, business prudence, caution and an abiding care and concern for the hard earned savings of hard working people, were to become the central philosophy around which business decisions would be effected. This cardinal philosophy was over the 94 years of its biggest asset. It imcurred that the bank survived the Great War years. It ensured survival during the Great Depression. Even while big names were dragged into the Stock Market scan and the Capital Market scam, the Bank of Baroda continued its triumphant march along the best ethical practices.

Strengthening the Edifice

In the mid 1930, greater autonomy was allowed to branches. Institutional safeguards against possible misuse of powers vested in managers were installed. In 1939 the first safe deposit lockers were provided at Baroda. Administrative initiatives were reinforced by HRD interventions. Braches expansion was pursued. These were all bold experiments 70 years ago. Over the second Great War years, the Bank's business grew phenomenally. At this time the Bank, in a limited way, ventured into foreign exchange business. It was a small step but a giant leap forward into international banking. In 1947, when India became free, Bank of Baroda, with 48 branches, was still an essentially regional bank. Nevertheless it had found a place in India's 'Fortune Five' list of banks.

Reaching Out

In India's post- independence phase, the bank started fan out beyond its backyard. Between 1953 and 1958, 30 new offices were opened. Strategic mergers up to 1965 saw the bank network over 234 branches. In as real sense, Bank of Baroda had become a national institution. Upon nationalization, it operated from 433 branches in India and around the world.

Beyond Indian Shores

In 1953, the Bank opened its first overseas branch at Mombasa, Kenya. Wherever enterprising Indians settled beyond India's shores, Bank of Baroda also went. The need to become truly international and competitive drove later assaults on international markets. Today, Bank of Baroda is India's leading international bank. Its network covers 61 braches in 16 countries. Overseas operations of the Bank today contribute nearly 20% of the Bank's net profit. Again in a real sense, Bank of Baroda had grown to become a truly international institution.

Nationalization and National Development

On 19th July, 1969 The Bank of Baroda Ltd. became Bank of Baroda. A new phase in banking had started. The Bank committed itself to this new role of national development. The Bank gave social banking a new dimension, with its Multi-Service Agency (MSA) model for urban micro-credit. It was the most customer friendly innovation is social banking anywhere.

In 1976 the Bank opened the first of its 1E Regional Rural Banks complementing its own operations in the rural heartland, where three-quarters of India lived. In 1977, the Bank launched the Gram Vikas Kendra's, an innovative model for integrated rural development. Following an aggressive expansion policy, by 1981, the Bank has 1669 branches, taking banking services to far flung un-banked areas of India The Bank today has lead responsibilities in 41 districts across 5 states. The Bank co-ordinates State Level Bankers' Committees in Rajasthan and Uttar Pradesh.

Financial Initiatives

New norms for capital adequacy required new capital management strategies. In 1995 the bank raised Rs. 300 crores through a bond issue. In 1996 the Bank tapped the capital market with an IPO of Rs. 860 crores, despite adverse market conditions prevailing then, the issue was over subscribed, reflecting the positive public perception of the bank's fundamental financial strength. The current level of capital adequacy stands at a healthy 11.32%

Quality Initiatives

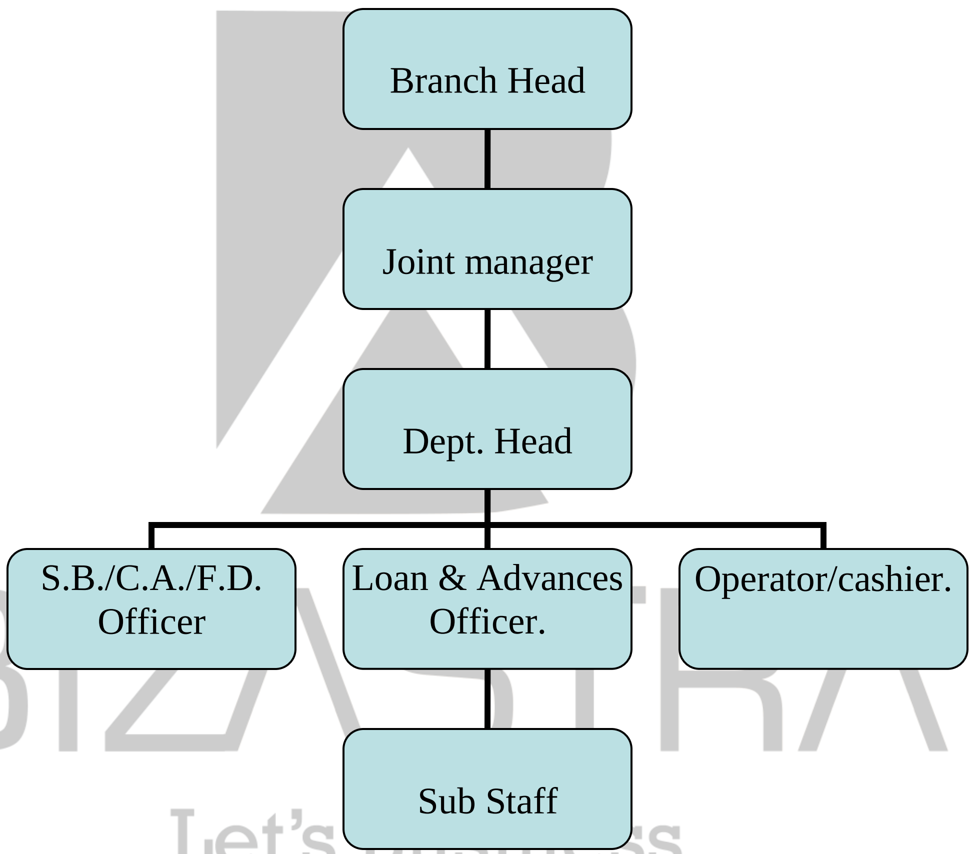
In its relentless striving for quality perfection, the Bank secured the ISO 9001:2000 certifications for 15 branches. By end of the current financial, the Bank is targeting 54 more branches for this quality certification.

A Tribute to its Heroes

No history is complete without mention of its heroes, monthly ordinary people, who turn in extra-ordinary performances and contribute to Building an institution. Over the last 94 years, there have been thousands of such people. The Bank salutes these "unknown soldiers" who passionately helped to create the legend of Bank of Baroda.

There were also the leaders, both corporate and royal, who provided the vision and guided the Bank through 94 trail blazing years, and departing, left behind footprints on the sands of time. This roll of Honor will be incomplete without mention of men, of the stature of Maharaja Gaekwad, Samoatrao Gaekwad, Ralph Whitenack, Vithaldas Thakersey, Tulsidas Kilachand and NM Chokshi. Bank of Baroda salutes these leaders whose vision helped to create an institution.

2.3 Organization chart



2.4 Procedure for Granting Loan

In loan account the entire amount sanctioned is debited to the borrower's account Interest is also debited to the a/c. It is the credit repayment made on installment basis. Following procedure is adopted for sanctioning of loans.

