Preface

A healthy banking system is essential for any economy striving to achieve good growth and yet remain stable in an increasing global business environment. India has a bank based financial system where banks and financial institutions are the principal intermediaries for the commercial sector credit. Indian banks financially diverse and geographically widespread have played a crucial role in the socio-economic progress & development of the country after independence. Indian banking system with one of the largest banking networks in the world, has witnessed a series of reforms over the past few years-like the deregulation of interest rates, dilution of Government stake in public sector banks and the increased participation of private sector banks. Indian banks have not only been keen to tap the domestic market but also to compete the global market place. New foreign banks have been equally keen to gain a foothold in the Indian market. Indian banking sector has witnessed a rapid growth in India but still there are many challenges before the Indian banking industry in India and level of bad loans is one of the drivers of financial stability and growth of banking sector. NPAs are considered as an important parameter to judge the performance and financial health of the banks.

The problem of NPAs is not limited to only Indian Public sector banks. In fact this is the problem of almost all developing countries. However the level of NPA and causes varies from country to country. India is unique case to study in this case as the problem of NPA is very high in the public sector banks. Major portion of the bad debts in Indian banks arose due to priority sector lending at the dictates of politicians and bureaucrats and top management of the banks were forced by these politicians and bureaucrats to through good money after bad in the case of unscrupulous borrowers. The big borrowers defaulted due to recession in the economy. The absence of improper bankruptcy laws and dilatory legal procedures in enforcing security rights are the root-cause of bad debts in the banks. Added to these lax project appraisal, political favour mongering and incorrect projections of future demand in the industrial sector, coupled with the recession in the last few years have resulted in the default of many accounts.

With the growing volume of Non Performing Assets, banks and financial institutions were experiencing considerable difficulties in recovering loans and enforcement of securities charged to them. A significant portion of the bad funds were blocked in the non productive assets/litigation. Banks had to wait in long queues for their turn for hearing of recovery suits by the courts like any other private lenders. With the advent of the Recovery of Debts Due to Banks and financial Institutions Act, 1993 there was a great hope within the banking circle that most of the NPAs shall be easy to recover The banks under the conventional system of recovery of loans, had a considerable amount of money blocked in the form of the unproductive assets. This Act intended to provide for expeditious adjudication and recovery of debts due to banks and financial institutions. But this effort of Government was not enough. To fight the menace of the NPAs the Indian banks required more teeth With the object to give more powers and skills the Government decided to bring in the Securitization And Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002. The SARFAESI Act which is popularly known as Securitization Act, 2002 changed India’s entire law on the recovery of non performing loans by the banks and financial institutions. The Act confers powers to the secured creditors to take possession and sell assets kept as security if a default is
committed by the borrower in repaying secured debt. This Act has come at a boon for the Indian banking industry and at a time when the industry was grappling with bad loans. Securitization is the buzz word in today’s world of Finance but neither new subject to the developed economies nor a new concept for the emerging markets like India. The present day meaning of securitization is a blend of two forces that are critical in today’s world of finance, Structured Finance and Capital Markets. The process of securitization creates the strata of risk return and different maturity securities and is marketable into the capital markets as per the needs of the investors. So the securitization leads to systematic benefits of reduced risk of exposures and augmented fee incomes, a better deal for risk management and risk sharing, better way of hedging operational risks, so it has strengthened the creditors rights through foreclosure and enforcement of securities by banks and financial institutions by conferring on the creditors the right to seize the secured assets and sell of same in order to recover the dues promptly bypassing the costly, time consuming legal process through courts. So SARFAESI Act which was brought into force in mid 2002 have added an element of non conventional warfare to the battle against NPA. The Act empowered the banks to sidestep the courts and dispose off the defaulter’s properties given as securities to recover the dues after giving due notice. IMF, Global Financial Stability Report, 2006, revealed that public sector banks have settled about 30% of their NPA cases for which they issued notices under the SARFAESI Act. The recovery and workout process is managed by ARCs set up under SARFAESI Act, 2002. The impact and experience with SARFAESI Act has been very positive and has helped the Indian banking sector reduce, to an extent, the problem of impaired assets. As a result of SARFAESI Act has registered a rapid growth in number of recovery cases and resulted into salutary effect on NPA management in banks. In near future the SARFAESI Act is going to have more popularity by creating a wave of change for the banking and financial sector. Therefore, the present topic (Securitization Act and NPA Management in Selected Public Sector Banks) is quite interesting to study because of its relative newness and magical effect in Indian Banking and Financial World. In the present study, the researcher has attempted to cover the impact and application aspect of SARFAESI Act and present it in a manner suitable for awareness generation among the companies, banks, management, employees, and all the other concerned parties. The present study has been divided into seven chapters three appendices. The chapters are organized in a sequential and logical way to make the reading continuous and help the readers to acquire a holistic view of the subject title. Each chapter addresses the concept as well as its applications. At the end of every chapter concluding remarks have been given. A title description of each chapter is given as under-

Chapter 1: Introduction to Indian Banking System
Chapter 2: Problems of Non-Performing Assets in the Indian Public Sector Banks
Chapter 3: Review of Related Literature and Research Methodology
Chapter 4: Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002: An Analysis
Chapter 5: Impact of Securitization Act on Recovery of NPAs in Public Sector Banks
Chapter 6: Survey of Selected Banks: Interpretation and Analysis of Data
Chapter 7: Summary of Results and Suggestions
Thus the present study presents a comprehensive overview of NPA management and impact of Securitization Act, which is proving the most effective instrument for the NPA reduction in the world of Indian banking and finance. The study provides a clear picture of the opportunities, challenges and strategies for the prevention and control of NPAs in India. It is hoped that the present study will prove to be beneficial for the academicians, managers, entrepreneurs, legal and financial consultants, researchers who have been discussing and reading about SARFAESI Act & NPA Management and who are interested in knowing how they can manage to cope up in the next wave of changes in advance.