CHAPTER – 3

OVER VIEW ABOUT THE TOPIC

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CHAPTER - 3
OVER VIEW ABOUT THE TOPIC

3.1 Meaning and Definitions of PA and NPA:

The Reserve Bank has issued directives from 31/03/1993 and presented a new concept of Income Recognition”. This is done on the recommendations of Narsimham Committee.

According to these directives the banks have to classify their credit facilities into two parts:

(1) Performing Assets (Standard Assets)
(2) Non – Performing Assets

Performing Assets (Standard Assets)

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset is Performing Asset (PA) and should not be an NPA.

NON PERFORMING ASSETS (NPA)¹

With a view to moving towards international best practices and to ensure greater transparency, ‘90 days’ overdue* norms for identification of NPAs have been made applicable from the year ended March 31, 2004. As such, save and except certain relaxations mentioned for Tier I Banks and Tier II Banks as defined below, with effect from March 31, 2004, a non-performing asset shall be a loan or an advance where:

(I) Interest and/or installment of principal remain “overdue”* for period of more than 90 days in respect of a Term Loan.

(II) The account remains ‘Out of Order’@ for period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/OS).

(III) The bill remains overdue for a period of more than 90 days in the case of Bills purchased and discounted.

(IV) In the case of agricultural loans, other than direct finance to farmers for Agricultural purposes, identification of NPAs would be done on the same basis as non-agricultural advances.

(V) Any amount to received remains overdue for a period of more than 90 Days in respect of other accounts

Tier I Bank (Unit banks i.e. banks having a single branch/HO with deposits upto Rs.100 crores and banks having multiple branches within a single district with deposits upto Rs.10 crores) have been permitted to classify loan accounts including gold loans and small loan upto Rs.1 lakh as NPAs based on 180 days delinquency norm instead of the extant 90 days norm. This relaxation will be in force upto March 31, 2008. The deposit base of Rs.100 crore for the above will be determined on the basis of average of the fortnightly Net Demand and Time Liabilities in the financial year concerned. For the above category of banks, an account would be classified as Non-Performing Asset if the:

(IV) Interest and/or installment of principal remain **overdue** for a period of more than **180** days in respect of a Term Loan.

(V) The account remains ‘**out of order**’ for a period of more than **180** days in respect of an Overdraft/Cash Credit (OD/OS).

(VI) The bill remains **overdue** for a period of more than **180** days in the case of bill purchased and discounted.

(VII) Any amount to be received remains **overdue** for a period of more than **180** days in respect of other accounts.

Tier II Bank (all UCBs other than Tier I Banks) shall classify their loan accounts as NPA as per 90 days norm as hitherto.

### 3.2 Importance of NPA:

Importance of Non – Performing Assets has become more and more since the formation of Shri M. Narshimham Committee on banking sector reform in 1991. We can say that it is a second landmark in banking sector in India after nationalization of banks. After nationalization of banks it has been given much attention on the lending policy of nationalized banks but not much attention has been given to the recovery of advances of nationalized banks by Reserve Bank of India (RBI).

Recovery of non – performing assets has become critical performance area for all banks in India. As per RBI report, March 1999, the gross NPA of all the scheduled commercial banks and primary co – operative banks have gone up to Rs. 58,554 crores (14.6%) and to Rs. 4,535 (12.2%) crores respectively. There was a lack of specific and
unanimous guidelines which resulted in mis-allocation of (banks) huge funds and ruin the sustained economic growth of nation.

So, it was high time to form some specific guidelines on this. Reserve Bank of India (RBI) introduced a new set of prudential norms in April, 1992 for commercial banks and subsequently it has been extended, in stages to urban co-operative banks as well, as per the recommendations of high power committee on urban co-operative banks constituted in May 1999 under the chairmanship of K. Madharao as a need for strengthening the co-operative sector in order to enhance operational efficiency, productivity and profitability and with the objective of implementing international best practices in Indian banks, it is compulsory for all banking institutions to comply with prudential norms of RBI.

3.3 **History of NPA in Indian Banking Industry:**

Reserve Bank of India introduced a critical analysis for a comprehensive and uniform credit and monitoring by way of the Health Code System, in banks, which provided information regarding health of individual advances in 1985 – 86. It was considered that such information would be of immense use to banks’ management for control purpose. Reserve Bank of India advises all commercial banks on 7th November, 1987 to introduce the health classification indicating the quality of individual advances in the following eight categories with Health Code assigned to each borrower account.

1. **Satisfactory:** The account in which all terms and conditions are complying with and safety of advances are not in doubt.

2. **Irregular:** The account where safety of advances is not suspected, though there may be occasional irregularities.

3. **Sick – Viable:** Advances to units which are sick but viable under nursing or revival programs are undertaken.

4. **Sick – Non – Viable / Sticky:** Advances where irregularities continue to persist and there are no immediate prospects of regularization.

5. **Advances – Recalled:** Advances where the recalled repayment is highly doubtful and nursing is not considered worthwhile, includes accounts where decision has been taken to recall the advances.
6. **SUIT – FILE – ACCOUNTS:** Accounts where legal action or recovery proceedings have been initiated.

7. **DECREED DEBTS:** Accounts for which decrees have been obtained.

8. **BAD AND DOUBTFUL ACCOUNTS:** The accounts in which the recoverability is in doubtful due to shortfall in the value of the securities and inability / unwillingness of the borrower to repay the bank’s dues partly or wholly.

3.4 **Technical Aspects:**

It was very easy for the banks to debit the interest amount to the loan account and credit the same to income account without considering the fact whether the interest will be realized and there would be return of principal amount. This practice of passing the entries in the books of accounts in respect of interest accrued but not realized as income results in losing the value of assets. Thus such assets become almost dead by not performing anything. Such non – performing assets were accumulated to the large extent and became unbearable. On one hand the books of accounts of the banks used to show huge profit and on the other hand there was no realization of income because of such accounting system. This affects the banking system adversely.

