CHAPTER VII
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MAJOR FINDINGS, CONCLUSIONS, SUGGESTIONS AND POLICY FRAME

The study undertaken is of great relevance to the present day problem of financing the key sectors of the rural economy by the Regional Rural Banks (RRBs) and the other rural credit institutions in general, as the banking is the most useful tool of the rural society and the country in achieving accelerated growth in rural sector. Today there is great need for the study on "Overdues and Recovery" in Rural Financial Sector. In recent years, the significance of overdues of banks that Regional Rural Banks has also received wide discussions at the national level, in view of restructuring the Regional Rural Banking Systems in phased manner. Therefore, this work will provide flesh angle of approach to minimise the overdues problems. The detailed suggestions based on the findings of this study would aid in decision making to the managements’ and also would fill up the gap of literature on the study of the overdues of the Regional Rural Banks in India.

This is an empirical study based on both primary and secondary data. The study has been carried out both at MACRO and MICRO levels. The study on the recovery performance and the problems of overdues of RRBs were made in 23 states and in six regions of the country and in All India at Macro level. The Micro level analysis is the core section of this research work and has been confined to a Regional Rural Bank viz., Pandyan Grama Bank (the oldest among three RRBs) of Tamil Nadu and its borrowers. A two-stage sampling design has been used in which the selection of banks formed the first stage and the selection of borrowers formed the second stage.

The selected bank for micro level study i.e., The Pandyan Grama Bank (PGB) in the state of Tamil Nadu is operating with 161 branches in its
five operational districts viz. (i) Chidambaranar, (ii) Tirunelveli Kattabomman, (iii) Kamarajar, (iv) Ramanathapuram and (v) Pasumpon Mutlimramlingam Thevar Thirumagan. Of this 161 branches, ten units (two from each district) have been selected. In the selection of the branches, the criteria of "recovery performance" was adopted. To the norm of Recovery Performance, the average recovery rate (in terms of percentage of recovery to demand) was calculated taking the average of five years ending 1995 for all the 161 branches functioning in five districts. From each district, the highest and the lowest recovery performance of the bank branches were singled out. Thus, two branches from each districts have been selected.

For selection of branches at grass root level, a list of borrowers who have availed loan was obtained from the selected ten branches. The list consisted of 4016 borrowers. Out of 4016 borrowers, a sample of 400 (i.e., 10 per cent of the universe) were randomly selected for the purpose of the present study in order to analyse their repayment behaviour.

The present study is based on both secondary data calculated from the records of National Bank for Agriculture and Rural Development (NABARD) and the Pandyan Grama Bank and the primary data obtained from the 400 sample borrowers and 100 bank officials. In line with the objectives of the study, two separate interview schedules have been designed, one for the bank and another for borrowers (micro level). The schedules have been finalised after pre-testing.

The analytical tools used in the study include simple average, percentage, ratios (simple - concentration (Gini Ratio)- efficiency ratio), compound growth rate, repayment index and multiple regression analysis.
The small farmer, marginal farmer, artisan friendly, hybrid banking institutions, viz., Regional Rural Banks were started from 1975 and expanded up to 1987 all over India.

There has been an overall increase in all the years i.e., from 1086-1994 in terms of amount and accounts in credit, deposits and loan outstanding. The same trend was also noted Per RRB, Per branch, average deposit Per account and outstanding advances respectively.

The compound growth rate computed for the credit deposit ratio showed a steady decline over the nine years from 104 per cent (1986) to 60 per cent (1994). Inspite of increase in deposits and liberal refinance availability, the credit deposit ratio continued to he in declining trend indicating the faster expansion of credit.

The number of RRBs making profit were found to he 45 in 1986 and were decreasing to 23 in 1994. The number of RRBs increasing losses were found to 149 (1986) and got increased to 173 (1994). The recovery as percentage to demand was less than 60 in majority of RRBs (86 per cent of RRJBs), it was found that 65 banks (out of 181 RRBs in the year 1986) and 27 hanks (out of 187 RRBs in the year 1993) showed a more than 60 per cent of recovery to demand.

