Chapter-7

FINDINGS, PROBLEMS AND SUGGESTIONS
The banks while disbursing loan to the general public and various other institutions aim to further the requirement of the public in specific and the government at large. The government makes laws and rules to help the banks and the borrowers to undertake the economic activity so that the borrowers can make their living. The borrowers may be due to ignorance, bad intentions or seeing the atmosphere and the environment do harm the system unknowingly which has an effect on the overall working of the economic system. The banks make an endeavor to disburse loans to the needy and make an effort to keep the loan alive so as to earn profits and also to help the needy borrower in meeting his requirements. In this game of earning profit and extending loan the bank face a lot of problems in their day to day working. The practical suggestions to the problems being faced by the banks in reducing NPA are as under: -

(a) Action by the banks. The actions that can be taken at the bank level are as under:-

(i) Adopting a transparent rating system with cost of credit being linked to the credit rating of enterprise. The banks should do a realistic credit rating of the enterprise so that once the loan amount is disbursed; the banks do not have the fear of the loan getting converted into a default account. The banks should keep in mind all the factors that can affect the enterprise performance at a later date.

(ii) Involve the management students of various management institutes to undertake studies because we need to understand the Rural Credit so as to evolve strategies for covering them. This type of study enables an organization to get feedback from a different agency and it enables the bank to get solutions which they themselves are not conversant being blind to factors once working under same circumstances over a period of time. It is generally seen that the banks do not part with their data which hinders correct analysis of the facts of the bank. It may also be there because the complete data is not computerized and the branches at local level do not have access to the data bank. The decision making authorities at the higher level should therefore undertake such
studies and should be free in giving the available data for truthful and correct analysis by the researching agency.

(iii) Bankers have a moral responsibility to help people who are at the bottom of the pyramid. The banks are very conservative while disbursing loan to people at the bottom of the pyramid for fear of losing the money. But the banks have to keep in mind that a little help by them to these strata of the society will be a long term gain for them and if not they should take steps keeping in mind the social responsibility which the corporate have to undertake.

(iv) Need for scaling up training of the field staff of these organizations, upgrading the quality of book keeping at SHG level and facilitating graduation of members to macro enterprise stage. The new enterprises which come up are not very conversant with the book keeping and they may 'commit mistakes unknowingly which will invariable lead to loss to the firm. The banks should therefore through their field staff try to educate the self help groups in their work which will help the bank analyze the correct health of the enterprise in time.

(v) The new scheme has been designed as a zero cost grievance redress mechanism and invited all concerned to derive its full benefits.

(vi) Banks to increasingly finance agricultural business, agro processing and agricultural marketing sectors on a large scale, or which a conducive environment had been created by the State government by amending the Agricultural Marketing Act.

(vii) Government has also expressed concern at the gap between the loan applications sanctioned and loans disbursed under various government sponsored schemes. The banks should extend full support to the government in implementing the schemes so that the aim of government is achieved which help the country will prosper at a faster rate.

(viii) Simplification of the loan procedure, account opening formalities, having uniform loan application forms etc. as people were finding it difficult in coping up with complicated applications forms.
(ix) Proper pricing of loans with interest rates based on the repayment record (interest on loans to SHGs with downward bias).

(x) Units suffering on account of non-payment/ delayed payment by large units should be given extension of time for repayment.

(xi) Timely sponsorship of applications under Government Sponsored Program.

(xii) Bankers to consider financing SHGs sympathetically, as most of the women are illiterate and they do not know anything about Banking. She urged the Banks to perform the role of a friend, philosopher and guide for these poor rural women.

(xiii) Forged salary certificates in the case of loans and sureties, the Company had issued directions for verification through telephonic contact/direct contact (over and above the usual postal enquiry) with the officers who issued the certificates.

(xiv) Many columns in the agreements executed with the loans and sureties were kept blank. The banks do it to save time and many do it to fill it as per the requirement which at a later date becomes a willful default of giving wrong information to the banks which goes against the loan taking individuals.

(xv) The Company was not issuing notices and reminders to the loans/sureties/Drawing and Disbursing Officers at intervals prescribed in the Manual of Procedure for remittance of dues.