1. **Pre sanction survey and inspection-**

Loan facility is available on the basis of security offered or on the basis of period of which it is required. Security offered by the customers may be fixed asset, plant and machinery, equipment, house etc.

Depending upon the purpose of loan, the banker conducts a pre-sanction survey and inspection.

During this survey bankers inspect the security offered by seeing the location of factory, business premises, inspect documents and letter of goods etc. such survey helps the bank to know about the customers.

2. **Preparation of loan application –**

The loan application has to be prepared and handed over to the banker by the borrower.

In a loan application the following details are to be furnished -

1. Name of the borrower
2. Occupation
3. Purpose of loan
4. Period of loan
5. How borrower proposes to repay the loan
6. Projection of cash generations over the loan period
7. P&L A/c, B/S, for the period of loan in the form of projection
8. Details of security offered.

3. **Appraisal –**

Loan applications have to evaluated and appraised to decide whether they can be sanctioned of rejected. The loan department in the bank does this work.

During appraisal the loan department concerned applies various methods of scrutiny to find out the details given in the application are true and the projections hold good. Thus market information, sales forecast, etc. would be independently assessed

4. **Sanctioning** –

The loan department scrutinizes the loan application and decides whether the loan is to be sanctioned or not.

Norms for sanctioning the proposal are indicated by RBI

5. **Preparation of sanction letter-**

Sanction letter contains the following points-

1. Name of the borrower
2. Limits sanctioned
3. Period of loan
4. Security offered buy the borrower
5. Terms of repayment
6. Margin to be maintained
7. Rate of interest
8. Stock statements to be submitted at periodical intervals the borrower is informed about these aspects and a copy of the letter is sent to be borrower.

6. Acceptance of terms and conditions by the borrower

Normally the borrower is in continuous touch with the bank though be has banded over the proposal to the bank. They accept terms lay down by the bank. They are not requested to inform the bank in writing of having accepted the terms.

7. Preparation of loan documents -

a. Demand promissory note –

It is an important document and a common document for the bank. The borrower accepts his liability regarding the funds lend by the banker through this document.

It contains data of execution, place of execution, name of the payee, the loan amount, rate of interest, address of the borrower etc.

b. Loan agreement –

These are standard printed documents running into a No. of pages. They contain all legal aspects regarding the rights of both the parties and liabilities of the borrowe

2.5 RETAIL LENDING OF BOB

BARODA HOUSING LOAN

Purpose :- Construction / purchase of new / old house

Eligibility :- Individuals over the age of 21 years, employed for minimum three years or having stable source of income.

Amount :- Rs.100 lacs subject to income & repaying capacity.

Margin :- 15% of project cost 20% of cost of plot

Repayment :- 25 years not to exceed retirement age for salaried / 65 years of age for others.

BARODA PERSONAL LOAN

Purpose : - Personal expenses

Eligibility : - Confirmed employees with one year service with a stable business for 1 year & age over 21 years.

Amount : - Rs.20,000 to Rs.2 lacs subject to income & repaying capacity.

Repayment : - 4 years not exceeding retirement age for salaried / 65 years for other.

BARODA CAR LOAN

Purpose : - For purchase of new / second hand (up to 3 years old) four wheeler .

Eligibility : - salaried/ self – employed individuals

Amount : - Rs. 10.00 lacs subject to income & repaying capacity.

Margin : - New : 15%/second hand 40%

Repayment : - New vehicles -84 months.
Second hand -36 months.

BARODA TRADERS LOAN

Purpose	: - W/C Dev. Of shop/Non-fund based facilities
Amount	: - Rs. 25000/- to Rs. 100 Lacs
Eligibility	: - Individuals / other business concerns in operation for 2 years. (HUF & public limited Cos. Are not eligible.)
Margin	: - property (40%), Shares / Bonds (50%), FDRs (10%), NSCs/Govt. Bonds (15% for residual period upto 3years else 20%).
Repayment	: - 60 months.
Security	: - EM of property/pledge assignment of cash securities. Guarantee of property owner, if property in third party name.

BARODA EDUCATION LOAN

Courses covered	:- Gyan : Graduation, Post Gradution, Professional & other courses in India Scholar : Professional/ Technical course abroad.
Eligibility	: - Resident Indian Having secured admission. Expenses covered: Fees, Examination, Library, Laboratory fee, hostel charges, books, uniforms, computers, study tours project works, thesis, etc.
Amount of Loan	: - Gyan 7.5lacks / scholar – graduation & other courses up to 3years Rs. 10 lacks & for other courses Rs. 15lacs.
Margin	: - up to Rs. 4.00 lacs. NIL Above Rs. 4.00 Lacs : Gyan (5%)/ Scholar (15%)

3. NPA concept

3.1 WHAT IS A NPA (NON PERFORMING ASSET)

Action for enforcement of security interest can be initiated only if the secured asset is classified as Non Performing Asset.

Non Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by RBI.

An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. Due to the improvement in the payment and settlement systems, recovery climate, up gradation of technology in the banking system, etc., it was decided to dispense with 'past due' concept, with effect from March 31, 2001. Accordingly, as from that date, a Non performing asset (NPA) shell be an advance where

i. interest and /or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan,

ii. the account remains 'out of order' for a period of more than 180 days, in respect of an overdraft/ cash Credit(OD/CC),

iii. the bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted,

iv. interest and/ or installment of principal remains overdue for two harvest seasons but 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 180 days in respect of other accounts.

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, form the year ending March 31, 2004. Accordingly, with effect form March 31, 2004, 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(OD/CC),

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

iv. interest and/ or installment of principal remains overdue for two harvest seasons but 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.

Year ending march 31	Specified period
1993	Four quarters
1994	Three quarters
1995	Two quarters
2004 & onwards	90 days

'Out of order'

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power. In case where the outstanding balance in the principal operating account is less than the

sanctioned limit/ drawing power, but there are no credits continuously for six months as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these account should be treated as 'out of order'.

Overdue

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.

The causes of NPA

Any NPA management policy has to identify the causes for the occurrence of NPA's. This cause may be attributed to either the borrower or the bank itself or may e due to factors beyond the control of both. Again these may be internal or external for either the borrower of the bank.

(A) Causes attributed to borrower :-

(i) Internal :-

1. wrong borrower identification
2. willful defaults
3. incompetent management
4. Non submission of requisite data or submission of wrong data
5. Time /cost overruns due to delayed project implementation
6. Technological obsolescence and priority to technological up gradation.

(ii) External :-

1. Poor stake/ contribution
2. Poor receivable management
3. Inability to compete in the market
4. Adverse exchange fluctuations.

(B) <u>Causes attributed to banks</u>

(i) Internal

1. Poor pre-sanction appraisal
2. Tough repayment schedule
3. Poor assessment of commercial viability
4. Delayed disbursement.

