CHAPTER - VI

MANAGEMENT OF NPA
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1. MANAGEMENT OF NPA

2. RECOVERY

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CHAPTER - VI
MANAGEMENT OF NPA

6.1. Banks have been giving much emphasis to management of Deposits i.e. Management of Liability. With passage of time this concept has got changed to Asset Management which is nothing but management of Loan portfolio of Banks. As per prudential norms a Loan account can earn interest till it is in Performing category of Asset. Banks can not recognize interest of a Non performing asset as it's income. Banks try to manage their Assets with least occurrence of NPA. Therefore management of NPA aims at doing the Banking business with the objective of keeping the NPA at a minimum level and this can be achieved by following ways

1. Reducing existing volume of NPA by
   i. Recovery
   ii. Upgradation
   iii. Write off

1. Stoppage of further growth of NPA

3. By going for credit expansion

6.2. Recovery:
Though Repayment and Recovery appear synonym, there is a wide difference between the two. ‘Repayment’ is the response initiated from the side of the borrowers where as ‘Recovery’ is the response initiated from the side of the Bankers. The response to be initiated by thousands of borrowers can in no way be compensated by few bankers. Hence, the former one is in any aspect preferable to the later. When repayment comes to an end, recovery process starts by the Banker.
Ingredients of Recovery:

Recovery is dependant on two major factors

i) Capacity to pay

ii) Willingness to pay

Capacity factor is judged at the time of Appraisal of the Loan proposal considering the viability and profitability factors which justifies funds generation from the activity. Generation of income and surplus made out of the business is the main criteria justifying viability of a proposal. On the other hand, Willingness factor is dependant on the nature of the borrower, his sense of obligation, ego and the type of banker customer relation.

Banks frame their Loan policy and extend finance on the line of the policy. Further Policy document on Recovery are prepared for operational ease and uniformity in treatment through all the Branches of a Bank. Operational direction is passed on to Branches and followup is made by controlling Offices to put their efforts for achievement of the set goals and targets. Staff members are made aware of the importance of recovery through various ways like: directives from HO, through meetings and Trainings. Required infrastructures like man power, vehicle and stationeries are made available for effective recovery process and to make it fast and targetted. Various measures like pressure tactics and continuous pursuations are made for effective results in Recovery of loan dues.

There are two major ways of Recovery:

I) Legal

II) Non Legal
Legal:
The Legal measures are considered to be crucial weapons for recovery of Bank dues and various ways of Recovery are pursued by adopting following measures

1. Sending Legal Notices
2. Filing of suit in Civil Court or Debt Recovery Tribunal
3. Filing of Execution petition in cases of Decreed debts
4. Following up time to time for early realisation of dues
5. Lokadalat
6. Securitisation Act
7. Asper Provisions of Cooperative Societies Act

Incentive to Advocates:
To expedite early recovery proceedings through execution, Banks have a system of giving Incentives to the Advocates. The experience shows that due to the incentives, the advocates take more interest in execution process and recovery is made faster. By this, Bank gets advantage of recycling the recovered money and earning comes out of it. The advocates are required to get the details of the assets of the borrower and try to get attachment of it and subsequently recovery comes through enforcing sale of the attached assets within a year.

Incentive is also given to Advocates for recovery in hard core cases where decrees have been pending for execution since long due to lack of information about assets of the borrower. As such, the effort taken by the advocates recovery performance can show improvement.

Lokadalat
Lokadalats are set up to settle Banking disputes involving NPA borrowal cases upto an amount of Rs 5 lac. Lokadalat awards decrees which
gives repayment period ranging from 1 to 3 years. Individual banks take
the responsibility of organising Lokadalat. Banks can take up matters
involving dues of Rs 10 lac and above with Lokadalat organised by
DRT or DRAT. The advantage of Lokadalat is that there is no court fees
and its decrees have legal status and are binding on both Banker and
Borrower.

6.3 Securitisation Act

It is called as SARBESI Act ie. (Securitisation and Reconstruction of
Financial Assets and Enforcement of Security Interest Act 2002) which
came into effect from 21.06.2002 by an ordinance by President of
India and subsequently the Act was passed in the Parliament on 21 Nov
2002. This Act helps in recovery of dues by enforcing security of
defaulted borrowers and Corporates without the intervention of the
Court.