Thus major element of the financial sector reform in India was introduced in the form of prudential norms and regulations. These prudential norms and regulations are basically aimed at ensuring the safety and soundness of the financial system, imparting of greater transparency and accountability in operation and restoring creditability in Indian Financial System. Prudential norms serve two primary purposes, which are:

1. bringing out the true position of a bank’s loan profitability
2. help arrest its deterioration

A proper system for

1. income recognition
2. classification of assets and
3. Provisioning for bad debts on prudential basis is necessary if balance sheet of a bank is to reflect its original financial health. The committee on financial system under
the chairmanship of Shri M. Narsimham had examined this issue, recommended that a policy of income recognition should be objective, and based on recovery rather than on any subjective consideration. Similarly, the classification of assets, which would ensure a uniform and consistent application of norms.

The recommendations of Shri M. Narsimham Committee regarding income recognition, asset classification and provisioning were sought to be implemented by Reserve Bank of India in a phased manner over a three – year period from the year commencing from the year 1992-93. In this regard RBI has issued a separate guideline for different category of commercial scheduled banks (in April 1992). All financial institutions (in April 1992 with some modifications considering their functioning) NBFCs (in June, 1994) RRBs (in March 1996) at the proper time with the adequate modification. In 1993 all the primary co-operative banks have been told that they should comply with prudential norms and regulations with income recognition, asset classification and provisioning with some modifications.

Later on a high power committee on Urban Co-operative banks constituted in May 1999 under the chairmanship of K. Madhava Rao, was set up to review the performance of Urban Co-operative Banks and to make necessary changes to strengthen this sector. There was a need for structural reforms in the complete set up of the co-operative banks.

3.4.1 Income Recognition:

Internationally income from non – performing assets is not an accrual basis but is taken into account as income only when it is actually received. It has been decided to adopt similar practice in our country also. Banks have been advised that they should not change and take into income account interest on all non – performing assets.

The policy of income recognition has to be objective and based on the record of recovery. The criteria for treating a credit facility or borrower account as non performing is as follows:

(A) TERM LOAN:

The term loan becomes NPA when interest and / or installment remain past due for four quarters during 92-93, three quarter during 93-94. From the year 93-94 the term loan is treated as NPA in interest or installments of principle has remained
overdue for any 2 quarters as on the balance sheet date, although the default may not be committed continuously for 2 quarters. This period will be reduced to 1 quarter with effect from 31st March 2004. If the account is regularized before the balance sheet date by repayment of overdue amounts through genuine sources (not by sanction of additional facilities or transfer of funds between accounts) the account need not be treated as NPA. Bank should, however, ensure that the account remains in order subsequently and a solitary credit entry made in the accounts on or before the balance sheet date to adjust the overdue interest or installment of principal is not reckoned as the sole criterion for treating the account as a standard asset (performing asset).

(B) CASH CREDIT AND OVERDRAFT FACILITY:

A cash credit / overdraft account becomes NPA if it remains out of order for any two quarters in a financial year.

Out of order means:

(a) Outstanding balance remains continuously in excess of sanctioned limit or drawing power whichever is lower.

(b) Where balance outstanding is less than sanctioned limit or drawing power.

   (i) there are no credits in the account continuously for 3 months or

   (ii) credits are not enough to cover interest and expenses debited during 3 months

Flow chart:

As on 30-09-1996, there are only four possibilities for a CC accounts as under:

[O = Out of order, R = Regular]

<table>
<thead>
<tr>
<th>Quarter No.</th>
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<tbody>
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<td>1</td>
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<tr>
<td>I</td>
<td>R</td>
<td>R</td>
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<td>O</td>
</tr>
<tr>
<td>II</td>
<td>R</td>
<td>O</td>
<td>R</td>
<td>O</td>
</tr>
</tbody>
</table>

Category: PA, PA, PA, NPA
As on 31-03-1997, there are 12 possibilities for a CC accounts as under:

<table>
<thead>
<tr>
<th>Quarter No.</th>
<th>Possibilities</th>
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<tbody>
<tr>
<td>I</td>
<td>R</td>
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<tr>
<td>II</td>
<td>R</td>
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<tr>
<td>III</td>
<td>R</td>
</tr>
<tr>
<td>IV</td>
<td>R</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Performing Assets</th>
<th>Non – Performing Assets</th>
</tr>
</thead>
</table>

From the above chart it is clear that if a cash credit account is regular in the 4th quarter it will be PA, even if it is out of order in the earlier 3 quarters. Regarding possibility No. 7, the account is PA even though it is out of order in the 4th quarter because, it is regular in the earlier 3 quarters.

If a CC account is out of order in the 4th quarter and out of order for any one of the previous three quarters, the account will be NPA.

Concept of past due is applicable to the interest debited to cash credit account. Which means that if a CC account is overdrawn only due to application of interest, then for one year, it will not be treated as over drawn.

(C) **Bills Purchased and Discounted:**

A BP / BD account becomes NPA if it remains overdue for two quarters, the position of the oldest account is to be reckoned for the purpose of income recognition.

(D) **Project Finance:**

In the case of bank finance given for industrial projects 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 NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

(E) **Housing loans to staff members:**

In case of housing loan or similar advances granted to staff members where interest is payable after recovery of principle, 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 principal or payment of interest on the respective due dates.

(F) **Other Credit Facilities:**

Any other credit facility is to be treated as NPA if it remains “Past Due” for a period of 4, 3 and 2 quarters during the year ended 31st March 1993, 1994 and 1995 onwards respectively.

- **EXEMPTIONS:**

  (1) **Credit facilities guaranteed by Central/State Government**

    (i) The credit facilities backed by guarantee of the Central Government though overdue should not be treated as NPA.

    (ii) This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income.

    (iii) From the year ended March 31, 2006, State Government guaranteed advance and investment 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 irrespective of the fact whether the guarantee have been invoked or not.

  (2) **Advances against term deposit, NSCs etc.:**

    Advances against fixed and other Term Deposits, National Savings Certificates, LIC Policies, Indira Vikas Patras and Kisan Vikas Patras need not be treated as NPA although interest there in is not paid. Interest on such advances may also be taken to income account on the due dates provided adequate margin is available in the accounts.