(ii) External

1. Change in norms of classification
2. Long drawn legal processes of recovery of loan.

(C) <u>Causes beyond the borrower and the bank</u>

1. General slow down in the economy
2. Inadequacy of infrastructure in particular power resulting in high cost of production hence lesser marketability o products.
3. government loan waiver scheme
4. Labour unrest, riots lockouts, strikes
5. Slow disposal of recovery cases

3.2 ASSET CLASSIFICATION

Categories of NPAs

Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the reliability of the dues:

I. **Substandard Assets**
ii. **Doubtful Assets**
iii. **Loss Assets**

I) <u>Substandard Assets</u>

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

II) **<u>Doubtful Assets</u>**

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classifieds doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

III) Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

3.3 Effects of NPA's

The NPA problem is on of the foremost formidable problems that have shaken the entire Banking Industry. " The high level of NPA's in banks and financial institutions has been a matter of grave concern to the public as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit, one cause for which is the mounting NPA's is bound to create adverse repercussions in the economy. "The efficiency of a bank is not always reflected only by the size of its balance sheet but by the level of return on its assets. NPAs do not generate interest provisions for such NPAs from their current profits

1. **Effect on Profitability**:

a) They erode current profits through provisioning requirements.
b). They result in reduced interest income.
c) They require higher provisioning requirements affecting profits and capacity to increase good quality risk assets in future.
d) They limit recycling of funds.
e) Bank has to spend for making efforts for recovery such as expenses on notice; follow-up and filing of civil suit & because of this expenses profit get reduced.
f) This decline in profit has a bearings on variables like the capital to risk-weighted asset ratio (CRAR) with the dip in profit it becomes difficult for the bank to raise Tier – I capital This is because Tier – I capital consist of statutory and capital reserve that are essentially built from profit.
g) In the face of declining profit, in order to maintain the stipulated CRAR, the bank may have to raise Tier – 2 capitals through bond issue the interest cost then will be higher.

2. **Narrow banking** :

a) Narrow banking means only operation with the existing assets base & not expanding the business. If NPAs are high RBI may ask a bank to do only narrow banking.
b) RBI may impose adverse restrictions on business of bank if NPA percentage is very high. For Example – Restriction on opening new branches, Expansion of international operations may be curtain.

3) **Effects on Efficiency**:

a) When NPAs are very high all productivity ration of the bank such as ROI (Return on Investment.) Productivity per employee and profitability rations are adversely affected.

b) The most important business implication of the NPAs is that it leads to the credit risk management assuming priority over other aspects of bank's functioning. The bank's whole machinery would thus be pre-occupied with recovery procedures rather that concentrating on expanding business.

c) Implications can be psychological like 'play safe' attitude and risk aversion, lower moral and disinclination to take decisions at all levels of staff in the bank.

6) **Effect on reputation of the bank** :

The lesser appreciated implications are reputation risks arising out of grater disclosures on quantum and movement of NPAs, provisions etc. High NPA diversely affected the image of bank and bank's capacity to generate further business is reduced.

3.4 INCOME RECOGNITION

Income Recognition Policy

1 The policy of income recognition has to be objective and based on the record of recovery. Internationally income from nonperforming assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

2 However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

3 Fees and commissions earned by the banks as a result of renegotiations or Rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covered by the re- negotiated or rescheduled extension of credit.

4 If Government guaranteed advances become NPA, the interest on such Advances should not be taken to income account unless the interest has been Realized.

Reversal of income

1 If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, the entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realized. **This will apply to Government guaranteed accounts also.**

2 In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

Appropriation of recovery in NPAs

1 Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

2 In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

Interest Applications

There is no objection to the banks using their own discretion in debiting interest to an NPA account taking the same to Interest Suspense Account or maintaining only a record of such interest in perform accounts.

Computation of NPA levels

Banks should deduct the following items from the Gross Advances and Gross NPAs to arrive at the Net advances and Net NPAs respectively:

i) Balance in Interest Suspense Account

ii) DICGC/ECGC claims received and held, pending adjustment

iii) Part payment received and kept in suspense account

iv) Total provisions held (excluding amount of technical write off and provision on standard assets)

For the purpose, the amount of gross advances should exclude the amount of Technical Write off but would include all outstanding loans and advances; including the advances for which refinance has been availed but excluding the amount of rediscounted bills. The level of gross and net NPAs will be arrived at in percentage terms by dividing the amount of gross and net NPAs by gross and net advances, computed as above, respectively.

3.5 Guidelines for classification of assets

1. Accounts with temporary deficiencies

The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. In the matter of classification of accounts with such deficiencies banks may follow the following guidelines:

i) Banks should ensure that drawings in the working capital Accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular. A working capital borrower account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

ii) Regular and ad hoc credit limits need to be reviewed/ regularized not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

2. Accounts regularized near about the balance sheet date

The asset classification of borrower accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularization of the account to eliminate doubts on their performing status.

3. Asset Classification to be borrower-wise and not facility-wise

i) It is difficult to envisage a situation when only one facility to a borrower/one investment in any of the securities issued by the borrower becomes a problem credit/investment and not others. Therefore, all the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

ii) If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.

4. Advances under consortium arrangements

Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

5 Accounts where there is erosion in the value of security/frauds committed by borrowers

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate.

i. Erosion in the value of security can be reckoned as significant when the Realizable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

ii. If the realizable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrower accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. It may be either written off or fully provided for by the bank.

4. Advances to PACS/FSS ceded to Commercial Banks

In respect of agricultural advances as well as advances for other purposes granted by banks to PACS/ FSS under the on-lending system, only that particular credit facility granted to PACS/ FSS which is in default for a period of two crop seasons in case of short duration crops and one crop season in case of long duration crops, as the case may be, after it has become due will be classified as NPA and not all the credit facilities sanctioned to a PACS/ FSS. The other direct loans & advances, if any, granted by the bank to the member borrower of a PACS/FSS outside the on-lending arrangement will become NPA even if one of the credit facilities granted to the same borrower becomes NPA.

5. Advances against Term Deposits, NSCs, KVP/IVP, etc

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts. Advances against gold ornaments, government securities and all other securities are not covered by this exemption

.

6. Loans with moratorium for payment of interest

i. 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 do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

ii. In the 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 quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of installment of principal or payment of interest on the respective due dates.

7. Government guaranteed advances

The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income. The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures. With effect from the year ending 31 March 2006 State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

3.6 PROVISIONING NORMS

Loss assets

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

Doubtful assets

I. 100 percent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse and the realizable value is estimated on a realistic basis.

ii. In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year	20
One to three year	30
More than three years	100

iii. Banks are permitted to phase the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful asset from 18 to 12 months over a four year period commencing from the year ending March 31, 2005, with a minimum of 20 % each year.