The act is applicable to the NPA accounts and where Bank is a secured
creditors and the security agreement is in force.

The eligible dues in default should be Rs 1 lac or more and defaulting
amount should be over 20% of the principal amount originally lent. The
Act is not applicable for Agriculture land loan nor Non funds facility nor
cases where over 80% of the principal is already recovered. This Act is
complimentary to the existing laws. To enforce the Act, the Bank has to
serve a 60 days Notice on the defaulting Borrower and Guarantor giving
details of Advances and security charged to the Bank and demanding
repayment in 60 days. The Notice is given with in the period in which
the documents are in force.

Sec 13(13) of the Act stipulates that borrower is forbidden from selling
or conveying the property after receipt of Notice. Under the Act the
relief available to Banks are
1. Bank can take over Management of the company / business, supercede the Board and take possession of all secured assets.
2. Banks can appoint receiver or auction sale the attached property in next 30 days.
3. When the finance is against bookdebts or receivable, Banks can ask the debtors of the borrower to repay bank dues directly.
4. All expenses incurred during this recovery process are to be borne by the borrower.
5. If security of Guarantor is offered, Notice to Guarantor is also served.

When the finance is made through Consortium, consent of secured creditors representing 75% or more of finance is required.

Sec 17 stipulates that the borrower can prefer going for appeal to DRT with in 45 days. The acceptable reasons which a borrower can put forth can be that of limitation, finance not made available in time, noncreation of security or excess interest charged etc.

The Bank has to reply queries of the borrowers within the notice period of 60 days under the obligation of lenders liability. DRT may admit the appeal even with condition. Under Sec 18, the borrower may prefer Appeal before Debt Recovery Appelate Tribunal with in 30 days.

After recovery through enforcing under the Securitisation Act if any amount still remains unrecovered, then Bank has to approach DRT for recovery of residual amount of dues.

For taking over Management of a Company, the Bank has to publish public notice in News Paper. Under such an eventuality, all Directors deemed to have vacated the post after the notice period of 60 days is over.

The Act extends protection to the Bank Officials exercising this Act. Chief Metropolitan Magistrate or District Magistrate can be requested for providing police help to the Bank while enforcing under this Act.
This Act indirectly compels the borrower to come forward for settlement of the dues early. This Act helps in early recovery of bank dues without going through lengthy proceedings through Courts.

**Recent legislations**

There are some recent legislation which are very helpful for early disposal of suit filed cases. A few of these are:

1. No Civil court have jurisdiction to entertain any suit which are to be dealt by DRT.
2. No Court can grant injunction in respect of any action taken for recovery of Bank dues.
3. Under Civil Procedure Code, no adjournment can be allowed stating the reason that the Advocate is busy in other court.
4. To make the service of communication easier courier or e-mail can be treated as recognized mode of communication from legal point of view.

In addition to various legal ways of recovery, Banks also adopt some non legal ways in recovery of their dues.

The non legal ways of Recovery have been described in Box 6.1

**Box 6.1**

**Non Legal ways of Recovery:**

1. Sending Notices
2. Paying Visits
3. Pursuasion through meetins
4. Pursuasion through Guarantor
5. Applying pressure tactices
6. Through Compromise settlement
7. Employing Recovery agents
8. Conducting Recovery camps
9. Prefering Corporate Debt Restructuring (> 20 Cr)

Source: Banking Update edition Dec 2004
6.4 One Time Settlement (OTS)

Government of India is also keen in ensuring that the NPA volume of the Banks are brought down to the minimum. Therefore, as a major, it declares OTS for encouraging early recovery of NPA dues. Last such OTS was open upto December 2004 and was applicable for the NPA dues upto Rs 10 Crores. Wilful Defaulters or Fraud cases were not covered under OTS.

Scheme of OTS gives an encouragement to the borrower for repayment of Bank dues and gets some one time remission in dues payable to the Bank.