  (3) **Fees and Commissions:**

    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 renegotiated or rescheduled extension of credit.
APPROPRIATION OF RECOVERY IN NPAs:-

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.

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], bank should adopt an accounting principle and exercise the right or appropriation of recoveries in a uniform and consistent manner.

3.4.2 Assets Classification:
The primary (Urban) Co-operative banks should classify their assets into the following broad groups, viz.

Figure 3.1

1. **Standard Assets:-** (Performing Assets)
   Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

2. **Sub – Standard Assets:-**
   - With effect from March 31, 2005 an asset would be classified as substandard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers/guarantors 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 assets 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.
   - An asset where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after commencement of production, should be classified as substandard and should remain in such category for at least 12 months of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a rescheduling, unless there is satisfactory compliance of this condition.

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3. **Doubtful Assets:-**

With effect from March 31, 2005 an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tier I banks, the 12-months period of classification of a substandard asset in doubtful category will be effective from April 1, 2008. As in the case of substandard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that 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.

4. **Loss Assets:-**

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

3.4.3 **Provisioning:-**

**Smiley Norms for Provisioning on Loans & Advances:-**

In conformity with the prudential norms, provisions should be made on the non-prescribed categories as detailed above.

**Standard Assets**

(a) From the year ended March 31, 2000, the banks should make a general provision of a minimum of 0.25 per cent on standard assets.

(b) **However, from the year ended March 31, 2007,** Tier II banks will be subjected to higher provisioning norms on standard asset as under:

(i) The general provisioning requirement for ‘standard advances’ shall be 0.40 per cent from the present level of 0.25 percent. However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.
(ii) For personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans, loans and advances to systemically important NBFCs-ND provisioning requirement would be 2.0%.

(c) The provisioning towards “standard assets” need not be netted from gross advances but shown separately as “Contingent Provision against Standard Assets” under “Other Funds and Reserves” in the Balance Sheet.

(d) In case banks are already maintaining excess provision than what is required/prescribed by Statutory Auditor/RBI Inspection for impaired credits under Bad and Doubtful Debt Reserve, additional provision required for Standard Assets may be segregated from Bad and Doubtful Debt Reserve and the same may be parked under the head “Contingent Provisions against Standard Assets” with the approval of their Board of Directors. Shortfall if any, on this account, may be made good in the normal course.

(e) The above contingent provision will be eligible for inclusion in Tier II capital.

**Substandard Assets**

A general provision of 10 per cent on total outstanding should be made without making any allowance for DICGS/ECGC guarantee cover and securities available.

**Doubtful Assets**

(a) Provision should be for 100 per cent 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 should be made and the realizable value is estimated on a realistic basis.

(b) In regard to the **secured portion**, provision may be made on the following basis, at the rates ranging from 20 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:
### Tier I Bank

<table>
<thead>
<tr>
<th>Period for which the advance has remained in ‘doubtful’ category</th>
<th>Provision requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to one year</td>
<td>20 per cent</td>
</tr>
<tr>
<td>One to three years</td>
<td>30 per cent</td>
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<tr>
<td>More than three years(D-III)</td>
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</tr>
<tr>
<td>(i) Outstanding stock of NPAs as on March 31, 2010</td>
<td>- 50 per cent as on March 31, 2010</td>
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<td></td>
<td>- 60 per cent with effect from March 31, 2011</td>
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<td>- 75 per cent with effect from March 31, 2012</td>
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<td></td>
<td>- 100 per cent with effect from March 31, 2013</td>
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<tr>
<td>(ii) Advances classified as ‘doubtful for more than three years’ on or after April 1, 2010</td>
<td>- 100 percent</td>
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### Tier II Bank

<table>
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<td>(iv) Advances classified as ‘doubtful for more than three years’ on or after April 1, 2007</td>
<td>- 100 percent</td>
</tr>
</tbody>
</table>
- Additional provisioning consequent upon the change in the definition of doubtful assets effective from March 31 2002 has to be made in phases as under:
  - As on 31-03-2002, 50% of the additional provisioning requirement on the assets, which became doubtful on account of new norm of 18 months for transition from sub – standard asset to doubtful category.
  - As on 31-03-2003, balance of the provisions not made during the previous year, in addition to the provisions needed as on 31-03-2003.
- The provision on standard assets must not be reckoned for arriving at net NPA.
- The provision towards standard assets need not be netted from gross advances shown separately as “contingent provisions against standard assets” under ‘Other Liabilities and Provisions’ “Other Funds and Reserves” (item. 2(viii) of Capital and Liabilities) in the Balance Sheet.
- In respect of the advances covered by ECGC / DICGC guarantee banks were advised that in the case of advances guaranteed by ECGC / DICGC, provision should be made only for the Balance in excess of the amount guaranteed by these corporations. From the year 1995-96 and onwards, banks should deduct realizable value of security from outstanding balance before the ECGC / DICGC guarantee is offset for example, the following method should be adopted to find out the provisioning requirement in respect of doubtful assets:
Out standing balance: Rs 10 lakhs

ECGC / DICGC cover: 60%

Period for which the advanced has remained doubtful: More than 3 years

Value of Security: Rs. 3 lakhs

**CALCULATION OF PROVISION:***

- Outstanding balance: Rs.10 lakhs
- Less: Value of security held: Rs 03 lakhs
- Balance: Rs 07 lakhs
- Less: ECGC / DICGC cover (60% of Balance): Rs. 4.2 lakhs
- Balance of amount required provisioning: Rs.2.8 lakhs
- Provision for unsecured portion – 100% after adjusting the guarantee cover (a): Rs.2.8 lakhs
- Provision for secured portion (50% of 3 lakhs) (b): Rs. 1.5 lakhs
- Total provision required to be made (a + b): Rs. 4.3 lakhs

DICGC: Deposit insurance and credit Guarantee Corporation

ECGC: Export credit Guarantee Corporation
Advances against the gold ornaments government securities and all other kind of securities are not exempted from provisioning requirements.