Valuation of Security for provisioning purposes

With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board would be mandatory in order to enhance there liability on stock valuation. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

Substandard assets

A general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and **securities available**. The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 20 per cent on the outstanding balance. The provisioning requirement for unsecured 'doubtful' assets is 100 per cent. Unsecured exposure is defined as an exposure where the realizable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10percent, *ab-initio*, of the outstanding exposure. 'Exposure' shall include all funded and non-funded exposures (including underwriting and similar commitments). 'Security' will mean tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters etc.

Standard assets

(I) Banks should make general provision for standard assets at the following rates for the funded outstanding on global loan portfolio basis:

(a) Direct advances to agricultural and SME sectors at 0.25 per cent;

(b) Residential housing loans beyond Rs. 20 lakh at 1 per cent;

(c) Advances to specific sectors, i.e., personal loans (including credit card receivables), loans and advances qualifying as Capital Market exposures, Commercial Real Estate loans, and Loans and advances to Non-deposit taking Systemically Important NBFCs at 2 per cent

(d) All other advances not included in (a), (b) and (c) above, at 0.40 percent.

(ii) In order to ensure continued and adequate availability of credit to highly productive sectors of the economy, the provisioning requirement for loans and advances to Asset Finance Companies (as defined by DNBS, RBI from time to time), which are standard assets, shall remain unchanged at 0.40 %

(iii) The provisions on standard assets should not be reckoned for arriving at net NPAs.

(iv) The provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.

<u>Guidelines for Provisions under Special Circumstances</u>

A. Advances granted under rehabilitation packages approved by BIFR/term lending institutions

(I) In respect of advances under rehabilitation package approved by BIFR/term lending institutions, the provision should continue to be made in respect of dues to the bank on the existing credit facilities as per their classification or substandard or doubtful asset.

(ii) As regards the additional facilities sanctioned as per package finalized by BIFR and/or term lending institutions, provision on additional facilities sanctioned need not be made for a period of one year from the date of disbursement.

(iii) In respect of additional credit facilities granted to SSI units which are identified as sick [as defined in Section IV (Para 2.8) of RPCD circular RPCD.PLNFS.BC. No 83 /06.02.31/20042005 dated 1 March 2005] and where rehabilitation packages/nursing programmes have been drawn by the banks themselves or under consortium arrangements, no provision need be made for the period of one year.

B. Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs, gold ornaments, government & other securities and life insurance policies would attract provisioning requirements as applicable to their asset classification status.

C. Treatment of interest suspense account

Amounts held in Interest Suspense Account should not be reckoned as part of provisions. Amounts lying in the Interest Suspense Account should be deducted from the relative advances and thereafter, provisioning as per the norms, should be made on the balances after such deduction.

Measure to be taken to recover NPA

(A) Legal measure

1 Corporate Debt Restructuring

The CDR mechanism was institutionalized in 2001 to provide a timely and transparent system for restructuring of the corporate debts due to banks and FIs (of Rs.20 corer and above involving 2 or more lending institutions). The CDR process enables viable corporate entities to restructure their dues outside the existing legal framework and reduce the incidence of fresh NPAs. The CDR structure have been headquartered in , Mumbai and standing forum and core group for administering the mechanism had been put in place. The Objective of Corporate Debt Restructuring (CDR) framework IS to ensure timely and transparent mechanism for restructuring of the corporate debt of viable entities facing problem, outside the purview of BIRD, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporate that are affected by certain internal and external factor and minimize the losses to the creditors and other stakeholder through an orderly and coordinated restructuring programme.

Features

i) CDR will be a non statutory mechanism.

ii) CDR mechanisms will be a voluntary system based on debtor - creditor agreement and inter – creditor agreement.

iii) The scheme will cover only multiple banking accounts / syndication / consortium account with outstanding exposure of Rs.20 corers and above by banks and institutions.

iv) The CDR systems will be applicable only to standard and substandard accounts. However , as an interim measure, permission for corporate debt restructuring will be made available by RBI on the basis of specific recommendation of CDR "CORE-GROUP", if minimum of 75 percent (by value) of the lender constituting banks/financial institution. There would be no requirement of the account/company being sick, NPA or being in default for a specified period before reference to the CDR group. However, potentially viable cases of NPA will get priority. This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone (s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with consent. In no case, the request of and corporate indulging in willful default or misfeasance will be considered for restructuring under CDR.

v) Reference to CDR system could be triggered by (I) any or more of the secured creditor who have minimum 20 percent share in either working capital or term financial I institution having stake as in (I) above.

2 Debt recovery tribunals

The recovery of debts due to bank and financial institution act 1993 was enacted o 26.4.1993 with the main object to provide expeditors adjudications and recovery of debits due to banks and financial institution. The tribunals are empowered to adjudicate the suit with claim of Rs. 10.00 lakh and above with a vive to give further thrust for speedy disposal of the suits, more tribunals and appellate were established during the last two years. This is expected to ensure better disposal of suits and execution of recovery certificates.

The act was amended in 2000 has helped in strengthening ad functioning of DRTs. Provision for placement of more than one recovery provisions for disobedience of tribunals order of any terms of the order and appointment of receiver with power of realization, management, protection and preservation of property provide necessary teeth to the DRTs, apart from expediting the recovery of NPAs on the times to come, there are now 29drts set up at major centers in the country with appellate tribunals located in five centers viz. Allahabad, Mumbai, Delhi, Kolkata and Chennai.

3 Asset Reconstruction Company

The ARC is expected to purchase the NPAs of banks and then make an effort to recover them. When ARCs purchase NPA from bank bank's NPAs is reduced & liquidity also improved. However many time ARCs purchase NPAs at heavy discount. Therefore, bank has to booked loss.

Asset Reconstruction Company are not merely vehicles to realize bed loans but they are alive to resurrecting the bad loans it says that a securitization company or reconstruction company may, for the purpose of asset reconstruction, having regard to the guidelines framed by the reserve bank in this behalf, provides for any one or more of the following measures, namely.

i) The proper management of the business of the borrower, by change in, or takeover of, the management of the business of the borrower.

ii) The sale or lease of a part or whole of the business of the borrower.

iii) Rescheduling of payment of debts payable by the borrower.

iv) Enforcement of security interest in accordance with provision of this act.

v) Settlement of dues payable by the borrower.

vi) Taking possession of secured asset in accordance with provision of this act.

4 Lok – Adalat

Lok Adalat institution helps banks to settle disputes involving accounts in doubtful and loss categories with outstanding balance of Rs. 5 lakh for compromise settlements under Lok Adalats.

The settlement of NPAs pertaining to banks through Lok Adalat is already n vogue. However, on taking revive it is observed that expected advantages of Lok Adalat, has not been derived by the banks for settlement of NPAs. By using the forum of Lok Adalat to recover the dues I NPAs byway of compromise settlements, the following distinct advantages can be derived -

i) There is mot court fees involved when fresh disputes are referred to Lok Adalat.

ii) The Lok Adalat can take cognizance of any exiting suit in the court as well as look into & adjudicate upon fresh disputes.

iii) If no settlement is arrived at, the parties can continue with court proceedings.

iv) The decrees passed by Lok Adalat have legal status and binding.