6.5 Compromise

The disastrous effect of mounting NPA has made the lenders to think of early recovery and settlement of Bank dues. Hence, Bankers do think of persuading borrowers for early repayment by compromising to sacrifice some portion of dues at the cost of getting early repayment of the dues.

It is well said, Compromise is the act of dividing a cake in such a way that every one believes that he has got the bigger piece.

Source: Banking Update July 2004

In this process of Compromise both Banker and borrower feel psychologically happy that they could get some concession, ie Bankers for getting early realisation and borrowers for getting some remission in repayment of Bank dues. Most Banks have framed their policy on Compromise to have uniformity in treatment to the defaulting borrowers.
Compromise settlement and striking the amount of compromise is decided on the basis of a lot of factors which are described in Box 6.2

**Box 6.2**

**Factors considered for Compromise settlement**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Condition of security</td>
</tr>
<tr>
<td>2.</td>
<td>Disposability of security</td>
</tr>
<tr>
<td>3.</td>
<td>Worth of Borrower and Guarantor</td>
</tr>
<tr>
<td>4.</td>
<td>State of continuance of business activity</td>
</tr>
<tr>
<td>5.</td>
<td>Total dues outstanding</td>
</tr>
<tr>
<td>6.</td>
<td>Age of NPA</td>
</tr>
<tr>
<td>7.</td>
<td>Prospects of recovery through Legal means</td>
</tr>
<tr>
<td>8.</td>
<td>Stage of suit and future probable cost</td>
</tr>
<tr>
<td>9.</td>
<td>Sincerity of the borrower</td>
</tr>
</tbody>
</table>

Source: Compromise Policy 2005 BOM

Through the Policy Bank delegates powers for sanction to various authorities for speedy disposal of the cases of compromise.

**Willful Defaulter**

There are certain category of Borrowers who avoid payment of Bank dues even having capacity to repay and are called as willful defaulters. Aa per RBI guidelines, a Borrower is treated as willful defaulter on the following grounds:

1. who has defaulted in repayment
2. even if having capacity to honour the obligation.
3. Diverted funds for other purpose
4. Siphoned off funds and not utilised the funds for the purpose for which loan was availed.
Treatment to a Wilful Defaulter:

A willful defaulter is treated as follows:

1. No additional facility is granted to the borrower
2. Benefit of foreclosure is not extended to him
3. Criminal proceedings are made against him
4. Bank insists for change in management of the enterprise
5. In case of willful default amounting to over Rs 25 lac, penal action is taken against the borrower.
6. Promoter is not eligible to get Bank finance for 5 years.

6.6. Upgradation of NPA accounts:

Upgradation of NPA accounts is made after the irregularity lying in the account is removed and the critical amount due is recovered.

The benefit of upgradation to the Bank are described as follows:

I. Reduction of volume of NPA reflecting better Balance sheet
II. Resumption of application of Interest improving interest income
III. Write back of already made Provision improving profit

To clarify the effect of Upgradation of NPA, an effort has been made through presentation of an example of a Model Bank having following features.

Total Advances of 11,700 Crore: PA 10,800 Crore and NPA 900 Crore. The average earning on advances is 11% pa. Average Provision on NPA advances is 30%.
Model Bank

(the Amount is in crores)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA</td>
<td>10800</td>
</tr>
<tr>
<td>NPA</td>
<td>900</td>
</tr>
<tr>
<td>TOT</td>
<td>11700</td>
</tr>
</tbody>
</table>

Int Income @11.% 1188
Provn 270
Net Surplus 918

Let us think that out of Rs 900 Crore of NPA, Rs 100 Crore advances is upgraded to PA.

After upgradation of 100 Cr from NPA to PA

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA</td>
<td>10900</td>
</tr>
<tr>
<td>NPA</td>
<td>800</td>
</tr>
</tbody>
</table>

Int Income @11.% 1199
Provn 240
Net Surplus 959

Difference between 2 and 1 959-918=41; 41%
On upgradation of Total NPA(900) 1287-0=1287 Difference 369

(PA: Performing Asset, NPA: Non performing Asset)

Rephasement

Rephasement is a process by which the NPA accounts are upgraded to PA on satisfaction of terms of rephasement. Rephasement of the account is done in time in viable cases of loan account so that the account can be saved from turning to NPA.