Of the six regions, the Southern Region had shown better recovery performance and the North Eastern Region recorded the lowest recovery performance.

The recovery was consistently better in RRBs of Kerala, Punjab and Tamil Nadu. It was lower and far from satisfactory in Nagaland and Tripura states.
The recovery of loans under non farm sector were lower than that of the farm sector loans.

The incidence of overdues in the Regional Rural Banking System had been increasing over the year and reached the maximum level from Rs. 437.08 crores (1986) to Rs 1850.33 crores in 1994. It was found that an average amount of overdues per account escalated year by year. The prevalence of large scale overdues from 1990 was mainly due to "Greater Expectation of further waiver" of loan by the borrowers of Regional Rural Banks.

The overdues of RRBs according to their age-wise revealed that the oldest RRBs (between nine and 19 years of age) accounted for major share both in overdues accounts (99.40 per cent) and amount (99.31 per cent) in the aggregate overdues accounts and amount of RRBs as on March 1994. This was mainly due to their continued existence and target oriented credit support to their clientele groups over the years.

The percentage of overdues to demand in respect of North Eastern Region topped the list with the highest value (90.89) whereas, the Southern Region was having the lowest value (43.37) in 1994.

The highest Gini Ratio values (more than one) could be seen in states like Orissa, Kerala, Meghalaya, Arunachal Pradesh and Rajasthan indicating that the larger borrowers had not repaid their due amount; whereas, states like, Tamil Nadu, Andhra Pradesh and Karnataka recorded the lowest Gini Ratio (less than one) indicating mostly small borrowers of these state were not repaying their dues.
The major findings regarding the impact of mounting overdues of Regional Rural Banks were:

1. Out of the outstanding advances, 35.22 per cent of the funds (Rs 1850.33 crores of overdues) were not available for recycling.

2. Overdues had also severely impaired the eligibility of Regional Rural Banks for availing the refinance from NABARD. The majority of those Regional Rural Banks had become ineligible to get refinance facilities.

3. As a result of continuous increase in overdues position both in terms of accounts and amount, the growth rate in deployment of credit to their clientele group was found less (8.82 per cent) than the growth rate in overdues amount (17.39 per cent) between the period 1986 and 1994.

A detailed study was made on the recovery and overdues management of three RRBs of Tamil Nadu viz., Pandyan Grama Bank, Adhyatuan Grama Bank and Vallalar Grama Bank.

As for the performance of RRBs in Tamil Nadu state in terms of branch expansion programme, it was found that the total number of branches had increased to 208 in 1990 from 156 in 1986. The average number of branches per district was 26 in Tamil Nadu as against 36 in India as on March 1994.

The total amount of deposits for three RRBs put together had increased to Rs 123.64 crores in 1995 from Rs. 20.39 crores in 1986. The deposit Per bank had increased to Rs. 41.21 crores in 1995 from Rs. 6.80 crores in 1986.
The quantum of loan sanctioned by RRBs in the state rose to Rs. 106.58 crores in 1995 from Rs. 14.98 crores in 1986 covering 1.79 lakhs beneficiaries within a decade.

As on 1994, there were more than 2.25 lakhs borrowers who had availed names and the total outstanding amount was worked out to the Rs. 84.79 crores. It was also notices that all the RRBs in Tamil Nadu had performed satisfactorily in terms of advance accounts and the amount advanced between the years 1986 and 1994. The credit deposit ratio of three RRBs revealed the extent of utilisation of deposits by them in the form of credit. In 1986, the three RRBs in the state recorded a credit deposit ratio of 150 and had come down to 88 in 1994.

The financial performance data analysis of RRBs in Tamil Nadu over the ten years study revealed that all the three banks showed profit for three years only i.e., 1986, 1987 and 1988, and in 1989 only Patulyan Grama Bank showed profit picture. All the RRBs in Tamil Nadu had been incurring continuous loss from the year 1990. The total loss incurred by RRBs amounted to Rs 24.44 crores and the accumulated losses had been estimated to Rs. 20.60 crores. The erosion of share capital, reserves and surplus was found to have taken place in 1990 in all RRBs of the state.