5. SARFAESI Act, 2002:-

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.2002 (here-in-after referred to as The Securitization Act) has been enacted with an intention to strengthen the creditors rights through foreclosure and enforcement of securities by the banks and financial institutions (here-in-after FI) by conferring on the creditors the right to seize the secured asset and sell of the same in order to recover dues promptly bypassing the costly and very time consuming legal process through courts.

Banks have started issuing notices under the Securitization Act, 2002 directing the defaulter to either payback the dues to the bank or else give the possessing 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.

i) Important Points Regarding Act-

a) The Act came into force w.e.f. 21/06/2002.

b) This legislation gives powers to secured creditors such as bank & Financial institutions and applies only to NPAs duly classified as per RBI norm.

c) The secured creditor may transfer the security interest to a securitization or reconstruction company or enforce the provision on its own.

d) Under Section 13(4) of Act the secured creditor may after 60 days notice either.

- Take possession of the assets and dispose them off or.
- Take over the management of the assets or.
- Claim an amount from acquire of the security who owes a sum on that account to the borrower.

i) Transactions to which securitization Act is not applicable-

a) Any security interest for securing repayment of any financial asset not exceeding Rs.1 Lack.

b) Any security interest credited in agricultural land.

c) Any case in which the amount due is less than 20% of the principal amount and interest thereon.

iii) Provision of the Act-

a) In case of consortium or multiple lending arrangements if 75% of the secured creditors in value agree to initiate recovery action, the same is binding on all secured creditors.

b) If dues are not fully recovered from sale of assets, secured creditor i.e. Banks and Financial Institution may file an application with DRT or suit with competent court for recovery of balance.

c) Secured creditor is entitled to proceed against guarantors even without taking charges of assets.

d) Where the borrowing limited company has been served notice and its management is to be taken over by secured creditor, the secured creditor is required to publish a notice in newspaper published in English language and in a newspaper published in an Indian language in circulation in the place where principal office of the borrower is situated.

On Publication of notice-

- All persons who were directors of the company are deemed to have vacated their office.
- All contracts with directors by the company are terminated.
- No resolution passed by shareholders shall be given effect under approved by secured creditor.

e) Where possession of assets to be taken is movable property the authorized officers (of the secured creditor) shall take possession of such moveable property in the presence of witnesses after drawing a 'Panchnama'. If it is decided by the secured creditor to sell the movable asset, the authorized

f) officer should serve on the borrower a notice of 30 days before sale. Authorized officer has to obtain estimated value of the movable secured asset and thereafter fix in consultation with the secured creditor (Bank/ Financial Institution) the reserve price for sale.

g) Where possession of immovable property is to be taken, possession notice shall be delivered to the borrower. Procedure for sale is similar to be intimated within 30 days.

h) Central Government has set up a central registry where particular of transactions relating to creation of security interest under Act are to be intimated within 30 days.

6. **One Time Settlement-**

When account declared as NPA instead of filing the suit in Court or Tribunal borrower agree to repay lump sum amount and if bank or financial institution also agree then bank accept that amount and settle the amount.

7. **Civil Courts**

Recovery through court is possible provided decrees are awarded early. In this regard, it is essential to introduce fast track. In addition, certain courts may be identified to exclusively deal with bank cases.

8. **CIBIL**

In order to facilitate sharing of information related to credit matters, credit information bureau (India) limited (CIBIL) was set up in 2000. Reserve bank of India has authorized credit information bureau (India) ltd. (CIBIL) to publish the defaulters list (suit filed accounts) of Rs.25 lakh and above, as on march 31, 2003 and onwards. Reserve bank of India continues to deal with, as hitherto, data relating to non-suit filed accounts of defaulters list of Rs.1 corer and above and willful defaulter list of Rs.25 lakh and above, which were disseminated only to banks for their confidential.

Non Legal Measures:-

1. **Compromise Settlement:-**

"Compromise" means the bank is agreeable to waive apart of "principal debt" and/or "unapplied interest and expenses incurred on the account including legal expenses incurred on the account including legal expenses" compromise is permissible in all types of NPA, even in suit filed or decreed accounts. The bank can also enter into compromise settlement in NPA accounts, where suit has not been failed.

Guidelines for arriving at compromise

The following guidelines should be borne in mind while setting an NPA A/c by way of compromise:-

i) A Compromise should be a negotiated settlement which will unable the bank to recover the dues to the maximum extent possible, at minimum expenses and expeditiously.

ii) A proper distinction will have to be made between willful defaulters and borrowers who defaulters should due to circumstances beyond their control. Willful defaulters should not be lured to make payment by offering concessions without adequate justification.

iii) While assessing the realizable value of the securities available to the bank proper weight age should be given to the location, condition, marketable title and possession thereof.

iv) The means of the borrower and guarantor's vis-à-vis the amount due to the bank should also be taken into account while assessing the compromise amount acceptable.

v) The advantage to the bank form prompt recycling of funds should be weighed in comparison to the likely recovery by following legal and protracted course of action.

2. **Write off:-**

Write off is of two kinds - prudential write, and Regular write off (Technical write off and prudential write off mean the same). The basic difference between prudential and regular write off is that in prudential write off there is a possibility of recovery at a distant future even after write off, while in regular write off, there is no possibility of recovery after off or the possibility of recovery is very remote.

Prudential write off:-

Prudential write off is resorted to for accounting purpose when the borrower account is classified [1] Loss Assets and 100% provision is held or [2] is classified as doubtful assets and DICGC claims have been received in the Account; consequently, the balance in such account is equal to the provision held plus outstanding suspense. However, in such accounts there plus balance outstanding interest suspense account. However, in such accounts there are chances of recovery by virtue of suits having been filed and are pending, guarantees/securities held. In all such accounts which have been written off under category of 'prudential write off; effort for recovery be continued and maximum possible recovery be made. Such account after write off are transferred to and retained in Memorandum Ledger.

Partial prudential write off:-

As a special strategy bank may resort to partial prudential write off at HO level only in case of big NPA Account where full provision has not been partial prudential write off can be made to the extent of amount provision already made in order to reduce the level of NPA.

Regular write off:-

Regular write off is off resorted to in borrower accounts classified as loss assets as per the Norma and where 100% provision is held against such accounts and competent authority has satisfied that there are no more chances of recovery in such accounts and all possible efforts have been made.

3. **Up gradation:-**

In case of genuine need, where rephasement of the repayment schedule is likely to lead to up gradation, over a period of time, if the revised repayment schedule is adhered to by the borrower, then option should also be examined and if need be, implemented. Certain borrower accounts might need rehabilitation exercise, which can lead to up gradation of such account over a period of time. The bank should examine all Sub-Standard and Doubtful account to identify such account which can be rehabilitated. Branches should note that rehabilitation, if commenced before an account slips into NPA category; can such account from becoming NPA.