In case of already classified NPA account, the account can be upgraded after observing adherance of rephasement terms for a minimum period of one year.
Corporate Debt Restructuring (CDR)

Corporate Debt Restructuring (CDR) was framed as per RBI & Govt of India guidelines of Aug 2001 for restructuring of corporate debts of viable entities facing problems. It is applicable to multiple banking units with outstanding dues of Rs 20 Cr and over. This restructuring is done outside the purview of BIFR and DRT. CDR is a voluntary system and is a non-statutory mechanism. Such borrowers seeking CDR intervention can approach the lending bank for rephasing or additional finance. There should be consortium or multiple lending. Consortium members having lending stake over 75% should consent for restructuring. The account eligible may be standard or sub standard. The Executive Directors of Banks are members of CDR.

6.7. Write off

Write off is an exercise adopted by Banks as the last measure by which non-recoverable NPA accounts are removed from book of accounts of a Bank. It helps in better presentation of a clean advances portfolio in the Balance sheet of the Bank.

Write off affects the Gross and Net NPA which can be clarified from the following example:

<table>
<thead>
<tr>
<th>Position of a Bank</th>
<th>(Rs in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAdv</td>
<td>GNPA</td>
</tr>
<tr>
<td>1000</td>
<td>100</td>
</tr>
</tbody>
</table>

The Gross Advances of the Bank is Rs 1000 Crores of which Rs 100 Crores is NPA and of this Loan provision Rs 40 crores is already made.
Let the Bank write off Rs 30 crore and the effect is

<table>
<thead>
<tr>
<th>GAdv</th>
<th>GNPA</th>
<th>Provn</th>
<th>NNPA</th>
<th>GNPA%</th>
<th>NNPA%</th>
</tr>
</thead>
<tbody>
<tr>
<td>970</td>
<td>70</td>
<td>10</td>
<td>60</td>
<td>7.21</td>
<td>6.66</td>
</tr>
</tbody>
</table>

Source: Write off Policy 2005 of BOM

Writing off has reduced the gross advances against the made provision. Therefore, the volume of Gross Advances, Gross NPA and provision will be reduced by Rs 30 crores. This will lead to reduction in % of Gross NPA from 10% to 7.21%.

Each Bank frames its Write off policy and the account which are to be written off are determined as per the guidelines of the said policy of the respective banks.

**Asset Reconstruction Company (ARC)**

It is a company established and registered under Company Act 1956 as per Govt of India guidelines with the purpose of reconstructing stagnant accounts of corporates by acquiring part of the doubtful assets of the Banks with a view to clean the Balance sheet of the Banks. RBI issues the certificate of commencement of business to ARC. After acquiring the assets, ARC issues units in exchange of it. The minimum paid up capital of the company is Rs 200 Cr and its Authorised capital is Rs 2000 Cr. All Public sector Banks are taking part in it.

Asset Reconstruction Company of India (ARCI) was incorporated with an initial equity of Rs 10 Cr by ICICI Bank, State Bank of India and IDBI each holding 24.5% stake, HDFC Bank holding 10% and remaining stake holders are UTI Bank and IDBI Bank. The company has lent Rs 5000 Cr to 200 Companies.

**2. Stop further growth of NPA**

As it is told, prevention is better than cure. If all Loan accounts are taken care of regularly and timely remedial measures are taken, there
would be seldom occasion of slipping the PA accounts into the fold of NPA. The Indian credit system requires proper supervision and continuous monitoring so that slippage of various Loan accounts in to NPA can be reduced. Predisbursement stage scrutiny are more important than post disbursement followup and monitoring. Both pre and post disbursement measures of monitoring are very crucial in maintaining a loan account in performing asset category. Various measures of monitoring are presented in Box 6.3