The RBI in its circular dated 2\textsuperscript{nd} July, 1996 has advised the banks to classify non performing assets into sub-standard, doubtful and loss assets before finalizing the accounts as at 31\textsuperscript{st} March and submit the copy of a statement to the Reserve Bank of India, duly certified by the statutory auditor of the bank who have been appointed to audit the annual accounts of the banks.

**Loss Assets**

(a) The entire assets should be written off obtaining necessary approval from the competent authority and as per the provisions of the Co-operative Societies Act/Rules. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

(b) In respect of an asset identified as a loss asset, full provision at 100 per cent should be made if the expected salvage value of the security is negligible.

**FLOATING PROVISIONS:**

Some of the banks make ‘floating provisions’ over and above specific provisions made in respect of accounts identified as NPAs. The floating provision, wherever available, could be set off against provisions made as per above stated provisioning guidelines.

**3.4.4 OTHER PROVISIONAL NORMS:**

[CLARIFICATIONS FOR PRUDENTIAL NORMS]

(1) **Treatment of NPAs of Agricultural Advances:**

Where natural calamities impair the repaying capacity of agricultural borrowers, primary (urban) co-operative banks, as a relief measure may decide on their own to:

(a) Convert the short term production loan into a term loan or reschedule the repayment period, and

(b) Sanction fresh short term loans.

In such cases of conversation or re-schedulement, the term loan as well as fresh short term loan may be treated as current dues and need not be classified as non-performing asset (NPA). The asset classification of these loans would, therefore, be
governed by the revised term and conditions and these would be treated as NP under the extant norms applicable for classifying agricultural advances as NPAs.

(2) **Net worth of borrower / guarantor or value of security:**

It is clarified that availability of security or net worth of borrower / guarantor should not be taken into account for the purpose of treating an advances as NPA or otherwise, as income recognition is based on record of recovery.

(3) **Projecting Financing:**

In the case of bank finance given for industrial projects 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 NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

(4) **Credit facilities guaranteed by Central/State Government:**

(i) The credit facilities backed by guarantee of the Central Government though overdue should not be treated as NPA.

(ii) This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income.

(iii) From the year ended March 31, 2006, State Government guaranteed advance and investment 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 irrespective of the fact whether the guarantee have been invoked or not.

(5) **Treatment of NPA borrower wise or facility wise:**

In respect of a borrower having more than one facility with a bank will have to be treated as NPA and not the particular facility or part thereof which has become irregular.

However, in respect of consortium advances or financing under multiple banking arrangements, each bank may classify the borrowal accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances.
(6) **Consortium Advances:**

As per the revised guidelines by the RBI in January, 1997 stating that in respect of consortium advances each bank may classify the borrowal accounts according to its own record of recovery and other aspect having a bearing on the recoverability of advances.

(7) **Regularization of credit facility before a balance sheet date:**

The RBI issued a circular in January, 1997 stating that if the accounts of the borrower have been regularized before the balance sheet date by repayment of overdue amounts though genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the accounts need not be treated as NPA. Bank should, however ensure that the account remains in order subsequently and a solitary credit entry made in the account or before the balance sheet date, which extinguishes the overdue amount of interest or installment of principal, in not reckoned as the sole criterion for treating the accounts as standard assets (performing assets).

(8) **Advances granted under Rehabilitation package Approved by BIFR / Term Landing Institutions:**

Banks are not permitted to upgrade the classification of any advances in respect of which the terms have been renegotiated unless the package of renegotiated terms has worked satisfactorily for a period of two years. Thus, bank should continue to make provision in respect of existing credit facilities sanctioned to a unit under rehabilitation as per their classification as sub – standard or doubtful. As regards the additional facilities sanctioned as per package finalized by BIFR / term landing institution, banks need not make provision for a period of one year from the date of disbursement of additional facilities. Similar relaxation also extended so SSI units, which are identified as sick by banks themselves (as per RBI circular dated 20th November, 2000). In other words, RBI guidelines on income recognition, asset classification and provisioning will apply to additional facilities after a period of one year from the date of disbursement.
(9) **Accrued Interest on NPAs:**

Interest accrued on NPA should not be debited to borrowal account, but to “Interest Receivable” and credited to “Overdue Interest Reserve Account” and shown on the assets and liabilities side of the balance sheet respectively. In this context, it may be clarified that the amount held in the “Overdue Interest Reserve Account” cannot be regarded as a ‘reserve’ or as part of the owned funds of the bank.

(10) **Accrued interest on performing assets:**

In the case of performing assets, interest accrued may be debited to borrowal account and credited to interest account. As the accrued interest for the quarter ended March, if not realized becomes “past due” only on 30th April of the following accounting year. If the relevant credit facility becomes NPA at a later date, the bank should reverse the entry of the unrealized interest’s amount by debiting “Profit and loss account” and crediting to the “Overdue Interest Reserve Account” should not be deducted from the advances outstanding.

(11) **Reversal of Unrealized Interest:**

In respect of advances including bills purchased and discounted which have been classified as non-performing assets for the first time during the current year, the interest accrued and credited to the income account in the previous year which has not been realized, should be reversed or provided for during the current year. This will be applicable to un-realized interest on Government guaranteed accounts also.

(12) **Partial Recoveries of NPAs:**

In respect of the interest partially recovered in non-performing assets, it has been clarified that banks may take to income account interest realized in NPAs provided it is ensured that the credits in the accounts towards interest are not out of fresh / additional facilities sanctioned to the borrowers concerned.

(13) **Interest Suspense Account:**

The amount held in the Interest Suspense Account should not be reckoned as part of provisions. However, amounts lying in the Interest Suspense Account should be deducted from the relative advances and provisioning should be made on the balance sheet after such deduction.
(14) **Valuation of Investment:**

If there is any appreciation in the value of securities on account of the method of valuation as indicated by RBI, it should not be booked as income. Further banks which have adopted a more prudent method of valuation of securities than the one suggested by Reserve Bank, these banks may continue the practice either to be followed by them.