(xvi) Direct contacts were seldom resorted to. The Company also did not have a regular system of sending teams to the field for effective follow Audit Report (Commercial) for the year ended 31 March 2006 30 up as prescribed for realization of dues. This lapse was noticed in all the six branches test checked.

(xvii) The Company was not preparing the Demand, Collection and Balance (DCB) statements in respect of cities conducted and loans granted, due to which the Management could not exercise any control over demand and recovery. The Management stated (July 2006) that the system pointed out by Audit would be
introduced in full measure along with full computerization of branch activities within a couple of years.

(xviii) Granting loans even before the remittance of ten per cent of the total installments of chitty and Disbursement of loans without ascertaining the repaying capacity of the subscribers;

(xix) No scientific system had been evolved by the Company for valuation of property offered as security. There were no guidelines regarding fixation of value for different types of properties situated at various locations. There was also no system in place to countercheck the valuation report of the property by other agencies with a view to avoiding overvaluation, if any.

(xx) Since the agricultural sector is highly dependent on monsoons, risk of default exists. The banks should keep in mind the local conditions and try adjusting the loan period as per the local requirements and this will also help build confidence among people in taking and also returning loan.

(b) Actions by the government.

(i) Computerization of land records and making these records available on line.

(ii) Promotion of contract farming and credit to tenant farmers were the new areas of finance.

(iii) Amendment in Public Demand Recovery Act for recovery under Industry, Service and Business sectors as other States in India have already a separate Act in this regard.

(c) Good scope for

(i) Financing of field channels under completed irrigation projects funded out of RIDF for which the- State government may come forward to forward loan applications,

(ii) Rural godowns and market yards in view of amendments of APMC Act in the state,
(iii) Animal husbandry where credit flow can be easily stepped up nearly 3 times of the present level,

(iv) Micro irrigation, bio fuel and horticulture.

(v) State Government to create an enabling environment for increasing investments in the areas like construction of godowns, irrigation system, rural connectivity, rural marketing, etc.

(vi) State also needs to strengthen the credit delivery system, especially the cooperatives through implementation of Vaidyanathan Committee recommendations and RRBs.

(vii) Increase of subsidy for schemes like sprinkler, drip irrigation etc.

(viii) Banks were still insisting on collateral securities from PMRY borrowers. The need for credit rating of SME sector in a much more scientific manner and to make it easy for banks to pick up the credit and price the risk correctly.

(ix) Since the agricultural sector is highly dependent on monsoons, risk of default exists.

(d) Involvement of corporate.

(i) Crops like Jatropha from which bio-diesel can be a huge scope. The corporate should make a special effort to educate people in planting the Jatropha which will bring additional income to the farmers at times of crisis and help them tide their bad days. It will also help them to return the bank loans at times of rainfall and other natural problems not within the reach of farmers.

Recommendations

(a) Budgets should be prepared in time and on more realistic basis with a view to using it as an instrument of internal control.

(b) The functional manual of procedure ought to be updated to ensure incorporation of latest schemes and adoption of latest best practices in the field.
(c) There should be proper control over stock of receipt books to prevent defalcation/misappropriation.

(d) The systems and procedures for loan sanction, disbursement and recovery should be made more effective.

(e) The Internal audit system and the vigilance set-up require strengthening.

(f) The functioning of the Audit Committee ought to be streamlined.

The banks while disbursing loan to the general public and various other institutions aim to further the requirement of the public in specific and the government at large. The government makes laws and rules to help the banks and the borrowers to undertake the economic activity so that the borrowers can make their living. The borrowers may be due to ignorance, bad intentions or seeing the atmosphere and the environment do harm the system unknowingly which has an effect on the overall working of the economic system. The banks make an endeavor to disburse loans to the needy and make an effort to keep the loan alive so as to earn profits and also to help the needy borrower in meeting his requirements. In this game of earning profit and extending loan the banks face a lot of problems in their day to day working. The banks should make a concerted effort to neutralize the problems faced by them to maximize the profits and also meet the aspirations of the country’s economy at large.

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