The percentage of collection to demand had increased to 81.12 in 1995 from 65.00 in 1986. The balance (overdues) to demand had declined by 16.12 per cent between 1986 and 1995 i.e., the percentage of overdues to outstanding had reduced from 36.46 in 1986 to 31.82 in 1994.

In the RRBs of Tamil Nadu, the total overdues amount increased from Rs. 11.13 crores in 1986 to Rs 26.98 crores in 1994.
It was seen that RRBs in Tamil Nadu had a performance edge over the RRBs of Southern Region and RRBs of All India level.

The percentage shave of Tamil Nadu RRBs in the aggregate overdues amount of RRBs of Southern Region and All India RRBs had declined by 2.70 per cent and 1.09 per cent respectively between 1986 and 1994.

The aggregate overdues of the rural tending institutions, Co-operatives and Regional Rural Banks ranged between 28.00 per cent and 49.27 per cent of total outstanding advances in 1991-1992.

The credit deposit ratio also showed a decline by six per cent between 1986 and 1987 and the declining trend was observed there after also. As a result of continuous increase in overdues amount (except in 1987 and 1991, presumably in view of better recovery in 1987 and the adjustment of relief granted under ARDR Scheme in 1991) funds were locked up in the hands of borrowers and the lending operations of these banks exhibited drop both in terms of accounts and amount in four years i.e., 1987, 1988, 1990 and 1994.

The loan issued accounts declined by 54.00 per cent and the loan amount deployed had come down by 46.46 per cent between 1989 and 1990, the credit deposit ratio of the banks declined by 45.00 per cent (the highest during the study period).

The overdues of RRBs in Tamil Nadu at the ultimate borrowers level as on March 1994 amounted to Rs. 26.98 crores as against the total outstanding of Rs. 84.79 crores and this recorded 31.82 per cent of the lendable resources (as overdues) getting blocked.

The number of borrowal accounts of Pandyan Grama Bank had been declining from 1992 - 1993 to 1994 - 1995 and the credit deposit ratio had
been continuous by declining from 1988 - 1989 and it was less than 100 per cent in 1992 - 1993 and 1994 - 1995.

The growth rate in deposits account?; (20.37 per cent) and in amount (33.05 per cent) was greater than that of the growth into in advances accounts (16.11 per cent) and in advance amount (28.16 per cent) between 1977 and 1995.

The income of the bank had increased from Rs. 0.05 crores in 1977 to Rs. 12.50 crores in 1994-1995.

The bank started earning profit of Rs. 12 lakhs in 1979 after the first two years of its operation and accumulated loss of Rs 4 lakhs of the previous year was wiped off, retaining a net profit of Rs 8 lakhs. Since 1979 the bank had showed a profit and the profit amount increased from Rs. 1.2 lakhs in 1979 to Rs. 29 lakhs in 1982. After 1982, a declining trend had been witnessed in profit and the amount of profit declined to Rs. 3 lakhs in 1988 - 1989. From 1989 onwards till 1995, the bank had increased continuous loss and the loss amount had increased from Rs. 1.60 crores in 1990 to Rs. 5.68 crores in 1995.

The percentage of collection to demand in the bank ranged between 92.50 per cent and 90.54 per cent during 1977 - 1981. The percentage of collection to demand had decreased from 90.54 to 66.62 in 1988-1989.

The bank showed poor recovery performance record between 1989-1990 and 1990-1991 and the percentage was the lowest i.e., 58.32 and 57.10 respectively. They were mainly due to the advance impact of the ARDRS 1990 measures of Government of India.
The recovery rate had improved from 57.10 per cent in 1991-1992 to 80.49 per cent in 1994 - 1995. This was mainly attributed to the sincere efforts taken by the bank during 1991-1995 viz., conducting special recovery camps, invoking DI&CGC claims and getting reimbursement under ARDR Scheme.