(15) **Removal of “past due” concept:**

With circular of RBI dated 8th December, 2000 stating that due to the improvement in the financial sector during the past few years, it has been decided to dispense with “Past Due” concept with effect form March 31st, 2001. Accordingly as from the date, a NPA shall be an advance where interest and / or installments of principal of term loan, OD / DD of bills purchased and discounted, any amount ot be received remains **overdue** more than 180 days.

(16) **Advances coerced by ECGC / DICGC guarantee:**

In the case of advances guaranteed by DICGC / ECGC, provision should be made only for balance in excess of the amount guaranteed by these Corporations. Further, while arriving at the provision required to be made for doubtful assets, realizable value of the securities should first be deducted from the outstanding balance in respect of the amount guaranteed by these Corporations and then provision made as illustrated here under:
For Example:-

Outstanding balance ............................... Rs. 4.00 lakhs
Less : Value of security held ...................... Rs. 1.50 lakhs
Unrealized balance ................................. Rs. 2.50 lakhs
Less : DICGC cover ................................. Rs. 1.25 lakhs
(50% of unrealizable balance)
Net unsecured balance ............................. Rs. 1.25 lakhs
Provision for Unsecured portion of advance ............................. Rs. 1.25 lakhs (@ 100% of unsecured portion)
Provision for secured portion of advance ............................. Rs. 0.90 lakhs (@60% of secured portion)
(as on March 31, 2005)
Total provision required to be made ............................. Rs. 2.15 lakhs
(as on March 31, 2005)

In case the banks are following more stringent method of provisioning in respect of advances covered by the guarantees of DICGC/ECGC, as compared to the method given above, they may have the option to continue to follow the same procedure.
3.4.5 Recent developments: [From 23rd April, 1999 by RBI]

(1) Reduction in the time frame for classification of assets as doubtful assets:

With a view to moving closer to international practices in regard decided that as asset should be classified as doubtful if it has remained in sub – standard category for 18 months instead of 24 months as at present, by 31st March, 2001. The banks are permitted to achieve these norms for additional provisioning, in phases, as under:

As on 31st March, 2001 : Provisioning of not less than 50% on the assets which have been doubtful on account of new norms

As on 31st March, 2002 : Balance of the provisioning not made during the previous year, in addition to provisions needed as on 31st March, 2002

(2) Norms in respect of Governmental Guaranteed Advances:

It has been decided, as a prudent measure, to introduce provisioning norms in respect of advances guaranteed by state government where guarantee has been invoked and has remained in default for more than two quarters. This measure would be effective from 1st April, 2000 as regards provisioning requirements, which stood invoked as on 31st March 2000, necessary provision should be made during the financial year ending 31st March 2000 to 31st March 2003 with a minimum of 25% each year.
(3) **Provision on Standard Assets: (Performing Assets)**

0.25% of the outstanding performing advances under direct agriculture and advances qualifying as capital market exposure, commercial and real estate loan & loans and advances to systemically important NBFCs-Non-Deposit Taking Companies, 1% for residential housing loans beyond Rs. 20 lakh and 0.40% on the residual outstanding performance advances.\(^1\)

(4) **Other Matters:**

It has been decided, in consultation with Government of India, to implement some of the recommendations made by the committee on banking sector reforms. These are given in the following table:

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendations</th>
<th>Decision Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Banks and financial institutions should avoid the practice of ever greening</td>
<td>The Reserve Bank reiterates that Banks and Financial Institutions should adhere to the prudential norms on assets classification, provisioning etc. and avoid the practice of ever greening of loan accounts.</td>
</tr>
<tr>
<td>(2)</td>
<td>Any effort at financial restructuring must go hand in hand with operational restructuring with the cleaning up of the balance sheet, simultaneously steps, to be taken to prevent / limit re – emergence of new NPAs.</td>
<td>The banks are advised to take effective steps for reduction of NPAs and also put to place risk management system and practices to prevent re – emergence of fresh NPAs.</td>
</tr>
<tr>
<td>(3)</td>
<td>Bank to pay special attention to reporting and checking by the bank office of the trading transactions.</td>
<td>While the system is already in place, banks are required to monitor this vigorously to strengthen their internal control system.</td>
</tr>
<tr>
<td>(4)</td>
<td>There is need to institute as independent loan review mechanism especially for large borrowal accounts and to identify potential NPAs.</td>
<td>Banks should ensure a loan review mechanism for larger advances soon after its sanction and continuously monitor the weakness developing corrective measures in time.</td>
</tr>
</tbody>
</table>

3.4.6 Calculation of Non – Performing Assets:

Pro - forma of Register for calculation of NPAs.

1. Name of the Borrower
2. A/c Number
3. Amount of advance
4. Amount of Installment
5. Due Date of First Installment
6. Outstanding Balance:
   a. Secured portion of the balance
   b. Unsecured portion of the balance
7. Amount of Total Recovery
8. Amount of Recovery towards Principal (Amount disbursed – lowest balance in A/c)
9. Number of Installment recovered
   a. If EMI : Total recovery / Installment = 4/2 = X
   b. If Installment + Interest : Principal recovery / Installment = 5/2 = X.
10. Date of Default = No. of installment received + First Due Date = 7 + 3
11. Date of NPA : 8 + 3 month
12. Asset Classification : Age from 9
13. Rate of Provision :
    
    0 – 2 years $\rightarrow$ 10%
    2 – 3 years $\rightarrow$ 20%
    3 – 5 years $\rightarrow$ 30%
    more than 5 years $\rightarrow$ 50%
14. Amount of provisions :
   a. If sub – standard (11 * 6A) + (6B@100%)
   b. If doubtful : (11 * 6A) + 6B
Example:

To understand easily the calculation of NPA researcher took some hypothetical examples, which are as follows:

NPA as on 31-03-1999

Case I  Payment Program : Rs. 250p.m. + Interest
               From 1$^{st}$ April 1993.