Box 6.3
Ways of stoppage of growth of NPA

<table>
<thead>
<tr>
<th>1. Selection of right borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Proper assessment of proposal</td>
</tr>
<tr>
<td>3. Timely finance</td>
</tr>
<tr>
<td>4. Adequate finance</td>
</tr>
<tr>
<td>5. Proper documentation and records</td>
</tr>
<tr>
<td>6. Verification of end use</td>
</tr>
<tr>
<td>7. Proper Credit Monitoring &amp; supervision</td>
</tr>
<tr>
<td>8. Keeping close watch on asset quality</td>
</tr>
<tr>
<td>9. Diagnosing early alarm signals and taking remedial measures</td>
</tr>
<tr>
<td>10. Rephase ment of the account in time</td>
</tr>
<tr>
<td>11. Rehabilitation of eligible Industrial accounts in time</td>
</tr>
</tbody>
</table>

Source: Credit Monitoring Document 2005 BOM

There are three major heads of Advances in a Bank ie. Cash Credit, Term Loan and Bills purchased and discounted. Due to different treatment given to these accounts under IRAC norms different ways of monitoring are required for these accounts which are described as follows:
1. Monitoring of **Cash credit A/cs**

Bringing over drawn Cash Credit A/c with in DP as soon as possible
Ensure getting Credit atleast to cover Interest
Review the A/c yearly without fail

2. Monitoring of **Term Loan A/cs**

Recovery of Over Dues Amount in time
Recovery of Critical Amount at the earliest

3. Monitoring of **Bills Purchased /discounted A/cs**

Follow up for early Realisation of Bill

As per NPA norms if one account of a Borrower is NPA, then all other accounts of the same borrower should be treated as NPA. Therefore, all the borrowal accounts of a borrower should be viewed simultaneously and periodically so that care can be taken to ensure that none of the account of a single borrower slips to NPA.

**6.8. Credit Growth**

By resorting to **Credit expansion** not only interest income will go up, but also the % of NPA to Advances will come down reflecting a presentable picture of banks Balance sheet. Hence, growth of credit has to be ensured by entering to new business and expanding the portfolios depending on the market demand lending capacity of the Banks. The ways of Credit expansion is described as follows:

| 1. Massive credit marketing |
| 2. Launching attractive schemes suitings to the needs of the public |
| 3. Optimising use of Technology |

Source: RBI Annual Report August 2004
STUDY IN SELECT BANK

6.9 Management of NPA in Bank of Maharashtra

From the study and survey undertaken in seven Branches of Bank of Maharashtra, it is revealed that Bank of Maharashtra has been adopting the following measures for management of NPA:

**Recovery**

1. Group approach for recovery
2. ABC analysis of cases
3. Incentive to staff for making recoveries
4. Outsourcing recovery work
5. Developing Borrower psychology for repayment
6. Compromise settlement
7. Mortgage loans considered as a better security
8. Reduction of Drawing Power on stages
9. Infrastructure development
10. Timely action

Source: Credit Monitoring Document 2005 BOM

**Incentive to Advocates**

In Bank of Maharashtra, to expedite recovery process fast and to attract involvement of advocates, the Bank has devised a policy of granting incentive to the advocates on the amount of recovery through their help. The advocates are required to get the details of the assets of the borrower and try to get attachment of it and subsequently recovery comes within a year by enforcing sale of the attached assets. The chart of such incentives is given in table 6.1
Table 6.1
Incentives to Advocates for Recovery by Early Execution

<table>
<thead>
<tr>
<th>RECOVERY AMOUNT</th>
<th>INCENTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>upto 10 LAC</td>
<td>2%</td>
</tr>
<tr>
<td>10 TO 50 LAC</td>
<td>20000+ 1.5%</td>
</tr>
<tr>
<td>&gt; 50 LAC</td>
<td>80000+ 1%</td>
</tr>
</tbody>
</table>

Source: Recovery Policy 2005 BOM

The incentives have encouraged the Advocates to take more interest in recovery of Banks' dues which has improved the recovery performance of the Bank.