Viable sick Industries - Measures for rehabilitation:-

The incidence of industrial sickness is widespread in all kinds of industries - Large, Medium, Small, Tiny and those in the decentralized sector of the economy. Besides its adverse effect on socio - economy of our country, it causes havoc with profitability of bank. Bank fund already extended to sick and closed Industrial units by way of advance remain blocked indefinitely leading and fall in profit due to non-realization of interest and other charges Over and above bans run a high risk of loan losses if ultimately the principal and interest / charges prove remedial measures are necessary in order to avoid such situation, a leading banker is also required to rehabilitate all sick units which are potentially viable. A potentially viable is one which regains its liquidity position to be able to replay its past and present dues within a reasonable period of time.

4. **Up gradation:-**

In respect of hardcore NPAs, where recoveries during the last 3 years have been virtually "NIL" or negligible, services of outside agencies may be engaged selectively on payment of charges after obtaining approval from HO, recovery department. The board of Director it its meeting on257/98 had approved a scheme for engagement of outside agencies for the purpose of recovery. In the matter of engagement of outside agency we have been advised recently by IBA that banks availing services of such agencies should take due care from al angels including obligation under the law while engaging their service. In particular it is desirable that such agent's firms/legal entities of long standing, enjoying good reputation/references and that employee are members of provident fund. Branches and regional offices should take noted of the IBA suggestion in this regard for future guidance.

5. **Recovery Camps:-**

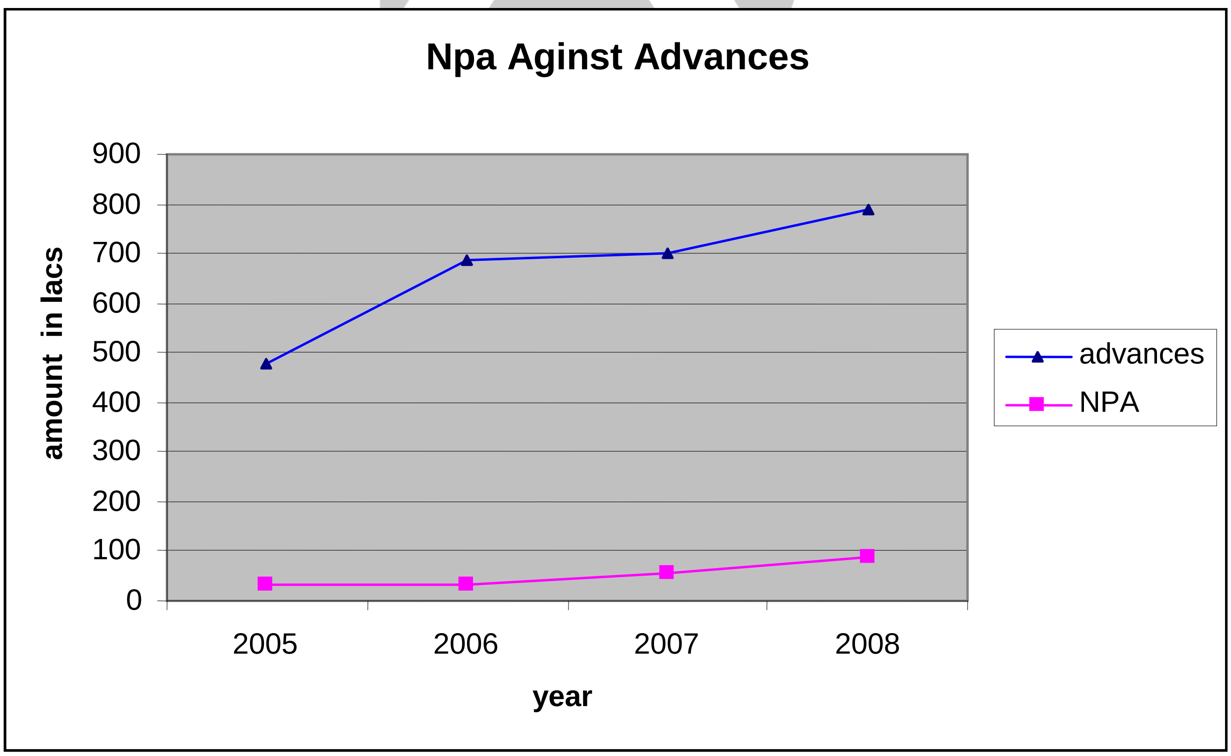
Holding of recovery camps at periodic intervals play in maximizing recovery in NPA account. It creates a proper climate and consequential awareness the borrowers to repay bank's dues. Regional Mangers/Branches should draw calendar for holiday recovery camps and organize at least 6-7 camps per branch in a year. Exhaustive advance preparation should be made for holding recovery camps and 100% borrowers contact should be ensured. Regional Mangers should attend such recovery camps so that implementation of concept of 'ON SPOT DECISION' is ensured. Likewise, Branches should participate actively in Lok Adalats and settle cases as per guidelines in this respect.

4. ***Data Analysis***

4.1 NPA AGAINST ADVANCES

(Rs. In.lakhs)

Year	Advances	NPA's
2005	476.17	30.91
2006	688.53	32.52
2007	700.59	54.54
2008	787.77	86.28



NPA of advanced

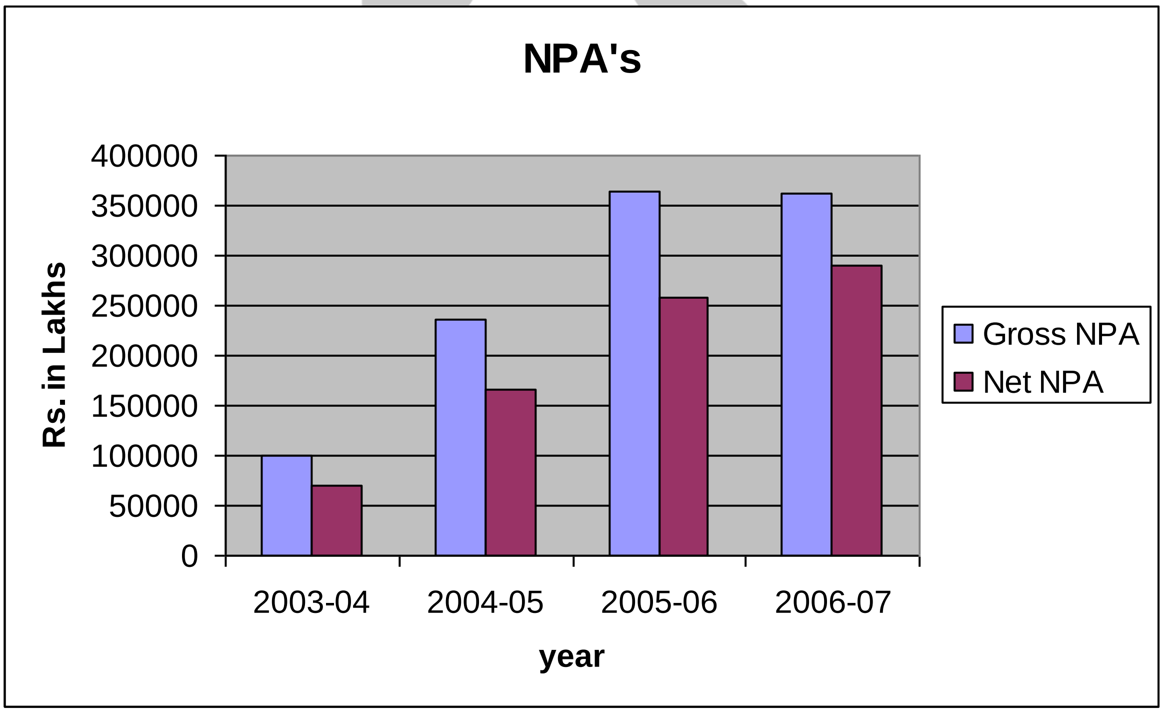
Looking at the movement of the NPA to advance ratio the bank can have an idea about how much of its lending is paid off & what proportion is not so the bank can then closely monitor the lending pattern whether it is extending loan to risk project or not viable projects whether it has to increase post monitoring etc & decide on the adoption of proper risk management technique & such measure so this ration is more important to the bank then the NPA to asset ratio during the year 2005-06