The banks experience in recovering the overdues successfully were informed to branches by means of circulars and best performing branch staff were given with certificates of merit in the staff meetings.

The banks' contribution to the total recovery in this region had increased from 5.89 per cent in 1986 to 9.96 per cent in 1992 and it decreased to 5.37 per cent in 1993 clearly indicating that Pandyan Grama Bank had recorded a better performance in recovery over the years.

The recovery performance of the banks in agricultural and non-agricultural sectors of lending except in 1988-1989 and 1989-1990 was impressive.

The total overdues of the bank increased from Rs 0.02 crores in 1997 to Rs. 18.59 crores in 1995. The number of overdues accounts also increased from 331 in 1977 to 83289 in 1995. The Pandyan Grama Bank had the problem of overdues increasing year after year particularly 1980 onwards.

Among the different purposes of loans issued by Pandyan Grama Bank, the biggest overdues was recorded from the borrowers who received the loan for "other purposes".

The causes of overdues of the bank based on the interview with bank officials and borrowers could be grouped into:
a. Unsound lending policy both by bank and Government.

b. Ineffective supervision and lack of support from local organisation.

c. Lack of infrastructural facilities like storage, processing and marketing and

d. Government announcing debt relief measures.

The impact of overdues on the performance of the bank observed as follows:

a. Rendered the bank ineligible to draw refinance from refinancing bodies.

b. Dried up the loanable resources bringing down the rate of development.

c. The profitability declined and the banks' viability was jeopardised whenever interest on loans were not recovered after some years and

d. Increased the cost of operations of the bank substantially.

e. Kept the operational staff busy in this task of recovery instead of devoting time for productive and development work.

f. In the course of time, a portion of the overdues also became irrecoverable thereby eroding networth of the bank.

A field study among the sample borrowers spread over in fire districts and teu branch areas brought out the following borrowers' positions and reactions.
Out of 400 sample borrowers, 76.25 per cent were from semi urban areas and 13 per cent were from semi urban areas. Among these borrowers, 59.75 per cent were small and marginal farmers, 24.25 per cent were agricultural labourer and 16.00 per cent were rural artisans and entrepreneurs.

Of the sample borrowers, 61.25 per cent belonged to the backward classes, 35.00 per cent belonged to scheduled cast and 3.75 per cent were forward caste. While 35.50 per cent of the sample were women borrowers all of them were either agricultural or non agricultural labourers.

The majority of the borrowers (62.25 per cent) were in the middle age group of 30 to 50 years.

Among the sample borrowers, 23.75 per cent were illiterates' and 76.25 per cent had attained "schooling".

More than half of the borrowers had a family size of five to ten members (57.50 per cent) and the rest had small families with a minimum of four members. A high dependency ratio was found in many borrowers' families. Only 26.50 per cent of the families had a minimum number of dependents i.e., one or two; majority of borrowers (73.75 per cent) were with a large number of dependents ranging between three and eight members. The bigger the family size, greater was the dependency ratio in the sample borrower's family and this had necessitated them to seek external funding.

Only three per cent of the sample had maximum annual income of more than Rs. 40,000; 83.75 per cent of borrowers had an annual income below Rs. 20,000 and the rest of borrowers i.e., 13.25 per cent had an annual income ranging between Rs. 20,000 and Rs. 40,000.
It had been found out that out of the sample borrowers' households, 249 households belonged to the expenditure category of less than Rs. 10,000, 118 households spent Rs. 10,001 - Rs. 20,000 and 33 families spent more than Rs. 20,000.

The 57 sample borrower's families were found indebted prior to their bank borrowing. The average amount of debt per indebted sample household was Rs. 800.