Case II  Payment Program : Rs. 800 p.m. + Inc. Interest
               From 1$^{st}$ September

Case III Payment Program : Rs. 10,000 p.m. + Interest
               From 1$^{st}$ August 1997

<table>
<thead>
<tr>
<th>No.</th>
<th>Particulars</th>
<th>Case I</th>
<th>Case II</th>
<th>Case III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Total recovery</td>
<td>Rs. 10852</td>
<td>Rs. 24321</td>
<td>Rs. 8324</td>
</tr>
<tr>
<td>2.</td>
<td>Of which interest recovery</td>
<td>Rs. 3515</td>
<td>Rs. 12614</td>
<td>Rs. 3213</td>
</tr>
<tr>
<td>3.</td>
<td>Balance</td>
<td>Rs. 2663</td>
<td>Rs. 18293</td>
<td>Rs. 4889</td>
</tr>
<tr>
<td>4.</td>
<td>Security Value</td>
<td>Rs. 2000</td>
<td>Rs. 20000</td>
<td>Rs. 3000</td>
</tr>
</tbody>
</table>

Answer:

<table>
<thead>
<tr>
<th>No.</th>
<th>Particulars</th>
<th>Case I</th>
<th>Case II</th>
<th>Case III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Recovery in Principal</td>
<td>Rs. 7337</td>
<td>Rs. 11707</td>
<td>Rs. 5111</td>
</tr>
<tr>
<td>2.</td>
<td>Installment Amount</td>
<td>Rs. 250</td>
<td>Rs. 800</td>
<td>Rs. 10000</td>
</tr>
<tr>
<td>3.</td>
<td>Installment received</td>
<td>29</td>
<td>30</td>
<td>Nil</td>
</tr>
<tr>
<td>4.</td>
<td>Default date</td>
<td>01-09-1995</td>
<td>01-03-1998</td>
<td>01-08-1997</td>
</tr>
<tr>
<td>5.</td>
<td>Date of NPA</td>
<td>01-04-1996</td>
<td>01-10-1998</td>
<td>01-03-1998</td>
</tr>
<tr>
<td>6.</td>
<td>Asset classification</td>
<td>Doubtful</td>
<td>Substandard</td>
<td>Substandard</td>
</tr>
<tr>
<td>7.</td>
<td>Provision rate</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>8.</td>
<td>Amount of provision</td>
<td>400 + 663 = 1063</td>
<td>Rs. 1829</td>
<td>Rs. 489</td>
</tr>
</tbody>
</table>
3.5 MORE ABOUT NON PERFORMING ASSETS:

The level of NPA reflects not only on the quality of loan portfolio but also the capability of the bank management in managing their advances portfolio.

So it is necessary for bank to Recognize, Manage and Reduce the Non – Performing assets.

3.5.1 Recognize the Non – performing assets:-

3 W’s of NPA

(1) What are NPAs?
(2) When an account becomes NPA?
(3) What is the impact of NPAs on the performance of the Bank?

(1) What are the NPAs?

Credit facilities whose income generating capacity is in doubt are called NPA (Loan account, Overdraft account, Bills discounted / Purchase account, other facilities and Agricultural loan).

An advance is classified as an NPA where in case of

(i) Term loan the interest and / or installment of principal remains overdue for a period of more than 90 days.

(ii) Overdue / cash credit (OD / CC) the account remains out of order for a period of more than 90 days.

(iii) Bills purchased and discounted the bill remains overdue for a period of more than 90 days.

(iv) Agricultural loan interest and / or installment of principal remain overdue for two harvesting season or one year whichever is earlier.

(v) For other facilities any amount to be received remains overdue for a period of more than 90 days.
(2) **When an account becomes NPA?**

We must know the date of accounts becoming NPA.

Date of default

Date of NPA old, new

Over due V/s installment due.

(3) **What is the impact of NPAs on performance of the Bank?**

(I) Interest income is reduced due to non – performance of assets.

(II) Desirable yield is not achieved.

(III) The total net worth of the bank stands reduced.

(IV) The bank has to incur additional cost in supervision and follow – up.

(V) The bank has to face the problem of demoralized staff.

(VI) The bank has to provide for the provisioning, thus effecting the net profit of the bank.

(VII) The bank faces difficulty to get license for new branches.

(VIII) NPAs have a very negative effect on CRAR (Capital Risk Adequacy Ratio).

(IX) NPAs restrict the recycling of funds.

It would be imperative for these banks to take effective measures to reduce their NPAs to the maximum possible extent. Not only reduction in NPAs even up gradation in the quality of such assets would help the banks to improve their bottom lines because the provisions already made can be transferred to the income head in case of up gradation of NPAs.

**3.5.2 MANAGING NON – PERFORMING ASSETS**

Reasons for managing non – performing assets. (Why to manage Non – Performing Assets?)

NPAs have multifold effects on the performance of banks. It shows the weakness of management of bank. It is necessary to manage non – performing assets for following reasons:
1. **To protect the interest of share holders.**

Members of the bank are true owners of bank. They contribute or invest their amount in banks to earn dividend. Being amount of NPA with their amount in banks to earn dividend because high amount of NPAs means earning assets are on deterioration consequently, means lower income of banks that will make unable to satisfy the members by paying high rate of dividend.

2. **To protect the interest of depositors.**

Depositors are the key person of the banks because of their deposits the banks are able to lend to borrowers. Depositors want consistence interest income on their deposits. When their deposits, advanced to borrowers, which would, later on, if become a NPA, banks would be unable to pay timely interest to depositors will switch of their deposits from one bank to another bank which is not commendable for particular bank. Thus it is very important for banks to manage efficiently their advances, which are likely to turn into NPAs.

3. **For profitability:**

Non – performing Assets means an asset, which cease to generate any income. Thus more and more NPA will reduce the income of banks as interest which is main component of bank’s income thus it will jeopardize the profitability or return on assets consequently it will be constraint for bank’s growth.

4. **High provision:**

Higher NPA leads banks to compel higher provision for ‘Bad Debts Reserve’ as per the norms of RBI. Provision will be done by realized profit and NPA will block the actual profit of banks for current year thus NPA has a dual effect i.e. not realization of interest income and separate provision for NPA from Profit & Loss account.