Incentive is also given to Advocates for recovery in hard-core cases where decrees have been pending for execution for a long time due to lack of information about assets of the borrower. Due to the effort taken by the advocate, recovery is forthcoming. The details of such incentives to Advocates is described in Table 6.2

Table 6.2
Incentives to Advocates for Recovery in Hardcore cases

<table>
<thead>
<tr>
<th>RECOVERY AMOUNT</th>
<th>INCENTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>upto 10 LAC</td>
<td>5%</td>
</tr>
<tr>
<td>&gt; 10 LAC</td>
<td>50000+ 3%</td>
</tr>
</tbody>
</table>

Source: Recovery policy of BOM

Securitisation Act

To reinforce recovery process, a Security Enforcement Cell is setup at the Regional Offices in Bank of Maharashtra.

The cell is empowered to take possession of secured assets, its maintenance & disposal. It takes steps for valuation, release advertisement for public auction with the help of panel Advocates /
valuer which helps in early recovery. Regional Managers are empowered to issue Notice under the Securitisation Act.

Through this measure the recovery performance of the bank has been improved which is cited as follows (Amount in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000-01</th>
<th>2002-03</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery</td>
<td>185</td>
<td>216</td>
<td>220</td>
</tr>
</tbody>
</table>

**Compromise**

Bank of Maharashtra has taken up the Recovery work through Compromise in NPA accounts in a large scale. It has devised the *compromise Policy* for the Bank, the norms of which is given in Table 6.3

**Table 6.3**

In NPA account

<table>
<thead>
<tr>
<th>Realisable Value of security &amp; worth of Borrower &amp; Guarantor</th>
<th>Dues (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10 lac</td>
<td>&gt; 10 lac</td>
</tr>
<tr>
<td>&gt; DUES</td>
<td>LB+10%Simple</td>
</tr>
<tr>
<td>&gt;50%DUES</td>
<td>LB+5%</td>
</tr>
<tr>
<td>&lt;50%DUES</td>
<td>LB</td>
</tr>
</tbody>
</table>

( LB: Ledger balance)

Source: Compromise Policy 2005 BOM

Bank of Maharashtra has also geared up the Recovery work through Compromise in Write off accounts. It has devised the *compromise Policy* for the Bank, the norm of which is given in Table 6.4
Though banks write off the loan accounts for cleaning of its Balance sheet, its recourse of recovery from the borrower is not extinguished. Hence, if any recovery is received in write off accounts it adds to the income of the Banks. After payment of the compromise amount the borrower gets no dues certificate and is set free from Banks debts. Hence, Banks get good response in write off recovery also. Through this measure of compromise the recovery performance of the bank has been improved. The performance under compromise is cited as follows (Amount in Crores).

<table>
<thead>
<tr>
<th>Year</th>
<th>2000-01</th>
<th>2002-03</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery through compromise</td>
<td>95</td>
<td>102</td>
<td>127</td>
</tr>
</tbody>
</table>

Delegation of Power to Field Officials

Through the Policy Bank of Maharashtra has delegated powers to various authorities for sanction of compromise cases by which speedy disposal of the cases of compromise and write off can be done.
Write Off of Accounts

For Bank of Maharashtra the guidelines of write off policy is as under:

The accounts are to be written off where

1. prospect of recovery is remote
2. 100% provision has already been made
3. account has already remained in loss asset for a period as mentioned in Table 6.5

Table 6.5

Norms for Writing off of NPA accounts

<table>
<thead>
<tr>
<th>A/C BAL</th>
<th>REMAINED IN LOSS ASSET</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 LAC</td>
<td>Previous Balance sheet(B/S)</td>
</tr>
<tr>
<td>1-5 LAC</td>
<td>1 Yr on previous B/S</td>
</tr>
<tr>
<td>&gt; 5LAC</td>
<td>2 Yr on previous B/S</td>
</tr>
</tbody>
</table>

Source: Recovery Policy 2005 BOM

From the survey undertaken to understand ways of Management of NPA adopted by Bank of Mahasahtra, the details of various ways of management are presented in table 6.6

Table 6.6

Various Ways of Management of NPA in BOM

<table>
<thead>
<tr>
<th>Ways of Management</th>
<th>% cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Suit filed</td>
<td>39</td>
</tr>
<tr>
<td>2 Compromise</td>
<td>14</td>
</tr>
<tr>
<td>3 Write off</td>
<td>14</td>
</tr>
<tr>
<td>4 Pursuation by Bank</td>
<td>13</td>
</tr>
<tr>
<td>5 Rephasement</td>
<td>5</td>
</tr>
<tr>
<td>6 Securitisation</td>
<td>9</td>
</tr>
<tr>
<td>7 Others</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Survey outcome compiled by author
BOM adopts measure of suit file in 39% of cases, through pursuit in 13% cases and through compromise in 14% cases. Bank also writes off in 14% of cases.