Of the 400 sample borrowers, 57 received credit assistance for agricultural activities; 134 borrowers received advances for allied agricultural activities; 89 borrowers had availed loan for diverse activities (handloom weaving and brick manufacturing etc.) and 120 borrowers had obtained loan for service activities. The average loan amount per borrower had been quite small ranging between Rs. 1000 for basket making to Rs. 8000 for minor irrigation. Around 35 per cent of the sample borrowers got the loans in time. The data revealed the misutilisation of financial assistance by 26 borrowers. The average amount of misutilisation worked out at Rs. 7018 per borrower. The misutilisation was in the form of payment of old private source debt.

Around eight per cent of the total sample borrowers were not in possession of loan assets. The value of loss of assets was Rs. 52,000.

For assessment of loan repayment performance, sample borrowers were grouped under four categories of repayment performance based on their performance behaviour. They were (1) Dues Cleared Borrowers (21), (2) Regular Repayers (234), (3) Irregular Repayers (76) and (4) Defaulters (69).

The 21 borrowers were falling under repayment values "one" indicating that they repaid in full, exactly on time. The repayment index
values of 102 borrowers were recorded between "0.61 and 0.99", The majority of the (277) borrowers had the repayment index values up to "O.oiT and their repayment performance was not satisfactory.

Factors responsible for non-repayment of loan were:

a. Of the total sample, 13.72 per cent borrowers (52) became non-rePAYers to Pandyan Grama Bank due to their anticipation of "writing off of their loans as announced in the case of Co-operatives by State Government.

b. Instead of paying the bank dues-carrying low interest, 31 bank defaulters gave top priority for clearing their other outside loans carrying unfavorable terms and condition of payment coupled with high rates of interest.

c. Out of 69 defaulters, 40 borrowers deployed their bank borrowing in turn to private people with a view to get a higher interest, thereby wanted to augment their income.

d. The main reasons for the existence of largest group of non-rePAYers(86) were poor yield in case of agriculture due to failure of monsoon (32), failure of business due to high cost of inputs, (38) inadequate demand due to stiff competition, death of animals and sale of animals in the case of dairy loans (16).

e. High family consumption needs due to big size family, misutilisation of loans for unproductive purposes like social functions, pilgrimage and common religious festivals in villages.
f. "High Cost" incurred in getting IRDP loans involving subsidy for dairy, sheep rearing, small business and other service sector.

g. Under financing of Government Sponsored Schemes and other schemes and consequential failures.

h. Lack of effective follow-up by the bank from the beginning itself and poor staff involvement.

i. Lack of tie-up arrangement for dairy and sheep loans and hence the income from dairy and sheep rearing were diverted.

j. A feeling of uncertainty among the borrowers for getting fresh loans even after clearing the old loans; and political influence and utterances by politicians to borrowers not to pay bank loans.

Multiple regression analysis was used as a tool to find out the relative influence of various independent variables viz., age of borrowers, the number of earning members in the borrowers' family, the number of dependents in the borrowers' family, borrowers' family income, borrowers' family expenses, income generation attributable to loans, total borrowings, rate of interest of bank loan, total amounts due if no repayment would have been received, interest due on arrears and scheme borrowings. The influences of these independent variables on the dependent variable (repayment performance or index values) of Regular Repayers, Irregular Repayers and Defaulters were studied.

It revealed that the repayment performance of Regular Repayers was also highly influenced by the number of earning members in the borrowers' family; this could probably be due to the reason that the presence of more earning members in the family increased the earning capacity of the family
and hence placed then, in a better financial position to make loan repayment. The age of borrowers and also scheme loan borrowings influenced them in being Regular Repayers.

In the case of Irregular Repayers and Defaulters, their overdues were directly proportional to their amounts due to the bank, if no repayment received by the bank indicating that they expected "Waiver of loans". This had caused them to be Irregular Repayers and Defaulters to Pandyan grama Bank.