5. **Creditworthiness of the Banks:**

NPA works as a tool for worthiness of particular bank. If banks are having high NPA level then it will be very difficult to raise additional funds from market. It will make bad impression of banks on people.
6. **Expansion plan:**

For instance, banks want to start as its expansion plan and its NPA level is higher. Then prescribed by RBI that is 15% of advances, banks will not be able to get permission from the RBI for starting a new branch. Thus it is necessary to control NPA level within prescribed limit for future growth of banks.

7. **Welfare of employees:**

If banks are having high NPA it will ruin the whole capital and past reserves, which raises question for existence of banks. Thus, many personnel will loss employment, but also banks cannot make any provision for welfare activities of the employee’s future benefits due to lack of availability of free reserves.

8. **In the interest of sustained economic growth:**

For the interest of sustained economic growth it is necessary to control and minimize NPAs of nations banking sectors. High NPA leads to inflation in economy. Further, NPAs will reduce the opportunities for productive investment, ruin the efforts of directed allocation of funds, preferred investment areas, subsequently economy of country will not be able to achieve expected growth, which is decided on formation of budget.

3.5.3 **REDUCING THE NPAs:**

Guidelines issued by Reserve Bank of India regarding recognition, asset classification and provisioning norms have compelled banks in India not to show true financial picture in the balance sheet but also to take corrective steps for improving their loan portfolio. With the adoption of these guidelines, banks are now fully vigilant about quality of their loan assets and various steps are being taken by them to reduce the NPAs. It is always better to follow the proper policy for appraisal, supervision and follow – up of advances to avoid NPAs. However, risks attached to lending cannot be completely eliminated. If certain advances are converted into NPAs, it is necessary to take corrective steps to reduce them. Reduction in NPAs is necessary to improve profitability.
Researcher would like to suggest following strategies (techniques) to Banks for reducing their NPAs.

1. Rephasement of loans
2. Rehabilitation of potentially viable units
3. Acquisition of sick units by health units
4. Compromised with borrowers
5. Calling up of advances and filling of civil suits
6. Approaching debt recovery tribunal
7. Recovery of advances given under Government sponsored programs
8. Settlement of claims with DICGC / ECGC
9. Establishment of assets recovery branches
10. Write off the outstanding

1. **Rephasement of loans:**

   Repayment of a term loan depends on income generating capacity of the borrowing concern. It may be difficult to get repayment of the term loans if the borrowing unit does not generate profit. A unit, which does not earn profit, may repay a few installments by borrowing from other sources or diverting short term fund for repayment. But ultimately a unit not earning profit will not be able to repay the term loan. Therefore, it is necessary to fix repayment schedule for a term loan according to income generating capacity of the unit. If repayment schedule is not fixed properly or a unit is not able to generate expected profit, possibility may be explored in consultation with the borrowers, for rephasement of loan installments. Banks are not permitted to upgrade the classification of any advances in respect of which terms have been renegotiated unless the package of renegotiated term has worked satisfactorily for a period of two years. The classification of assets may improve, if performance of the loan account remains satisfactory for two years after rephasement. It may be mentioned that rephasement of the loan installment should be done only when it is expected to get repayment after the rephasement.
2. **Rehabilitation of the potentially viable units:**

If a sick unit is potentially viable, necessary efforts should be made to finalize the rehabilitation package without the loss of time. Provision need not be made for a period of additional facilities sanctioned under rehabilitation packages approved by BIFRJ term lending institution. If the rehabilitation program, runs smoothly, it may be necessary to make provisions even after one year for additional facilities provided statutory auditors are also satisfied about the progress of rehabilitation program. If the unit becomes viable, the entire outstanding (including existing facilities) will become standard assets. Although rehabilitation of sick unit is a long drawn procedure, it may be encouraged where units are potentially viable and the management is reliable. However, non-viable sick units should be liquidated to get funds for recycling without avoidable loss of time in decision making.

3. **Acquisitions of sick units by healthy units:**

If healthy unit acquires a sick unit, the outstanding loan amount of sick unit may be transferred to the healthy unit the entire NPA may be even wiped off. Therefore, banks should encourage merger/acquisition of sick units wherever they feel it may reduce the NPAs. Banks may even help the sick units to get stable buyers, if a part of the consideration is to be received by the sick unit is likely to be used for liquidating the NPA. Banks should make a comparative study of gains of merger/acquisition and sacrifice to be made by them to clinch the deal.

4. **Compromise the borrowers:**

A compromise may be called a negotiated settlement in which the borrower agrees to pay a certain amount to the banker after getting certain concession. A large number of compromise proposal are being approved by banks with a view to reducing the NPAs and recycling the funds instead of resorting to expensive recovery proceedings spread over a long period. However a compromise proposal should not be approved without proper scrutiny. Banks should try to recover their dues to the maximum extent possible at minimum expenses. While entering into the compromise proposals, following points should be taken into consideration:

(a) A bank keeping in view the guidelines given in its Loan Recovery Policy should accept compromise proposal.
(b) A proper distinction should be made between willful defaulters and the borrowers defaulting the repayment due to circumstances beyond their control. Normally, compromise proposal should be accepted from non–willful defaulter, compelling reasons for resorting to the same should be spelt out in the note/memorandum prepared for its approval.

(c) Where security is available, its realizable value should be assessed taking into consideration its location, present condition, marketable title and possession.

(d) Worth of the guarantor, if any, should be assured. Many a times banks may be able to recover the amount with the help of guarantee available.

(e) Borrower’s creditability and his paying ability should be assured if recovery is to be made in installments as per the compromise proposal.

(f) Staff accountability should be examined expeditiously and completed within a time frame.

(g) All compromise proposal approved by any functionary should be promptly reported to the next higher authority for post–facto security.

(h) The proposal for write–off / compromise falling within the authority of Executive Director / Chairman and Managing Director / Management Committee / Board of bank should be first processed by a committee of senior executive of the bank (i.e. Chief General Manager, General Manager).

(i) Internal inspector of the banks and statutory auditors should also examine the compromise proposal to ascertain that they have been done in the interest of the bank.