A graphical presentation of the recovery measures in BOM is made in Graph 6.1

**Graph 6.1**
Ways of Management of NPA by BOM

Source: Survey outcome

In addition to Bank of Maharashtra, study was undertaken in the Janta Sahakari Bank Ltd for a comparative analysis.

**6.10. Management of NPA in The Janta Sahakari Bank Ltd**
From the study undertaken it is observed that Delegation of Powers for sanction of Loan is comparatively low in case of Managers of JSB than that of BOM. Sanctioning power of Branch manager depends on scale of Officer ranging from Rs 1 to 10lac. Amount over Rs 10 lac is
sanctioned by HO of the Bank. Some pertinent features of the Bank with regard to management of NPA are as follows:

- The Bank is not financing for Direct Agriculture activity.
- NPA identification is done as per 90 days norms applicable for limit of Rs 1 lac and above and on the other hand 180 days norms is for limit below Rs 1 lac.
- For Small loan and Gold Loan norm of 180 days is applicable.
- No additional finance is extended to a NPA Borrower.
- Bank does not consider any Rehabilitation package for its NPA Borrowers.
- Rephaselement is considered only for extending period of repayment not otherwise.
- To get Recovery Certificate, Janta Sahakari Bank Ltd has to approach to Asst Registrar Coop Society of the respective areas. 21 Officers of the Bank have been empowered by Cooperative Department as Recovery Officers. To get Recovery Certificate it takes about 3 months.
- Under SARFESI Act the Bank has issued 136 notices of which 12 accounts are closed. Response is found to be encouraging one.
- Total number of NPA Accounts are 1779 comprising of an Amount of Rs 407 Crores as on March 2005.
- Major Sectors financed by the Bank are: (1) RT/Whole sale, (2) Manufacturing sector and SSI, (3) Personal Loan/ Vehicle
- In case of JSB it is revealed that NPA occurrence is less with Traders. The bank is more comfortable with Traders.
• On the other hand, it is found that the Bank experiences more Risk of default in manufacturing sector and finance to Builders.
• To have better recovery performance, Recovery Agents are appointed by the Bank since last October 2005. However, the experience of the Bank is stated to be not encouraging

NPA movement of the Bank as of March 2005 is given as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Op Bal</td>
<td>482 Cr</td>
</tr>
<tr>
<td>Addn</td>
<td>13 Cr</td>
</tr>
<tr>
<td>Total</td>
<td>495 Cr</td>
</tr>
<tr>
<td>Upgradation</td>
<td>32 Cr</td>
</tr>
<tr>
<td>Recovery in LB</td>
<td>55 Cr</td>
</tr>
<tr>
<td>Closing NPA</td>
<td>408 Cr</td>
</tr>
</tbody>
</table>

Compromise Formula:
The Bank has formulated a Compromise formula which are applicable to only secured loans. The details of the compromise formula is described in Box 6.4

**Box 6.4**

**Compromise formula of JSB:**

<table>
<thead>
<tr>
<th>Step</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50% of security value</td>
</tr>
<tr>
<td>2</td>
<td>Ledger balance + Interst @10.5% from day one</td>
</tr>
<tr>
<td>3</td>
<td>Least of 1 &amp; 2</td>
</tr>
<tr>
<td>4</td>
<td>Outstanding ledger balance</td>
</tr>
<tr>
<td>5</td>
<td>Compromised amount: higher of 3 &amp; 4</td>
</tr>
</tbody>
</table>