The gross NPA to gross advances of the bank is as on march 06. the net NPA to net advance has also improved from 32.52 as on 31st march 2006 to 86.28 as on march 2008 during the had been reduction of NPA to the amount recover 26.00

4.2 NPA'S

(Rs. In Lakhs)

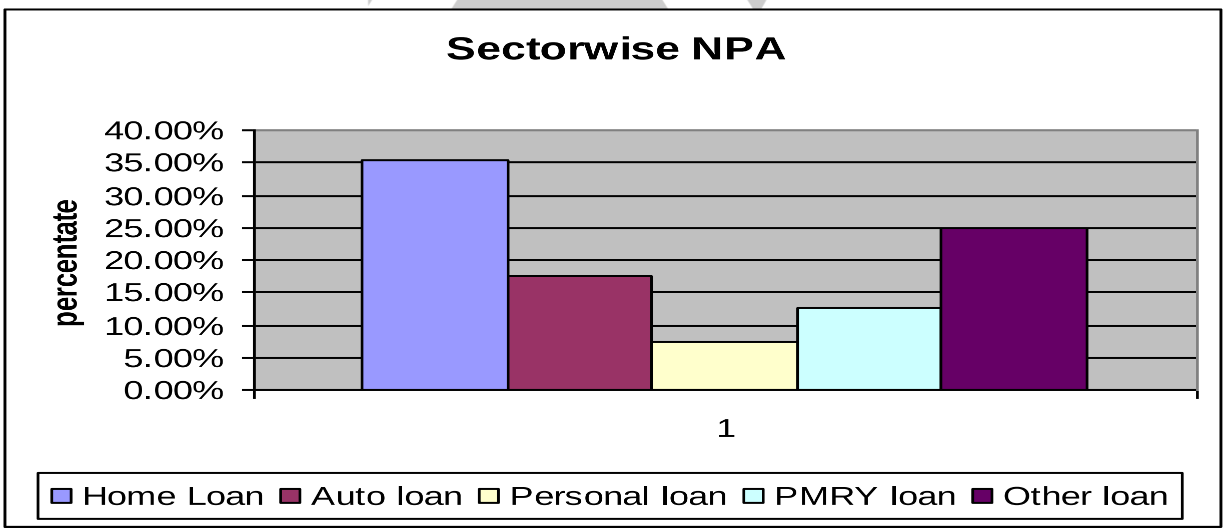
Year	Gross NPA	Net NPA
2003-04	1,00,812	70569
2004-05	2,36,619	165633
2005-06	363427	258144
2006-07	362741	289718



Gross NPA to total asset reflects the proportion of non-standard to total asset of the bank while net NPA to total asset reflects the actual asset scenario after making provision. The NPA to advance ratio & NPA to total asset differ widely & considering only the NPA to total asset ratio may underestimate the problem of NPA the year 2003 to 2007 gross NPA & Net NPA is increase to as compare to previous each year

4.3 Sectorwise NPA's

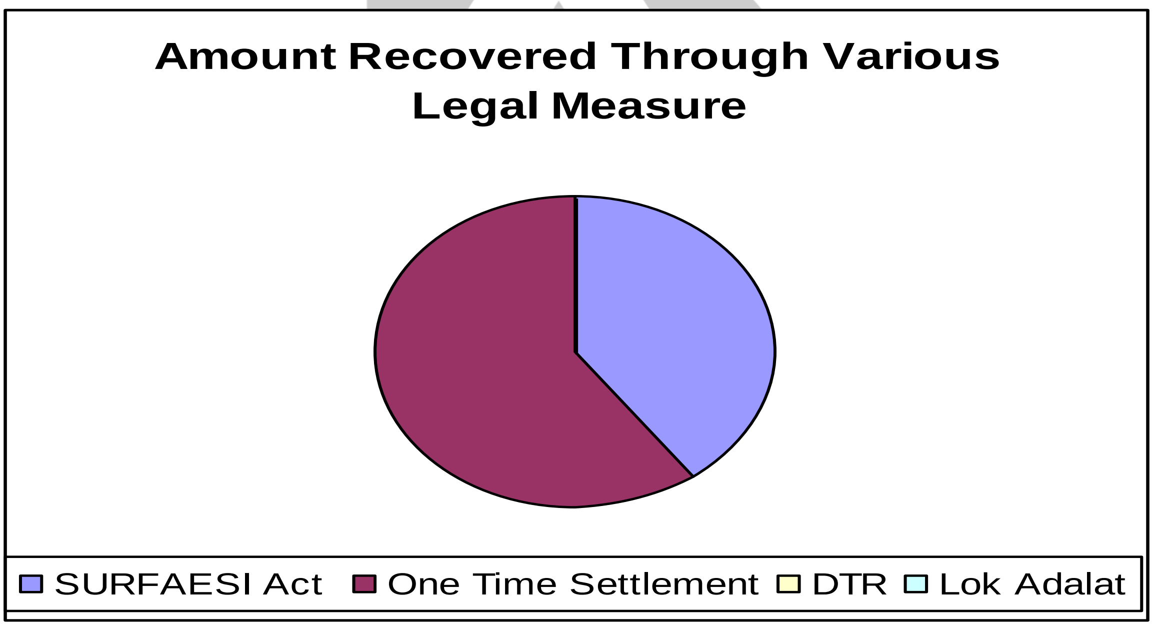
SR.NO	TYPE OF LOANS	NO OF BORROWERS	% (PERCENTAGE)
1.	HOME LOAN	15	35.50%
2.	AUTO LOAN	7	17.50%
3.	PERSONAL LOAN	3	7.50%
4.	PMRY LOAN	5	12.50%
5.	OTHERS	10	25.00%
	TOTAL	**40**	**100.00%**



This chart shows that for the last 5years the maximum loan was being granted as the home loan. The minimum being to personal loan. The auto loan is also reasonably higher than personal loan.