(j) While conducting inspection of banks, official of the Reserve Bank should also examine all the compromise proposals involving higher sacrifice. They may also scrutinize such proposals where the amount of loss suffered by banks as percentage to the total outstanding is very high. It may be observed from above that compromise has to be done with great care after taking in to consideration the various factors. Points to be seen while entering in to a compromise proposal can be summarized in the below chart.
## Compromise Proposal

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Reduction in NPAs</td>
<td>I. Loss suffered by the Bank and result of differences between loan outstanding and the amount actually received.</td>
</tr>
<tr>
<td>II. Recycling of funds.</td>
<td>II. While calculating the loss, unapplied interest for the period up to which payment is likely to be received after compromise and other national waivers, if any, should be added in the outstanding balance.</td>
</tr>
<tr>
<td>III. Saving in time and expenses involving the legal proceedings.</td>
<td></td>
</tr>
<tr>
<td>IV. Tax relief due to writing off the unrealized portion of the outstanding.</td>
<td></td>
</tr>
</tbody>
</table>

Following points are to be considered while taking decisions on the compromise proposals:

1. Realized value of security, if any
2. Worth of the guarantor, if any
3. Financial position of the borrower
4. Amount of loss to be suffered as percentage to the total loan outstanding
5. Time and expenses likely to be incurred in legal proceedings

As no formula can be prescribed for entering into a compromise proposal, banks should consider the above points while taking a decision on a compromise proposal.

### 5. Calling up the advances and filing of civil suits:

It is not possible to receive a unit or enter into a reasonable settlement with the borrower, it is better to recall the advances at an early stage instead of waiting for a long time which may result in deterioration of the security available. Further, if it is not possible to sell the security without obtaining courts’ order, civil suits may be filed against such borrowers who are not likely to come to reasonable settlement. Banks should not feel that their job over by filing the court case. Banks should revise the list of approved advocates from time to time keeping in view their performance. Advocates who do not perform well should not be given new cases.
6. **Approaching debt recovery tribunal:**

   An act has been passed by parliament for setting up Debt Recovery Tribunal for expeditious adjudication and recovery of debts due to banks and financial institutions. The provisions of this act titles as “*the recovery of debts due to banks and financial institutions act, 1993*”, are applicable where the amount of debt due to any bank of financial institutions of to a consortium of banks or financial institutions is not less than Rs. 10 lakhs. The Central Government have, however, been empowered to reduce the lower limit of Rs. 10 lakhs but not below Rs. 1 lakh by issuing notification.

   The “Debt Recovery Tribunals” are being setup in various states and an Appellate Tribunal has also been set up at Bombay to hear the appeals against the decision of the Debt Recover Tribunals. However, a provision has been made in this act to deposit 75% of the decretal amount before going for appeal, which may discourage unnecessary delay in settlement of case. It is hoped that establishment of debt recovery tribunal may not only facilitate quick decisions but also induce borrowers to enter into settlements with the banks.

7. **Recovery of advances given under Government sponsored Programs:**

   Banks should take advantage of the legislation enacted by State Government for specially recovery of banks overdue. They should promptly file cases against willful defaulters with the concerned authorities of the State Government. While filing the cases, they may ensure that necessary details and settlements are submitted. Representative of the banks should also attend the courts on fixed dates. The matters relating to recovery of advances should be discussed into State Level Bankers meeting and necessary help for recovery should be obtained from the State Government authorities. Sometimes, it may be useful to organize Recovery Camp for effecting speedy recovery of the banks’ dues. A list of defaulters may be for each village before organizing the Recovery Camp with which Recovery Officers, Block Department officers, Patwaries, Gram Sevaks, etc. may be closely associated. Banks in rural areas should take full advantage of non–public business working days for recovery of advances. If necessary, branch wise analysis of overdue in a particular branch, proper monitoring of overdue from rural branches is also essential to reduce the outstanding advances.
8. **Settlement of claims with DICGC / ECGC:**

If DICGC / ECGC claims are available, banks should submit their proposal for the same with necessary details. Proper follow-up with DICGC / ECGC is necessary for settlement of claims and reducing the NPAs to certain extent.

9. **Establishment of Asset Recovery Branches:**

Some banks have opened Asset Recovery Branches at critical centers for undertaking recovery. Bad and doubtful debts of various existing branches have been transferred to the recovery branch, which may have expert trained staff with necessary background for recovery. The specialized recovery branches may give undivided attentions to recovery of dues. Establishment of such specialized branches may help in reducing NPAs.

10. **Write-off the outstanding:**

If all the efforts for recovery fail, banks may have to write off the advances. Such write-off should be done after exhausting all other remedies. When chances of recovery are negligible, some banks prefer to write-off an advance to reduce its income and save tax. In such cases, banks should continue to make efforts for recovery even after writing-off the advance.

It may be observed from the above that various techniques can be used for reducing NPAs. If one technique fails while dealing with a particular NPA, the Bank may have to try with other techniques for that case.
Various steps for reducing NPAs

- Study the problem of NPAs branch wise, Amount wise and age wise.
- Prepare a loan recovery policy and Strategies for reducing NPAs.
- Create special recovery cells at Head / zonal / regional office level.
- Identify critical branches for recovery.
- Fix targets of recovery and draw Time bound action program.
- Select proper techniques for solving The problems of each NPA.
- Monitor implementation of the Time bound action plan drawn.
- Take corrective steps wherever found necessary while monitoring the action plan and take change in the original plan, if necessary.
In addition to solving the problem of existing NPAs, quality of approval, supervision and follow up should be improved for presentation advances to avoid future NPAs. Banks should examine the viability of the project before providing final assistance, it is necessary to ensure that project will generate sufficient returns of the resources invested unit. The viability of a project depends upon technical viability, marketability of the products at a profitable price, availability of final resource in time and proper management of the unit. Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advances. Disbursement of funds according to the requirements of the project and close supervision follow – up of the advances, further NPAs can be avoided. Although risk is a part of lending, taking necessary precautions, which may help in avoiding the NPAs, can minimize it. Special care must be taken for those advances which are showing irregularities and likely to become the NPAs. Steps taken at the appropriate time may help in avoiding NPAs. In other words banks should not take steps for reducing present NPAs, but necessary precautions should also be taken to avoid future NPAs.