Source: Survey outcome compiled by author

The survey was undertaken to understand various ways of Management of NPA adopted by The Janta Sahakari Bank Ltd, the details of the findings are described in Table 6.7.
Table 6.7
Various ways of Management of NPA in JSB

<table>
<thead>
<tr>
<th>Ways of Management</th>
<th>% cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Suit filed</td>
<td>33</td>
</tr>
<tr>
<td>2 Compromise</td>
<td>12</td>
</tr>
<tr>
<td>3 Write off</td>
<td>3</td>
</tr>
<tr>
<td>4 Pursuasion by Bank</td>
<td>12</td>
</tr>
<tr>
<td>5 Rephasement</td>
<td>3</td>
</tr>
<tr>
<td>6 Securitisation</td>
<td>18</td>
</tr>
<tr>
<td>7 Others</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Survey outcome

From the above Table it is revealed that in JSB, suit filed is preferred in 33% cases followed by securitisation measures in 18% cases. It is also found from the study that Pursuasion is adopted in 12% cases and Compromise in 12% cases. This way the JSB pursue for recovery of its NPA dues.

Management of NPA in JSB in presented in Graphic form in Graph 6.2
During the course of the study, efforts have been made to bring a comparative study of both the Banks, i.e., BOM and JSB, from the point of view of Bankers.

The details of the Comparative study of Bankers' view on NPA management between BOM and JSB is described in Table 6.8.

**Table 6.8**

Comparative study of Bankers' view on NPA management in BOM and JSB (figures are in %)

<table>
<thead>
<tr>
<th>Ways of Management</th>
<th>BOM</th>
<th>JSB</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Suit filed</td>
<td>39</td>
<td>33</td>
</tr>
<tr>
<td>2 Compromise</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>3 Write off</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>4 Pursuasion</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>5 Rephase ment</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>6 Securitisation</td>
<td>9</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Survey outcome compiled by author
From the comparative study it is found that for managing NPA recovery is very important and for effecting such recovery of Banks dues the most common way adopted by Banks is filing of suit. Recovery through filing of suit is found to be 39% in Bank of Maharashtra whereas it is 33% in case of Janta Sahakari Bank.

Through Compromise the recovery is effected to the extent of 14% in Bank of Maharashtra and 12% in Janta Sahakari Bank.

Occurrence of Write off is found to be 14% in cases of Bank of Maharashtra while it is only 3% in case of Janta Sahakari Bank.

Management of NPA through Rephasement is in 5% cases in Bank of Maharashtra and that of 3% in case of Janta Sahakari Bank.

Through Securitisation Bank of Maharashtra managed to recover in 9% of cases whereas in Janta Sahakari Bank it is 18%.

Pursuasion and followup method is adopted in 12% to 13% cases in case of the two Banks respectively.

Comparative study of Bankers view on NPA management is presented in a Graphic form in Graph 6.3.
During the study it has been revealed that both the selected Banks have put their best efforts to ensure better recovery of NPA Loans. Due to difference in ways of management of NPA the Net NPA position of both Banks are different which is shown in Table 6.9:

Table 6.9

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOM</td>
<td>7.41</td>
<td>5.81</td>
<td>4.82</td>
<td>2.46</td>
<td>2.15</td>
</tr>
<tr>
<td>JSB</td>
<td>18.39</td>
<td>23.54</td>
<td>28.18</td>
<td>30.70</td>
<td>21.20</td>
</tr>
</tbody>
</table>

Source: Annual Report BOM and JSB

In case of Bank of Maharashtra the Net NPA percentage is found reducing year after year and where as in case of Janta Sahakari Bank Ltd the percentage of NPA is growing. Different reasons contributing
coupled with different style of Management of NPA in both the Banks have made the difference in recovery performance in both the Banks.
Under the present context the JSB has to take drastic steps to reduce its Net NPA for its effective functioning and survival.
The lighter conversation of a Borrower with banker is depicted in diagram 6.1

DIAGRAM 6.1

NPA BORROWER & BANKER
IN A LIGHT CONVERSATION

EARLIER I HAD EXPERIENCE, YOU HAD MONEY
NOW IT IS EXCHANGED
YOU GOT EXPERIENCE & I HAVE MONEY
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