4.4 Amount Recovered Through Various Legal Measure

SURFAESI Act	182800
One Time Settlement	274200
DTR	00
Lok Adalat	00



Analysis of the graph & reasons:-

Under SURFAESI act the recovery of the due 40% and under one time settlement 60% and the DTR and Lok Adalat is able to recover 0% the reasons are as follows

1. DTR act is being applicable when the amount of the NPA exceeds 10,00,000 and no NPA A/c exceeds to 10,00,000
2. Lok Adalat of the procedure which is very tedious so no bank willing to go to Lok Adalat.
3. SARFAESI Act is the completion on the borrower so it is able to recover the 40% of the amount.
4. because of the One time settlement norm no borrower is willing to face the legal proceedings so the one time settlement norm is able to recover the maximum of 60%

4.5 ASSET STATUS

DB 1	Doubtful Asset 1
DB 2	Doubtful Asset 2
SUB	Substandard Asset
LOS	Loss asset

Example

Name	ABC
Nature of facility	Housing loan
Balance out standing	277482
Present realizable value of security	350000
Date when first classified as NPA	31-12-06
Asset status	DB1
Total overdue	35751
Secured portion of bal o/s	277482
Total provision	55496

Name	DEF
Nature of facility	Traders loan
Balance out standing	776770
Present realizable value of security	Nil
Date when first classified as NPA	31-3-07
Asset status	Loss
Total overdue	776770
Secured portion of bal o/s	Nil
Total provision	776770

Name	GHI
Nature of facility	Education loan
Balance out standing	122422
Present realizable value of security	275000
Date when first classified as NPA	31-4-07
Asset status	DB1
Total overdue	59422
Secured portion of bal o/s	122422
Total provision	42422

Name	JKL
Nature of facility	Consumer loan
Balance out standing	44507
Present realizable value of security	60000
Date when first classified as NPA	31-12-07
Asset status	DB2
Total overdue	44507
Secured portion of bal o/s	44507
Total provision	44507

Name	MNO
Nature of facility	NPS
Balance out standing	354567
Present realizable value of security	425000
Date when first classified as NPA	30-11-07
Asset status	SUB
Total overdue	54937
Secured portion of bal o/s	354667
Total provision	35457

CONCLUSION

Reason’s for the generate of NPA’s

- Willful defaulter’s
- Improper assessment of profit at the beginning of the business; which later on fails to generate the estimated profit.
- Loss of job after the loan is sanctioned.
- Property disputes that arise after the property is offered to the bank security.
- Domotion which result in the lowering of salary, ultimately affecting the payment of installment or principal amount.
- Market condition; demand and supply position also affected the paying capacity of the borrower.
- Government policies affected industries and hence the parameters earlier used to judge a borrower’s capacity.

OBSERVATION

- The bank has a variety of loan schemes to offer and thus the risk of NPA account is high
- The bank has a procedure to verify all facts given by the borrowers before sanctioning the loan which includes visits and enquiries and general
- Bank of Baroda has provide a wide range of loan schemes to fulfill every need of their customer
- The bank of Baroda observes all the rules & regulation set by the RBI for recovery of NPA dues.

HOW TO REDUCE NPA'S ?

- Arrest- slippage in existing standard assets.
- Identify new / probable NPAs…
- List out high value NPA accounts.
- Examine security aspect.
- Consider rescheduling in genuine cases.
- Recovery planning: Distribute accounts among staff members/ Director/officers.
- Meet the borrowers frequently

Review of NPA's Account: - Branch wise monthly statement

Opening Balance (1)

(+) Fresh Addition (2)

Cash Recoveries (3)

Closing Balance

NPA = Cash Recoveries (3) – Closing Balance (5)

- Review accounts if interest is not served in the last month
- Regular limits review on due date
- Ensure there is no erosion in the value of security &

There is no threat to recovery for any reason

Suggestions & Recommendations

1. Knowing a client profile thoroughly & preparing a credit report by paying frequent visits to the client & his business unit.

2. Proper evolution of various credit proposal, proper documentation & list disbursement & close monitoring of standard NPA category.

3. Putting certain borrower account which exhibits certain distress signals under watch list and paying a close & special attention so that they may not become NPA.

4. Proper visit, visit report, stock statement should be up to date.

5. Security should be properly verified.

6. Adopting credit ration system to identify measures & monitor the credit risk of individual proposal considering personal asset, capacity of borrower availability of fund with borrower marketability of securities.

7. Defaulters list should be displayed in the banks premises which will serve as an effective pressurizing lever in a subtle form

Annexure

Gangapur road Branch

(Rs. In Lakhs)

DEPOSITS	Mar05	Mar06	Mar07	Mar08	Mar09(E)
Core deposits	1109.07	1554.69	2546.80	3464.29	4092.04
Inter bank	-	-	-	-	-
TOTAL DEPOSITS	1109.07	1554.69	2546.80	3464.29	4092.04
Current A/c	67.05	141.99	246.44	308.05	322.08
Saving A/c	393.30	722.18	1015.16	1421.22	1674.79
ADVANCES					
Total advances	623.86	766.33	737.04	962.47	1460.00
Other p.s.	505.26	658.73	650.63	845.82	1410.00
C&I & other	118.6	107.6	86.41	116.65	50.00
RETAIL LENDING					
Consumer durable	6.30	17.96	6.64	8.63	6.44
Housing loan	338.52	436.42	378.7	549.12	738.94
Education loan	26.85	26.00	25.67	35.94	53.04
Car loan	52.37	65.77	65.31	78.37	92.26
Bob vyapar	42.6	91.90	69.11	96.75	25.00
Clean loan	9.53	14.08	8.25	11.55	11.56
Retail advances	476.17	688.53	700.59	875.74	1000.00
PROFIT	5.39	18.15	24.88	33.59	53.38
NPA recovery	0.00	0.00	1.68	2.13	26.00
NPA	30.91	32.52	54.54	25.00	65.00

RANGE & SEGMENT WISE NPA

RANGE	ACCOUNT'S	AMOUNT	SEGMENT	ACCOUNT'S	AMOUNT
Up to Rs.1 lakh	15	7.00	AGRIL	00	00
Rs.1 to 5 lakh	18	55.00	S.S.I	00	00
Rs.5 to 10 lakh	04	24.29	O.P.S	22	53.17
Rs.10 to above	00	00	Other	15	33.11
Total	37	86.28	Total	37	86.28

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