CONCLUSION

The policy of rural credit in India continued to be one of providing adequate, timely and cheap credit to farmers throughout and through the Formal Financial Institutional Agencies like Co-operatives, Commercial Banks and Regional Rural Banks to support agriculture and rural development. However, acceleration in the flow of credit to develop the rural economy, through a wide network of branches had created a number of problems both managerial and operational. The mounting overdues had been one of the major problems in all the credit institutions. The causes and effects of overdues on the working efficiency of these institutions and quantum of loan recovered varied according to their nature and period of loans, types of lending and depended also on their area of operations and its economical factors. The overdues and recovery problem existed in the case of RRBs system in India. The overdues problem and recovery made were varying across 23 States and six geographical regions. The recovery performance of RRBs in Southern Region was better than the other regions. As the RRBs were becoming older, the overdues and recovery problem were also increasing year after year. The same trend continued in the three RRBs of Tamil Nadu. Almost all RRBs were making losses and lost their viability. This situation
warrants serious attention immediately and remedial measures are called for a good loaning and good recovery management system.

Microlevel studies on overdues and recovery management made at Pandyan Grama bank and on the borrowers of the Bank icinfoiced tie findings made in respect of RRBs system. The socio economic factors were found to cause variation in the loan repayments. Lacunae in the RRBs loaning system, follow up and recovery mechanism adopted by bank were identified with the help of study made on trend of overdues and their causes over llic years, studies on the borrowers, interactions with top officials, middle level officials and line credit staff of the bank. Based on the study results and inferences, a near fool proof model for recovery of loans by the bank had been suggested in three stages viz., (1) Credit Dispensation; (2) Credit Administration - Loan Collection and 3. Overdues Recovery and Non Performing Asset (Loan) Management. This would ensure qualitative lending which would in turn augment the recovery of loans enabling the viability of the RRBs in the country.

SUGGESTIONS AND POLICY FRAME

The working efficiency of the bank depends on the number of time its working funds are revolved without getting them stuck up in the form of overdues. Hence, the understanding of various types of loans or loan system of the bank and the circumstances of getting the loan back or not is necessary so as to define the ideal recovery model of the Bank.

The loans granted by RRBs are farm sector and non-farm sector loans (Priority Sector) and trading and non priority loans (Non Priority Sector).

The loans in' the RRBs were again grouped under Government Sponsored Scheme loans and Non Scheme loans.
The main loaning activities of the bank consists of scheme loans and to an extent non scheme loans. A thorough understanding on the features of these categories of loan schemes would help the line credit. To the branch to differentiate good and bad aspects of the loan system and also would help them to give loans and recover them in time. A proper mix of scheme loans and non scheme loans that is advantageous to the bank should be chosen which would facilitate good loaning and recovery climate. The salient features of scheme and non scheme loans have to be well understood by the field functionaries of the bank. The details are as follows:

<table>
<thead>
<tr>
<th>Scheme Loans</th>
<th>Non-Scheme Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicants are identified and sponsored by Government agencies for tailor made loan projects</td>
<td>Applicants themselves approach bank or the bank identifies the applicants</td>
</tr>
<tr>
<td>The task force to select the scheme loan applicants consists of politicians, block and bank officials. These officials are forced to select the applicants to the choice of politicians.</td>
<td>The bank is free to choose the applicant and the applicants will be very much committed to their project and hence to the bank and recovery will be smooth.</td>
</tr>
<tr>
<td>Identified applicants and their list/applications, photos, revenue records are sent to bank by the scheme authorities and the bank relies on these information.</td>
<td>Bank gets photo, revenue records and the bank applicants' involvement is found more</td>
</tr>
<tr>
<td>Schemes are standard ones and also with defined project cost/quotations/proforma and are not flexible</td>
<td>Scheme or project has to be worked out based on applicants informations and bank requirements giving scope for any amount of flexibility.</td>
</tr>
<tr>
<td>The bank has to make a visit and verify the bonafide of borrowers' living and project site and its suitability.</td>
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Formulation of Recovery Strategy

The interplay between borrowers and bank, the circumstances of granting loan, follow-up, collection and overdues recovery by the bank are now grouped broadly into three distinct phases viz., (1) Ideal credit dispensation or lending, (2) Credit administration-follow-up and collection and (3) Overdues recovery and NPA management.

Proper selection of the borrower, with thorough understanding of his background and his project appraisal in tune with bank lending norms would take care of 90 per cent collection of amount lent. The follow-up and corrective measures, timely collection efforts (in due date) ensured rest of the recovery.

The failure to recover in time involves lot of implications on the Banks' working. The remedial measures and corrective treatments of the borrowers’ loan accounts involve internally controllable and externally non-controllable factors. A separate understanding of these complex factors and their timely treatment is required to recover the loans and also to prevent the bank from making losses. Hence three recovery models are suggested which are inter dependent viz., a) Credit Dispensation or Lending Model b) Credit Administration and Collection Model and c) Overdues Recovery and NPA Management Model.

a) Credit Dispensation or Lending Model

In the area of operation of the bank, village survey on credit gap, market survey, infrastructural survey, climate, crop season, crop data of the village, household employment and unemployment are to be gathered and maintained in the bank on permanent basis. This may be updated periodically.
This would enable to form the source of background information for assessing the feasibility of the credit proposals received by the branch.

All the above informations, data, perceived-observations find facts are gathered and classified under favourable facts and unfavourable facts based on a prepared checklist for taking credit decisions. These facts are scanned to take proper decisions for sanctioning loans at the branch level. These informations along with a critical recommendations of the branch should be sent to the higher authorities to enable them to take a correct lending decision.

A properly conducted Pre-sanction Inspection by the bank officials would facilitate the lender to objectively assess the requirement of the applicants and would enable the banker to decide as to the acceptability of the proposal.

The project appraisal by Field Supervisor or Manager should contain the technical, financial and economical feasibility to arrive at the credit decision. The appraisal should be based on the realistic parameters and assumptions. The analytical report and work sheet should be in the files of the project. Before the finalization of the appraisal report the parameters and assumptions should be discussed in depth with the applicant.

The line staff viz., Loan Clerk, Field Supervisor and Branch Manager have to give utmost cooperation with their respective department at Head Office, till qualitative credit decisions are taken by the higher authorities.

In the case of existing and repeat borrowers, the concept of repayment index also permits the bankers in taking qualitative credit decisions by awarding credit ratings. The borrowers recording repayment index value
exceeding 0.95 might be accorded with new credit rating equal to or not more than 125 per cent of the principal amount of their previous loan with interest and could be declared qualified for simplified loan application procedures. The borrowers falling in the repayment index range of 0.70 to 0.95 but with no arrears outstanding could be interviewed prior to being issued with loans and then the loans granted up to 80 per cent of the principal amount of their last availed loan.

b) Credit Administration and Collection Model

The loan recovery process adopted by the bank after the sanction of the loan (lending or credit dispensation) and before the dues are becoming overdues can be termed as loan collection. Some aspects of this collection process also gets started even during lending process itself and hence their overlapping is inevitable.

In the loan follow up and collection process, the line staff of the branches viz., Loan clerk, Field supervisor and Branch Manager are important at the floor level. They are in direct contact with the borrower. They should supply all relevant information and data through various returns and reports to controlling office and head office of the bank. Interplay of all the above said persons would contribute for better quality of the loan product and its life.

After issuance of the loan, the periodicity of inspection visit to the loan project should be decided based on the project phases and release of loans. The systematic maintenance of inspection reports should be ensured. The deficiencies of banker and borrower starting from the lending process should be identified from the beginning and required corrective actions to be taken up.
Updating of borrower profiles as well as the project should be a continuous process.

Banker's need to take cognisance of the unseen societal, cultural and economic forces that have an indirect bearing on borrowers sagacity to comply with the terms of loan repayment. Every successful recovery specialist would vouch for catalytic influence of systemic pressure on a borrowers' mind and the banker should identify such influencing forces and evaluate the good and bad aspects and use them accordingly while monitoring loans.

The branch being the basic unit in the hierarchy of credit administration, its main function is not only to meet its constituent corporate lending goals and targets but also to ensure the quality of activities financed and the asset back up. In fulfilling the above task, the branches should send feedback information to marketing department, advances (priority or non-priority credit) department, credit monitoring and administration department, recovery department and legal department.

This would enable these departments to take up audit work on the sanctioning and follow up process of the loan, thereby facilitating good repayment climate.

The concurrent corrective action process by all departments in coordination with branch could shorten the overall loan product development process. In nutshell, this process calls for working smarter and does not involve hard work but amounts to working in a systematic way.

Concurrent corrective action process stipulates that all the spheres of credit management must act unison and as a team, right from the idea, loan
project concept of generation, project formulation, appraisal, sanction, follow up recovery and obsolescence stage of a loan account.

Accountability does not become the issue as it acts through consensus. Despite the best team efforts, if an account slips into non-performing status, no valuable time would be lost in launching salvage efforts.

There are also other benefits perceived by following the above concurrent corrective action process as detailed below;

a. Leads to innovative lending to productive and profitable activities

b. Enables the branch to offer better services for the interest and charges levied on borrowal accounts

c. Enables to improve the credit delivery and creation of high quality of assets

d. Enhances the reliability of credit delivery system.

e. Enables timely credit disbursement and credit renewal

f. Enables to compress the lift cycle of a non-performing asset to appreciable levels and

g. Facilitates the banks' timely favourable exit from accounts.

A well defined role responsibility, reporting system, and control system should be communicated among all spheres of credit management. This will remove the fears in the minds of hierarchy and enable good credit management that is conducive for effective loan recovery.
The responsibility of maintaining, taking up corrective actions and required further follow up in the case of all loans that are existin at the time of joining of new incumbents of ceedit management should be made mandatory.

c) OVERDUES RECOVERY AND NPA MANAGEMENT MODEL.

Prevention of advances becoming overdues loans and non-performing assets is better and preferable than managing overdues and non-performing assets. The bank should be able to identify early warning signals and take action to prevent them from becoming overdues loan and NPA.

The recovery of overdues and management of NPA advances is very time consuming, costly and involve expenditure of good money after bad money. Money has opportunity cost. So, if the dues are recovered early, they can be re-deployed at a higher rate of return. Further, chronically defaulted loan recovery will improve liquidity of the bank. Such chronically defaulted overdues and NPA advances would cause continuous losses, hence, the earliest recovery possibility should be explored. The time factor in the case of recovery of overdues and NPA advances become very important.

The Corporate Office of the bank should organise recovery awards for best performing branch. It is suggested that a special recovery branch may be opened based on the number of chronic defaulters of respective districts. The 'Lending and Loan Recovery Policy' of the bank should be prepared and made available as permanent reference and guiding document in the branches. The recovery efforts of field staff should be made effective instead of being very formal. The staff inspections should be frequent so as to avoid loss of borrower contact.
Special Recovery Cell in the Area Offices can be funnelled. The corporate office should ensure posting of recovery officer. The recovery cell should organise special recovery campaigns involving stale Government machinery. Special recovery cell should also help the branch to update the documents and revive the time barred debts.

The bank may be in order to resort in onetime or compromise settlement of loans in the following circumstances: (i) inadequacy and deterioration in the quality of security; (ii) forced sale of security may affect the market value; (iii) the borrower and guarantor is of meagre means; (iv) the bank has already provisioned for the same; (v) the time value of money; (vi) the staff accountability has been examined and no lapses have been found; (vii) it may not be wise to incur further expenses in the expectation of recovery after considerably long time; (viii) there is no write off of principal amount; (ix) the bank can recycle the amount received as compromise amount and (x) chances of recovery through court procedure is cumbersome, time consuming and are remote.

The compromise proposals, or one time settlement or "write off of loan should be used only as a short term strategy and in the long run this process would give wrong signals to the borrowing public. The "write off of loans need to be adopted in the cases where the amount outstanding are small, the security available to the bank is negligible and the expenses to be incurred might be more than the amount likely to be recovered.